

Healthcare Enterprise Group PLC

("HCEG", the "Group" or the "Company")

HCEG DELIVERS ON STRATEGY WITH MAIDEN PROFITS

HCEG, the international healthcare products and services group, today reports maiden full year profits for the twelve months ended 28 February 2005.

- Turnover up to £15.0 million (2004: £3.0 million) in less than two years since Group's launch
- Operating profits, before exceptional items, £1.0 million (2004: loss £3.0 million).
- UK's largest first aid and occupational health business now established
- Significant sales contracts and distribution agreements for Ebiox in the US, Japan and S.E Asia
- First distribution contract for Ebiox in China, with a major Chinese distributor, Chung Fai with \$7 million sales target announced today
- Secured important development/manufacturing agreement for Optiscope Technologies with JENOPTIK AG
- Medilator acquired in May 2005 with first product launch planned for 2006 in \$500 million market
- Board and management strengthened

Stuart Bruck, Chairman, commented:

"We have achieved a significant increase in shareholder value over the last year, delivering our stated strategy of identifying and commercialising innovative proprietary product platforms. The objective is to build revenues for each within a three-year timeframe, with a view to targeting markets of at least \$500 million for each product platform."

"Having successfully consolidated the cash generative occupational healthcare and first aid business we are now seeing our first product platform, Ebiox, win major initial contracts and distribution agreements. We are on track to launch Optiscope in 2006 having secured a significant partnership with JENOPTIK AG and there are further product platforms in the pipeline."

"In the coming months trading should continue in line with expectations with significant newsflow on acquisitions, distribution agreements and on one or more new product platforms."

27 May 2005

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Healthcare Enterprise Group PLC
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CHAIRMAN'S STATEMENT

for the year ended 28 February 2005

RESULTS

This has been an important year of achievement, marked by substantial growth, a notable increase in shareholder value, and significantly, produced operating profits after just two years as HCEG. The Group has also delivered on its strategy of acquiring world-class healthcare brands with significant global potential.

Despite only two years of operation, the Group has already built the UK's largest business in occupational healthcare and first aid, now branded Healthcare Sales and Service Limited. Furthermore, the Group has begun to commercialise two exciting product platforms and has identified further substantial opportunities for acquisition and development.

The Group's advisory and consultancy division, HCEG Ventures, played an important role in assessing and developing potential new commercialisation opportunities for the Group. It now has a substantial pipeline of opportunities that we are confident will offer major benefits in creating shareholder value.

This underpins the Group's strategy of enhancing shareholder value through identifying and commercialising innovative proprietary product platforms. The objective is to deliver revenues for each within a three-year timeframe, with a view to targeting markets of at least \$500 million for each product platform. Substantial progress has already been made with Ebiox Limited ("Ebiox") and Optiscope Technologies Limited ("Optiscope"), reaching important development milestones and putting significant sales agreements in place.

During the year HCEG increased its turnover five times and moved into profitability. The Group reported operating profits before exceptional items of £1.0 million on turnover of £15.0 million (FY2004 turnover: £3.0 million and loss of £3.0 million). After interest, tax, exceptional items and minority interests the Group reported a loss of £0.3 million.

HEALTHCARE SALES AND SERVICE

Following the acquisitions in 2003 and 2004, the focus in the last financial year was to consolidate the Group's position as the largest operator in the UK. This was achieved through further strategic purchases and the realisation of synergies and cost savings as the businesses were integrated.

HCEG completed two further strategic acquisitions in the sector in the last financial year. In June 2004 HCEG acquired First Aid UK Limited, a supplier of first aid kits and other products to customers including the NHS, local authority customers and high street retailers, with £2 million in revenues. In November 2004 the Group announced the acquisition of Crest Medical Limited from Alliance Unichem plc.

Second only to HCEG, Crest Medical was the market's largest supplier of first aid and medical product supplies to the UK occupational healthcare and first aid market, with 40 major customers making up 80% of their £7 million annual sales. This second acquisition was financed through a share placing which raised £5.7 million in cash.

HCEG has grouped this business under two market leading brands: Safa-IPS, which specialises in occupational healthcare and the retail first aid market, supplying first aid kits to customers such as Boots, Safeway, AAH and MASTA, and Crest Medical which sells to distributors and directly to customers. The enlarged company now sells to 67 FTSE 100 companies blue chip customers such as Kimberley Clark, Monarch Airlines, The Government Buying Agency, Waitrose and others from the Crest client portfolio.

The businesses have been consolidated on one 60,000 sq ft site in Warrington with its own management board and team. HCEG will continue to benefit from operational synergies from these acquisitions in the areas of management and product purchasing. Additionally the enlarged customer base opens up a range of new opportunities such as cross-selling the Group's product portfolio, which has been expanded to include over 5,000 product lines - making it the most comprehensive in UK occupational health and first aid sectors. Further vertical growth opportunities have also been identified in terms of selling the SAFA-IPS and Crest product ranges to new segments of the market such as dental and primary care.

DistriMatch

As part of the Group's strategy to develop a global focus, HCEG appointed a German and US distribution partner, DistriMatch GmbH in June 2004. DistriMatch promotes and distributes a variety of consumable products to the German and US healthcare sectors. As well as providing a channel to market, it provides access to new customers. For example DistriMatch provided an introduction to Midwest Medical Supply Company, LLC of St. Louis Missouri ("MMS"), a premier regional distributor to the US healthcare industry.

Following the success of the distribution agreement with MMS, HCEG agreed to buy out DistriMatch for a total consideration of approximately €1 million to be paid in a combination of conversion of a debt facility and shares of HCEG, and linked to a performance related earn-out. DistriMatch has also begun to distribute pharmaceutical ingredients to major animal health companies in the US.

HCEG BRANDS

HCEG's core business focus is to commercialise a number of proprietary healthcare product platforms. The Group has already made excellent progress with Ebiox and Optiscope, both of which were developed from the SafaTec (UK) Limited ("SafaTec") portfolio which HCEG initially acquired in November 2003. Following a strategic review of the success of the SafaTec acquisition, HCEG bought out the minority interests in SafaTec on 5 January 2005.

Ebiox

Product development

Ebiox is a range of proprietary cleansing and decontamination products for use in healthcare and other industries. The range includes a handrub, handwash, detergents for cleaning hard surfaces and flooring, cleaning wipes and an instrument cleaning range. The worldwide addressable market for Ebiox products is \$32 billion.

During the year, HCEG bought out the remaining shares in Ebiox in two transactions; a controlling interest was acquired in July 2004 and the minorities were then bought out in January 2005.

Ebiox has also run an active programme to win regulatory approvals for its products across a range of international markets, including:

- In February 2004, tests at the NHS Hospital Infection Research Laboratory City Hospital, Birmingham showed that Ebiox handrub and handwash products were 'significantly more effective' than the standard products for eradication of bacteria, including MRSA. As a general cleaning detergent for hard surfaces and flooring, Ebiox Trionic Plus was also proven effective.
- In March 2005, Ebiox's Trionic™ product passed tests proving virucidal efficacy against the HIV and Avian Flu (Bird Flu) viruses.

- In March 2004, Ebiox gained US Environment Protection Agency approval for a range of five surgical instrument cleaning products, Neozyme, Ultra P, Ultra L, RDA and SSC.
- In May 2004, HCEG launched the EbioxVET range aimed at the veterinary market. EbioxVET has been specifically formulated to combat a wide range of bacterial, fungal and viral infections that affect both pets and livestock
- In July 2004, the Ebiox Handrub product gained compliance with EN1500, the EU standard.

It was announced earlier this month that Ebiox's new endoscope disinfectant passed the required efficacy tests for the \$300 million high-level disinfectant market. Continued development is planned over the next 12 months to obtain worldwide registration. It is anticipated the endoscope disinfectant will be launched in 2006.

Sales and distribution

The progress made in regulatory approvals was matched by significant commercial success, with Ebiox securing its first large sale orders.

In March 2004, contracts were exchanged, resulting in Ebiox cleaning wipes being made available to the NHS. The duration of the contract is three years. Further tests are currently being carried out by the Rapid Review Panel of the Health Protection Agency in the UK.

In July, the Group announced an agreement with MMS through DistriMatch, to supply its Ebiox range of products into the \$3 billion industrial clean room marketplace. The agreement gives MMS the exclusive right to sell a variety of Ebiox products into the US industrial clean room market, provided that such sales aggregate \$10 million within the first year of the agreement. The Industrial Business Division of MMS operates through 11 distribution centres covering the US, and provides Ebiox with an ideal platform to launch its range throughout the country.

Through MMS, Ebiox has been successfully trialled by such leading pharmaceutical manufacturers as Pfizer and Bayer.

Elsewhere HCEG achieved significant success in establishing partnerships in the South East Asian markets. In January 2005, HCEG won a contract with Alpha Trading (Asia) Co Ltd ("ATA"), a division of Ngamdee Group based in Bangkok. The contract, with an initial order of over \$1.3 million provides for the distribution of Ebiox products in Japan, Thailand, Malaysia and the Philippines. ATA has further plans to distribute Ebiox in India, Indonesia, Korea and Australasia.

And today, HCEG has announced its first distribution contract in China for Ebiox products with a major Chinese distributor. Chung Fai International Development Company provides for distribution of Ebiox products to Beijing area hospitals with a first year contract value of \$7 million.

Chung Fai is one of China's leading distributors with access to 27,000 of the 67,000 hospitals in China. It distributes products aimed at the sterile services market in China for a number of major international companies including 3M (USA), Medisafe (USA), as well as representing the endoscopic devices of Tekno (Germany) and the medical imaging products of Kodak (USA).

HCEG believes the total addressable market in China for Ebiox is \$2 billion.

Optiscope

Optiscope, the second major product platform identified by HCEG, develops disposable rigid endoscopes using proprietary technology. The focus this year has been to develop the product platform to prototype stage, which the Group did in conjunction with JENOPTIK AG, a world leader in photonics technologies based in Germany.

HCEG believes that, as the only fully disposable rigid endoscope in the market, Optiscope has significant advantages over endoscopes currently in use, because of the cost advantage and the impact on cross contamination and cleaning costs.

HCEG believes the addressable market for Optiscope is \$500 million.

In November 2004 HCEG announced an agreement with Wahl Optoparts GmbH, a division of JENOPTIK AG, for the development and manufacture of Optiscope. HCEG now anticipates that a product will be available for FDA inspection before the end of 2005.

Having developed the product to prototype stage, HCEG increased its holding in Optiscope in January and February 2005 and ended the period with an effective controlling shareholding of 66.25%.

MeDilator

Post year-end HCEG made a further strategic acquisition to extend its range of product platforms. On 9 May 2005 HCEG acquired 2.5% of MeDilator Limited, ("MeDilator") with a series of options to acquire a controlling interest of up to 65% of the ordinary share capital.

MeDilator has developed a platform for single-use, disposable, dilatation devices. The first product to be launched will be CerDilator for the safe performance of cervical dilatation, without anaesthetic. The worldwide annual market for CerDilator is estimated at \$500 million. HCEG anticipates launching the product commercially in 2006.

HCEG VENTURES

HCEG Ventures is a major source of new product opportunities, whilst assessing both the risk and development potential of each product. It comprises Medical Development Specialists, Inc. the healthcare consultancy and all HCEG-owned minority interests in companies acquired through its advisory services. The operation has a \$2.6 million agreement with the Empire Group, a US-based company, which owns and manages a portfolio of medical investments on behalf of HCEG.

The consultancy area of the Group has grown into profitability this year and there are plans to list one of the portfolio companies, Cancer Therapeutics, on the NASDAQ this year.

SHARE CONSOLIDATION

Ordinary shares in HCEG were consolidated on the basis of 1 new ordinary share with a nominal value of 2.5 pence every 25 ordinary shares of 0.1 pence held, effective from 11 January 2005. The share capital consolidation was aimed at making the Company's ordinary share capital more manageable and improving the attractiveness of the shares.

MANAGEMENT AND STRUCTURAL CHANGES

We have made a number of significant management changes to reflect our growing international presence and to strengthen the senior team.

Gordon Wood was recently appointed as Group Chief Executive Officer, from 10 March 2005 and will be relocating to Los Angeles in order to manage the extensive opportunities in the US market and from where sales growth in Japan and the Far East can be better co-ordinated. He was previously Chief Operating Officer.

John Bradshaw started as Group Finance Director on 3 January 2005. He brings considerable experience to HCEG notably through his career with Gyrus Group PLC as Group Finance Director between 1997 and 2001. He chairs the management board of Healthcare Sales and Service Limited. Lyndon Gaborit, main Board Director of HCEG, who was also filling the Group Finance Director role on a part time basis during the early phase of the company's development, has continued as a non-executive director and as strategy consultant to the Group.

Nigel Wray, a major investor in HCEG, was appointed as non-executive director with effect from 16 June 2004. He has an impressive record of identifying and investing in growth companies and has been a keen supporter of HCEG since its admission to the AIM market in February 2003.

Other significant management appointments, which took place after year-end, include the appointment of Michael Low as Group Chief Development Officer. He was previously Chief Executive Officer of Advisory Services for HCEG based in the US. Yuta Ito was also appointed to manage our new branch office in Tokyo, Japan, since this is a significant market for the Group. He has 20 years sector experience, most latterly with IMI and Heart Laboratories – both of which specialise in the field of medical devices.

STRATEGY AND OUTLOOK

I am pleased that the management team has delivered on its principal objectives for the year and I welcome the new members to that team as we grow.

Our strategy remains constant; to be quick in identifying high-value product platforms with sizeable potential and to rapidly develop the potential of those products while bringing them to market.

The core of our business is an increasing portfolio of brands that we are commercialising plus a pipeline of new opportunities that bodes well for the future prosperity of the Group.

We are currently in discussion with a number of major distributors regarding our key brands have identified a new product platform for purchase in the first half of FY2006 and are considering one or more profitable and strategically significant acquisitions.

Healthcare Enterprise Group PLC
Consolidated profit and loss account

Year ended 28 February 2005

Year ended
29 February
2004

	Before exceptional items and goodwill amortisation £'000	Exceptional items £'000	Total £'000	£'000
Turnover				
Acquisitions	3,687	-	3,687	-
Continuing activities	11,280	-	11,280	2,999
	14,967	-	14,967	2,999
Cost of sales	(7,275)	-	(7,725)	(1,635)
Gross profit	7,692	-	7,692	1,364
Net operating expenses	(6,686)	(125)	(6,811)	(4,053)
Group operating profit (loss)				
Acquisitions	364	-	364	-
Continuing activities	642	(125)	517	(2,689)
Group operating profit (loss)	1,006	(125)	881	(2,689)
Share of operating results of associates	6	-	6	(5)
Total operating profit (loss)	1,012	(125)	887	(2,694)
Exceptional costs	-	(1,135)	(1,135)	(148)
Profit (loss) on ordinary activities before interest	1,012	(1,260)	(248)	(2,842)
Net interest payable and similar charges	(74)	-	(74)	(74)
Profit (loss) on ordinary activities before taxation	938	(1,260)	(322)	(2,916)
Taxation on profit(loss) on ordinary activities	(30)	-	(30)	(72)
Profit (loss) on ordinary activities after taxation	908	(1,260)	(352)	(2,988)
Minority interests	18	-	18	12
Profit (loss) for the financial year	926	(1,260)	(334)	(2,976)
Basic and diluted earnings per share			(0.27p)	(4.20p)
Adjusted basic earnings per share (excluding exceptional items)			0.75p	(2.76p)

Consolidated statement of total recognised gains and losses

	2005 £'000	2004 £'000
Loss for the financial year	(334)	(2,976)
Exchange losses offset in reserves	(45)	(49)
Movement in provision for share options	-	33
Total recognised gains and losses relating to the year	(379)	(2,992)

Healthcare Enterprise Group PLC Consolidated Balance Sheet

	As at 28 February 2005 £'000	As at 29 February 2004 £'000
Fixed assets		
Intangible assets	33,759	14,676
Tangible assets	514	960
Investments in associated undertakings	-	463
Other investments	116	52
	34,389	16,151
Current assets		
Stocks	3,048	866
Debtors	6,008	2,194
Current asset investments	4	4
Cash at bank and in hand	1,010	2,339
	10,070	5,403
Creditors: amounts falling due within one year	5,911	4,294
	4,159	1,109
Net current assets		
	4,159	1,109
Total assets less current liabilities	38,548	17,260
Creditors : amounts falling due after more than one year	4,236	1,516
Provisions for liabilities and charges	289	29
	34,023	15,715
Net assets		
Called up share capital	4,492	3,558
Shares to be allotted	2,348	2,258
Warrants issued	364	364
Share premium account	32,042	14,219
Profit and loss account	(3,670)	(3,291)
Merger reserve	(2,293)	(2,293)
Other reserves	728	892
	34,011	15,707
Shareholders' funds (including non-equity interests)		
Minority interests	12	8
	34,023	15,715
Capital employed		
	34,023	15,715

Healthcare Enterprise Group PLC
Consolidated Cash Flow Statement

	Year ended 28 February 2005 2005 £'000	Year ended 29 February 2004 2004 £'000
Net cash outflow from operating activities	(2,896)	(1,323)
Returns on investments and servicing of finance		
Interest received	128	17
Interest paid	(202)	(326)
Net cash inflow for returns on investments and servicing of finance	(74)	(309)
UK corporation tax paid	(320)	(1)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(349)	(47)
Loan to associated undertaking	-	(50)
Other loans	-	(16)
Development costs	(211)	-
Proceeds from sale of tangible fixed assets	1,090	-
Purchase of fixed asset investments	(107)	(20)
Net cash outflow from capital expenditure and financial investment	423	(133)
Acquisitions		
Purchase of subsidiary undertakings	(1,596)	(7,375)
Acquisition expenses	(719)	(1,716)
Net cash acquired with subsidiaries	195	446
Purchase of interest in associated undertakings	-	(21)
Net cash outflow from acquisitions	(2,120)	(8,666)
Net cash outflow before financing	(4,987)	(10,432)
Financing		
Issue of share capital	5,766	10,856
Share issue costs	(456)	(175)
(Decrease)/increase of long term borrowings	(476)	2,750
(Decrease) of short term borrowings	(1,148)	(865)
Repayment of principal under hire purchase contracts	(28)	(2)
Net cash inflow from financing	3,658	12,564
(Decrease)/increase in cash in the year	(1,329)	2,132

Healthcare Enterprise Group PLC Notes

Form of statement

The financial information set out above does not constitute the company's statutory accounts for the years ended 29 February 2004 or 28 February 2005. The financial information for 2004 is derived from the statutory accounts for 2004 which have been delivered to the registrar of companies. The financial information for 2005 has been prepared under the same accounting policies as 2004, except in relation to the treatment of goodwill as disclosed below.

Goodwill

The Group's practice in prior years has been to capitalise goodwill arising on acquisitions and amortise it over its estimated useful life, up to 20 years.

The Board is required to consider annually the useful economic life of goodwill. The Board has considered the remaining goodwill relating to acquisitions made in 2004 and the goodwill arising on acquisitions made in 2005 and considers that goodwill has an indefinite life. Accordingly, goodwill is no longer subject to routine amortisation but will be reviewed annually for impairment under FRS 11: Impairment of fixed assets and goodwill.

The Board has also considered the impact this change in approach would have had on the results for the year ended 29 February 2004 the loss on ordinary activities would have been reduced by £245,000.

Acquisitions

During the year the Company has completed the following significant acquisitions:

Company acquired	Date acquired	Share holding	Total consideration £000	Goodwill £000
First Aid UK Ltd	July 2004	100%	2,278	2,038
Ebiox Ltd	July 2004/ January 2005	100%	2,383	2,607
Crest Medical Limited	November 2004	100%	7,853	7,215
SafaTec (UK) Limited	January 2005	100%	10,114	10,064

Share capital

Ordinary shares in HCEG were consolidated on the basis of 1 new ordinary share with a nominal value of 2.5 pence every 25 ordinary shares held, effective from Tuesday 11 January 2005.

Loss per share

Basic earnings per share

The basic loss per share is based on the loss for the financial year of £334,000 (2004: £2,976,000) and on the weighted average number of ordinary shares in issue during the year of 123,908,141 (2004: 70,893,353). Basic loss per share for the year ended 29 February 2004 has been adjusted to reflect the share consolidation that took place in January 2005.

Diluted earnings per share

Because the inclusion of potential ordinary shares would decrease the basic loss per ordinary share they are not deemed to be dilutive and accordingly the basic and diluted loss per ordinary share are identical.

Adjusted basic earnings per share before exceptional items

The basic earnings per share before exceptional items is based on the profit before exceptional items after tax and interest of £926,000 (2004: Loss of £1,957,000, being loss for the financial year of £2,976,000 less exceptional costs of £1,019,000) and on the weighted average number of ordinary shares in issue during the year of 123,908,141 (2004: 70,893,353).

Exceptional items

In accordance with Urgent Issues Task Force abstract number 25, a provision of £125,000 has been made in the year for potential employer's national insurance payable on the difference between the share price at the balance sheet date and the exercise price to be paid by the option holder.

Further exceptional costs in relation to the reorganisation and integration of the SAFA, IPS, First Aid UK and Crest businesses totalling £1,333,000 have also been incurred.

An exceptional gain of £198,000 has been recorded on the disposal of tangible fixed assets.