

Healthcare Enterprise Group PLC

Trading Update, Interim results for the six months ended 31 August 2005 and Board Changes

Healthcare Enterprise Group PLC ("HCEG", the "Group" or the "Company"), the international healthcare products group, today reports results for the six months ended 31 August 2005

- Turnover up 58% to £8.8 million (2004: £5.6 million)
- Operating loss, before exceptional items, £2.1 million (2004: £0.32 million profit)
- Loss per share 1.50p (2004: profit per share 0.32p)

Post period

- Board changes
- Disposal of assets to Ridgecrest
- Acquisition of ATA and Link

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Trading Update

During the period the Crest Medical business, acquired by the Group in November 2004, was integrated into the Healthcare Sales & Service Ltd ("HSS") site in Warrington. The integration of that business has proved more difficult and is taking longer than anticipated, and the Group has recorded losses as a result. Measures have already been implemented which are designed to return the business to profit and cash generation by the early part of next year.

Since the end of the period changes have occurred in the senior management of HSS with Gordon Wood, Group CEO, overseeing the business whilst the search for a new Managing Director is undertaken.

As announced previously, the Group now expects to get the US Environmental Protection Agency ("EPA") regulatory approval for Ebiox in the first half of the next financial year and separate State approvals later in that year. Significant costs have been involved in obtaining EPA approval, in order to secure a number of distribution agreements in the US which are expected to generate revenue in the second half of the next financial year. The Group continues to progress a number of new product initiatives in this range.

The Group's new High Level Disinfectant ("HLD") product has successfully undergone in situ trials and commercial discussions are underway with potential global partners. The Group remains confident in this innovative range of products, as interest is continuing to be expressed by potential distributors in markets worldwide. The Group is in the process of appointing a Managing Director to develop the Ebiox business.

Progress on development of Optiscope continues to be good and the Board anticipates having prototype products in spring 2006. As previously announced the product has met the technical milestone of outperforming the optics train in the "gold-standard" market-leading re-useable endoscope. The Board is looking to maximise the value of Optiscope in the near term.

Interim Results

The Group reported a loss after interest, tax and exceptional items of £2.3 million (2004: profit £0.4 million) on turnover of £8.8 million (2004: £5.6 million) for the six month period ended 31 August 2005. The loss has been caused by difficulties experienced in integrating certain acquisitions, the delays in achieving contracts for the sale of Ebiox (as previously announced) and the cost of obtaining regulatory approvals.

The Group's loss per share for the period ended 31 August 2005 was 1.50p (2004: profit 0.32p).

The Group's net debt increased in the period by £1.7 million to £3.1 million, cash decreasing by £1.6 million and debt increasing by £0.1 million.

Healthcare Sales & Service ("HSS")

HSS is the Group's business trading in the occupational health and first aid market, with the main company located at a 60,000 sq ft site in Warrington. It has been formed by the consolidation of four companies over the last 18 months, Safa Limited, IPS Limited, First Aid UK Limited and Crest Medical Limited.

In June 2005 the Group acquired CICS (Holdings) Limited and its wholly owned subsidiary, Cross Infection Control Services Limited (together "CICS") for up to £3 million in HCEG shares. CICS sells sterile kits and other disposables to dental practice customers. CICS has been successfully integrated into the Warrington site and is selling the Group's products into its customer base.

The operation had sales of £8.3 million (2004: £5.3 million) in the six month period ended 31 August 2005 and recorded an operating loss of £0.6 million (2004: profit £0.9 million). The integration of the Crest Medical business has proved more difficult and is taking longer than anticipated which has resulted in losses. A number of areas have already been identified where significant and immediate improvements can be made. Since the integration of the Safa-IPS/First Aid UK/Crest Medical businesses into the single Warrington facility, headcount has reduced from 179 to 149, and general operating expenses reduced by £70,000 per month with further overhead reductions anticipated as part of the review process.

Ebiox

Ebiox is the Group's proprietary range of cleansing and decontamination products for use in healthcare and other industries. The range includes a handrub, handwash, detergents for cleaning hard surfaces and floors, cleaning wipes, an instrument cleaning range and the newly developed High Level Disinfectant for the sterilisation of surgical instruments.

Ebiox sales in the period ended 31 August 2005 totalled £0.1 million (2004: £Nil) and operating losses were £0.24 million (2004: £0.01 million). A further £0.25 million (2004: £Nil) was spent on product development.

The Ebiox instrument and surface cleaning range of products has been successfully registered in Germany and sales are commencing. Registration activities have continued with the relevant authorities in many other countries worldwide.

In the US the Group's regulatory consultants have indicated that the Environmental Protection Agency ("EPA") approvals will be received in the first half of the next financial year – the products have now passed all requested testing to date and the registration process has commenced. US EPA approval will be followed by individual State approvals and the Board would anticipate being able to sell the Ebiox range in the US from late summer 2006.

The Group is also progressing the negotiation of distribution agreements with partners worldwide.

Optiscope

Optiscope is HCEG's fully disposable rigid endoscope. Progress on development of Optiscope continues to be good and the Group anticipates having prototype products in spring 2006. As previously announced the product has met the technical milestone of outperforming the optics train in the "gold-standard" market-leading re-useable endoscope. During the period HCEG has invested a further £0.08 million to increase its stake to 68.1%. Optiscope recorded no revenues in the period (2004: £Nil) and reported an operating loss of £0.03 million (2004: £Nil).

Women's Reproductive Health

The Group has two investments in this area and has agreed terms to acquire a third.

Medilator

In May 2005 the Group acquired 2.5% of the share capital of Medilator Limited ("Medilator") with a series of options to acquire up to 65% of the ordinary share capital. Medilator has developed a platform for single-use, disposable cervical dilatation devices.

Fertiligent

In June 2005 the Group acquired 2.5% of the share capital of Fertiligent Limited ("Fertiligent") with a series of options to acquire up to 100% of the ordinary share capital. A further investment of \$125,000 was made in September 2005 bringing the Group's investment to 13.08%. Fertiligent develops innovative reproductive health products capable of significantly enhancing the success rates of existing infertility treatments.

Fertiloscopy

The Group has agreed terms to acquire Fertiloscopy for up to €354,000 in cash. Fertiloscopy is a device to assist in the diagnosis of infertility in women.

Disposal of certain non core assets to Ridgecrest

In November 2005 the Group completed the sale of certain non-core assets with a book value of \$2.5m to Ridgecrest Healthcare Group, Inc. ("Ridgecrest") for \$5.0m in Ridgecrest ordinary and convertible preferred shares.

Acquisition of ATA and Link

In November 2005 the Group completed the acquisition of its distributors in South East Asia for £40,000 in cash and 350,877 HCEG ordinary shares.

Board Changes

Stuart Bruck is stepping down as Executive Chairman of the Board with immediate effect to relocate to the US and pursue other interests. Mr Bruck was the founder of the Group and the Board acknowledges the valuable contribution he has made to the Group's evolution to date. Mr Bruck remains a significant shareholder and will serve as a non executive director.

Mark Tompkins, a non-executive director of HCEG since formation, is to take over as Chairman. Mr Tompkins has extensive experience at board level in listed healthcare companies in both the US and Europe. This is supplemented by his working experience in senior executive management, management consulting and investment.

John Bradshaw has decided to step down as Group Finance Director and will be assisting the Group with the recruitment of his replacement. He will also be continuing to assist the Group in the commercialisation of Optiscope.

As previously announced, in November 2005, Michael Low, Group Development Director, and Kenneth Denos, non-executive Director, left the Board, as part of the disposal to Ridgecrest.

Summary

In spite of the difficulties and disappointing figures, the Board remains of the view that HSS, which is the market leader in its sub-sector, is a strong business capable of producing significant revenues and profits in the future. It is pleased with the progress and growing market acceptance of Ebiox and is encouraged by the product development trials of Optiscope.

Nevertheless, the exact timing of the commercialisation of both Ebiox and Optiscope remains difficult to predict. Consequently, without licensing income from either or both of these product ranges in the second half, the Board would not expect the Group to be profitable in the current full financial year.

The Board is continuing to review all of the Group's assets to maximise shareholder value and cash generation.

Unaudited consolidated profit and loss account

For the six months ended 31 August 2005

	Six months ended 31 August					
	2005			2004		
	Continuing operations	Exceptional items	Total	Continuing operations	Exceptional items	Total
£'000	£'000	£'000	£'000	£'000	£'000	
Turnover						
Continuing operations	8,666	-	8,666	5,264	-	5,264
Acquisitions	136	-	136	303	-	303
	8,802	-	8,802	5,567	-	5,567
Cost of sales	(5,140)	-	(5,140)	(2,916)	-	(2,916)
Gross profit	3,662	-	3,662	2,651	-	2,651
Net operating expenses	(5,737)	(105)	(5,842)	(2,332)	116	(2,216)
Group operating profit (loss)						
Acquisitions	25	-	25	16	-	16
Continuing activities	(2,100)	(105)	(2,205)	303	116	419
Group operating profit (loss)	(2,075)	(105)	(2,180)	319	116	435
Share of operating results of associates	-	-	-	(8)	-	(8)
Total operating profit (loss)	(2,075)	(105)	(2,180)	311	116	427
Exceptional costs	-	-	-	-	1	1
Profit (loss) on ordinary activities before interest	(2,075)	(105)	(2,180)	311	117	428
Net interest payable and similar charges	(98)	-	(98)	(66)	-	(66)
Profit (loss) on ordinary activities before taxation	(2,173)	(105)	(2,278)	245	117	362
Taxation on profit (loss) on ordinary activities	-	-	-	-	-	-
Profit (loss) on ordinary activities after taxation	(2,173)	(105)	(2,278)	245	117	362
Minority interests	9	-	9	8	-	8
Profit (loss) for the six month period	(2,164)	(105)	(2,269)	253	117	370
Basic earnings per share			(1.50p)			0.32p

Audited consolidated profit and loss account
For the year ended 28 February 2005

Year ended 28 February 2005

	Continuing operations £'000	Exceptional items £'000	Total £'000
Turnover			
Continuing operations	3,687	-	3,687
Acquisitions	11,280	-	11,280
	14,967	-	14,967
Cost of sales	(7,275)	-	(7,275)
Gross profit	7,692	-	7,692
Net operating expenses	(6,686)	(125)	(6,811)
Group operating profit (loss)			
Acquisitions	364	-	364
Continuing activities	642	(125)	517
Group operating profit (loss)	1,006	(125)	881
Share of operating results of associates	6	-	6
Total operating profit (loss)	1,012	(125)	1,012
Exceptional costs	-	(1,135)	(1,135)
Profit (loss) on ordinary activities before interest	1,012	(1,260)	(248)
Net interest payable and similar charges	(74)	-	(74)
Profit (loss) on ordinary activities before taxation	938	(1,260)	(322)
Taxation on profit (loss) on ordinary activities	(30)	-	(30)
Profit (loss) on ordinary activities after taxation	908	(1,260)	(352)
Minority interests	18	-	18
Profit (loss) for the year	926	(1,260)	(334)
Basic and diluted loss per share			(0.27p)

Unaudited consolidated balance sheet

As at 31 August 2005

	31 August		28 February
	2005	2004	2005
	£'000	£'000	£'000
Fixed assets			
Intangible assets	34,911	16,539	33,759
Tangible assets	618	322	514
Investments in associated undertakings	-	23	-
Other investments	145	120	116
	35,674	17,004	34,389
Current assets			
Stocks	3,141	1,292	3,048
Debtors	6,107	3,073	6,008
Current asset investments	-	-	4
Cash at bank and in hand	710	1,112	2,341
	9,958	5,478	11,401
Creditors: Amounts falling due within one year	(5,050)	(3,501)	(4,542)
Invoice discounting facility	(1,850)	(984)	(1,331)
Debt due within one year	(970)	(450)	(1,369)
Net current assets	2,088	543	4,159
Total assets less current liabilities	37,762	17,547	38,548
Creditors: Amounts falling due after more than one year	(4,211)	(1,250)	(4,326)
Provisions for liabilities and charges	(289)	-	(289)
Net assets	33,262	16,297	34,023
Capital and reserves			
Called up share capital	4,566	3,684	4,492
Shares to be allotted	1,997	629	2,348
Warrants issued	364	358	364
Share premium account	34,191	16,130	32,042
Profit and loss account	(5,939)	(2,981)	(3,670)
Merger reserve	(2,293)	(2,293)	(2,293)
Other reserves	728	771	728
Shareholders' funds (including non-equity interests)	33,250	16,299	34,011
Minority interests	12	(2)	12
Capital employed	33,262	16,297	34,023

Unaudited consolidated cash flow statement

For the six months ended 31 August 2005

	Six months ended 31 August		Year ended 28 February 2005
	2005 £'000	2004 £'000	£'000
Net cash outflow from operating activities	(1,585)	(695)	(2,634)
Return on investments and servicing of finance			
Interest received	16	-	48
Interest paid	(115)	(66)	(202)
Net cash outflow for returns on investments and servicing of finance	(99)	(66)	(154)
UK corporation tax paid	(36)	-	(320)
Capital expenditure and financial investment			
Purchase of tangible fixed assets	(179)	(129)	(293)
Development costs capitalised	(199)	-	(211)
Proceeds of sale of tangible fixed assets	-	1,030	1,288
Purchase of fixed asset investments	(50)	(72)	(107)
Net cash inflow (outflow) from capital expenditure and financial investment	(428)	829	677
Acquisitions			
Purchase of subsidiary undertakings	(78)	(1,084)	(2,032)
Acquisition expenses	(169)	-	(719)
Net cash acquired with subsidiaries	250	87	195
Net cash outflow from acquisitions	3	(997)	(2,556)
Net cash outflow before financing	(2,145)	(928)	(4,987)
Financing			
Issue of share capital	182	73	5,766
Share issue costs	-	-	(456)
(Decrease)increase of long term borrowings	-	(372)	(476)
Repayment of short term borrowings	(430)	-	(1,148)
Increase in short term borrowings	519	-	-
Repayment of principal under hire purchase contracts	(7)	-	(28)
Net cash inflow from financing	264	(299)	3,658
(Decrease) increase in cash in the period	(1,881)	(1,227)	(1,329)

Unaudited consolidated cash flow statement

For the six months ended 31 August 2005

Reconciliation of operating loss to net cash outflow from operating activities

	Six months ended 31 August £'000	Year ended 28 February £'000
Operating profit (loss)	(2,075)	881
Amortisation of intangible fixed assets	39	22
Depreciation of tangible fixed assets	80	125
Decrease (increase) in stocks	(40)	(373)
Decrease (increase) in debtors	2	(2,137)
Increase (decrease) in creditors	484	304
Movement in provision for share options	-	125
Exceptional costs	(105)	(1,333)
Profit on sale of fixed assets	-	(248)
Investment write off	30	-
Net cash outflow from operating activities	(1,585)	(2,634)

Analysis of net debt

	31 August 2005 £'000	28 February 2005 £'000
Cash at bank and in hand	710	2,341
Invoice discounting facility	(1,850)	(1,331)
Debt due within one year	(970)	(1,351)
Debt due after one year	(1,025)	(1,025)
HP contracts	(49)	(56)
Net debt	(3,184)	(1,422)

Notes to the interim financial statements

- Form of statements**

These financial statements do not constitute statutory accounts within the meaning of the Companies Act 1985 and are unaudited. The figures for the year ended 28 February 2005 have been extracted from the statutory accounts for that year which have been delivered to the Registrar of Companies and contain an unqualified audit report.
- Accounting policies**

The interim report is prepared on the basis of the accounting policies set out in the financial statements for the year ended 28 February 2005.
- Earnings per share**

Earnings per share are calculated by dividing the profit on ordinary activities attributable to shareholders by the weighted average number of shares in issue during the period. The weighted average number of shares used is 151,145,902 (Half year ended 31 August 2004: 115,600,000, Year ended 28 February 2005: 123,908,141).

4. Acquisitions
On 16 June 2005 the Group acquired 100% of the equity share capital of CICS (Holdings) Limited for a consideration of £1,337,000, including costs. Goodwill of £1,005,000 arose on the transaction.
5. Interim dividend
The directors do not recommend the payment of an interim dividend.