Healthcare Enterprise Group PLC

Preliminary results for the twelve months ended 28 February 2006

Healthcare Enterprise Group PLC ("HCEG"), an international health products group publishes preliminary results today.

- Turnover of £16.4 million (2005: £15.0 million) as the business consolidates and restructures
- Operating losses, before exceptional items, £4.4 million (2005: profit £0.9 million)
- After goodwill impairment of £12 million and net exceptional items of £1.8 million pretax losses were £18.6 million (2005: loss £0.3 million)
- HSS, UK's largest first aid and occupational health business, stabilising
- Some progress on Ebiox whilst the evaluation of its potential continues
- Optiscope prototypes have become available for analysis by healthcare professionals and industry participants
- Current trials of Fertiligent in Germany continue and initial results are positive
- Minority shareholdings in HCEG brand technology have been sold at a premium

Mark Tompkins, Group Chairman, commented:

"After a period of upheaval, the new management team has made good progress in consolidating and restructuring the HSS business. Further initiatives are ongoing to ensure we will shortly have a stabilised platform for the development of the business.

"Optiscope and Fertiligent have both been advanced. We are currently undertaking an in depth review of the Ebiox range and the Ebiox marketing strategy with a view to maximising shareholder value.

"Post year end, the sale of minority stakes in holding companies for the technology used in Optiscope and Fertiligent will fund immediate ongoing development costs of these businesses. Our optimism regarding these two businesses is underlined by the premium price we achieved in attracting investment into them.

"The Board remains committed to maximizing shareholder value across the Group within a reasonable timeframe."

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INTRODUCTION

As reported in the November 2005 trading update, the problems of the Healthcare Sales & Service Ltd ("HSS") site in Warrington continued for the remainder of the financial year. Corrective action was implemented, with a turnaround team comprising of the Chairman, Executive Deputy Chairman and turnaround professionals, taking management control of the business in November 2005 and introduced a wide range of measures to stabilise the business. The inevitable loss of customers was halted as the supply chain was stabilised, and service levels improved. Cost reductions to reflect the lower operating level have also been implemented.

The new management team is carrying out a review to re-evaluate immediate opportunities and funding requirements of the Brands portfolio:

- Ebiox: Some progress continues to be made with the Ebiox range, and new, additional distribution agreements have been signed in Japan, China and Malaysia. Sales in the UK were disappointing and European markets are only now being addressed in light of recent CE approvals. EPA approvals for Ebiox in the United States suffered a further delay due to the requirement for additional inhalation testing by the federal authorities; this has now been completed satisfactorily and we are on track for Federal approval by the end of 2006.

- Optiscope: Optiscope prototypes are now available to be analysed by potentially interested parties including industry leaders and healthcare professionals.

- Medilator: Medilator is subject to a market survey sponsored by a large industry participant to ascertain its value.

- Fertiligent: Tests have been conducted in Israel achieving success rate up to three times greater than traditional procedures. Current trial continues in Germany and initial results are positive.

- Two complimentary investments have been agreed in principle for two HCEG brand technologies, and sales of minority stakes have been negotiated, both at enhanced valuation multiples compared with their book value.

FINANCIALS

Despite problems with the integration process at HSS and lower than expected Ebiox sales, turnover increased 9.6% £16.4 million (2005: £14.9 million). Gross profits declined to £6.5 million (2005: £7.7 million) due to write off and write down of obsolete and slow moving inventories, reduced margins and credits issued. The Group reported operating losses before exceptional items of £4.4 million (2005: profit of £0.9 million).

Group restructuring and write offs resulted in a net exceptional charge of £1.8 million, and the goodwill impairment review resulted in an additional write off of goodwill of £12 million. The Board has taken the view that: development costs should, in the main, be written off; adequate provisions be made for old, surplus and overvalued inventory; adequate provisions be made for old, bad and doubtful debts; costs associated with disposals of surplus inventories be charged against the current year's profit and loss account; costs associated with the turnaround be provided for against the current years losses; and goodwill be adjusted to recognise changes in the values of the underlying assets and investments.

After interest, tax, exceptional items, impairment of goodwill and minority interests the Group reported a loss of £18.6 million (2005: loss £0.3 million), including the write off of goodwill of £12 million which did not involve any outlay of cash.

At the interim results the Group reported that it was recording losses. In January, in order to accelerate the return to operating profitability at HSS, the Board decided, following consultation with the Group's corporate bankers, to inject approximately £3.4 million by way of an equity fundraising. This was achieved by the private placement of February/March 2006. The Directors invested approximately £0.6 million as part of that placing with the remainder being placed with various institutional investors. At the same time, the Group's bankers agreed to extend their credit facilities.

The funds so raised were used in the business to rebalance inventories at HSS, pay suppliers to restore trade credit to more acceptable levels, repay the balance of the Crest intercompany loan, fund the costs of the turnaround and operating losses, and secure our holdings in Optiscope and Fertiligent by contributing to their next capital rounds.

As at 28 February 2006, cash balances for the business were £0.5 million and undrawn credit lines under the invoice discounting facility a further £1.6 million.

Post year end the Group has raised a total £0.2 million through the sale of a minority stake in the endoscopy businesses, with a similar negotiation in respect of the fertility business close to completion. The Group has also restructured its banking facilities including repayment of the £1.0 million bridging loan and arranging for the term loan of £1.5 million to be repayable from realisations or by the latest in June 2007.

Healthcare Sales & Service ("HSS")

HSS is the Group's business distributing products to the occupational health, first aid, medical, veterinary and retail markets, operating out of a 66,000 sq ft site in Warrington. It has been formed by the consolidation of five companies over the last 24 months, Safa, IPS, First Aid UK, Crest Medical and CICS (Holdings) Limited and its wholly owned subsidiary, Cross Infection Control Services Limited (together "CICS"), which was acquired in June 2005. CICS sells sterile kits and other disposables to dental practice customers and is profitable.

HSS had sales of £15.3 million in the twelve months ended 28 February 2006 (2005: £13.1 million) and recorded an operating loss of £1.3 million (2005: profit £1.8 million). The integration of the Crest Medical business, acquired in November 2004, proved more difficult and took longer than anticipated which resulted in incorrect stocking, incorrect pricing, customer dissatisfaction and delayed payments.

A number of significant and immediate improvements have been made, whilst we have also implemented appropriate cost reductions in line with the reduced turnover. Since November 2005, staff has been reduced from 155 to 136 personnel. Operating losses at HSS have been contained to £39,000 for the first two months of the current financial year. Thereafter the business is expected to be profitable. Further overhead reductions are also anticipated in the short term.

Accounts receivable have been brought within industry norms and significant progress has been achieved in rebalancing inventories. Work is continuing on the disposal of surplus and redundant stocks, and the company has a greater investment in inventories at this stage than is desirable. Funds have been used for the inventory rebalancing, payments to suppliers in order to restore trade credit to more acceptable terms, loan repayments, and to fund operating losses and the costs of the turnaround.

HSS has taken steps to secure its supply lines and has reached agreement in principle, subject to contract, to acquire a 5% stake in its main supplier of disposable products located in China, and in exchange, that supplier has undertaken to execute an exclusive 10 year UK supply agreement in favour of HSS.

HSS has also recently announced two further initiatives it plans to implement in the current financial year. Firstly, an on-line internet based shopping site and secondly, the HSS distribution in the UK of the Ebiox range of instrument cleaning, decontamination and disinfecting products. Both these initiatives are expected to increase revenues and lower costs.

HCEG BRANDS

Ebiox

Ebiox is the Group's proprietary range of instrument cleansing and decontamination products including a high level disinfectant for use in hospitals. Other products in the range are surgical instrument cleaning and reconditioning products, a hand rub and hand wash and surface cleaning wipes, which have applications in the healthcare sector and other industries such as clean rooms and food preparation. The Ultra surgical cleaning products are gaining some sales, as are the Trionic wipes. However, the Esense hand products have failed to make headway as the NHS protocols still require alcohol based products.

Ebiox sales for the year ended 28 February 2006 totalled £0.25 million (2005: £0.79 million) and operating losses were £0.5 million (2005: profit £0.33 million). A further £0.3 million (2005: £0.3 million) was spent on product development.

In the US the Group's regulatory consultants have indicated that the Environmental Protection Agency ("EPA") approval timing for the TruKleen (Trionic in the UK) range may now be three months later than previously thought as the product was also subjected to additional aspiration testing due to its unique (and therefore "new") formulation within the USA. It is expected before the calendar year end – the products have now passed all requested testing to date and the registration process is underway. US EPA approval will be followed by individual State approvals and the Board anticipates being able to sell the Ebiox range in the US from early 2007.

The Ebiox Trionic range has been granted a European CE grade 2 mark which classifies the product as the first non-alcohol wipe and spray that may be used to disinfect instruments and surfaces, the first non alcohol product to be given this important approval status.

New distribution agreements have been executed in Japan, China and Malaysia, and sales have now commenced in all three territories in the first part of the new financial year.

Optiscope

Optiscope is HCEG's disposable rigid endoscope. Progress on development of Optiscope continues to be good and the initial batch of prototypes, a 10mm laparoscope, are now available for industrial and commercial evaluation.

The 10mm laparoscope addresses almost half of this substantial market. Work is planned to commence on smaller sizes later in the year. These will address the rest of the market.

Optiscope recorded no revenues in the period (2005: £Nil) and reported an operating loss of £0.07 million (2005: loss £0.05 million). During the year ended 28 February 2006, HCEG invested a further £0.16 million under the original shareholders agreement to increase its stake to 72.5%.

Subsequent to the year end, HCEG has arranged to transfer its Optiscope holding into an intermediate holding company, Healthcare Endoscopy Limited ("HEL"). HCEG has, subject to contract, negotiated to sell a 2.85% stake in HEL for £200,000 in cash, and a further 4.27% for £300,000 in cash valuing HEL at £7 million. The funds so raised will be used for marketing

HEL's products to prospective buyers/licensees and for general working capital purposes. Following the two transactions, HCEG will own 93% of HEL.

HEL is negotiating to purchase, for US$50,000, a 10% stake in Ultrasurge Technologies Limited, an Israeli incubator company, developing a disposable, minimally invasive device that enables precise and selective cutting and tissue removal using focused liquid jets, followed by blood vessel sealing, without causing injury to the surrounding tissue.

The technology is designed to be applied to a range of urology and gynaecology procedures including removal of enlarged prostate glands, removal of polyps and treatment for endometriosis. Since the device is to be used under local anaesthetic, patients are expected to be treated in day case clinics reducing the burden on hospital resources and improving patient recovery rates.

Women's Reproductive Health - Medilator and Fertiligent

The Group is focussed on two key product groups in this area, Medilator and Fertiligent.

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. Medilator is the subject of a market survey, sponsored by a large industry participant, to ascertain its value.

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. The Group's ownership is currently 13.94%, with a further cash call in June 2006 which will increase the holding to 20.8%. HCEG has the option to acquire those shares of Fertiligent which it does not own on the basis of a valuation of US$2 million for the whole company before June 2007 and at a valuation of US$4.5 million thereafter.

Fertiligent is a unique, high quality, low cost intrauterine sperm pump to help assist infertile couples conceive in a more effective, natural, less invasive manner than other more costly, conventional fertility treatments. Fertiligent's first product, the IQI-100, is a disposable, slow-release insemination device that extends the "window of opportunity" for ovum fertilization by emulating the natural insemination process.

Tests have been conducted in Israel, with Fertiligent IQI-100 achieving success rates up to 3 times greater than those of traditional intra-uterine inseminations (IUIs). A second trial is underway in Germany, which is showing similar promising results, and a third, larger trial will commence in China in the summer.

Subsequent to the year end, HCEG has arranged to transfer its Women's Health holdings into an intermediate holding company 100% owned by HCEG, Healthcare Delivery Systems Limited ("HDS"). HCEG has negotiated the sale of a 5% stake in HDS for €250,000 (£171,000) in cash, subject to contract, and is negotiating to sell a further 5% for a similar amount in cash valuing HDS at €5 million (£3.4 million). The funds raised will be used for additional capital investment in the underlying investments, marketing HDS's products to prospective buyers/licensees and for general working capital purposes.

HDS also is negotiating to purchase, for a US$50,000 option fee, a stake in "Deliverance" an Israeli incubator company, developing a high quality, low cost disposable drug delivery pump for provision of local anaesthesia and irrigation of chronic wounds and burns. The innovation should enable the manufacture of a high quality pump at a low cost to improve both the accuracy of drug delivery and the quality of care for patients.

The Group has decided not to proceed with the proposed acquisition of Fertiloscopy.

Other investments

Ridgecrest Healthcare Group, Inc. ("Ridgecrest"; Pink Sheets: RCHG) is a US-based healthcare management and service company, which was formed from the disposal of certain non-core assets of HCEG including minority interests in a number of developing healthcare ventures.

HCEG owns 19.9% of RCHG in the form of common stock and the equivalent of 30% of the company in non voting preference shares. Since year end, in order to provide an incentive for the managers of Ridgecrest which would more accurately align their success with the company's shareholders, HCEG agreed to grant a five year option over the preference shares at an exercise price of US$800,000 plus profit share on sale. The market value of HCEG's holding at year end was in excess of book value. The Board has made provision against this value to reflect the illiquidity of these shares. Ridgecrest has also taken over 90% of the costs of operating HCEG's Los Angeles office.

MANAGEMENT AND STRUCTURAL CHANGES

In the second half of the year a number of management changes were made including the appointment in late November 2005 of the team to manage the turn around of the business, including the appointment of Mark Tompkins as non executive Chairman of the Group, and Lyndon Gaborit as Executive Deputy Chairman. These two individuals have been responsible for the execution of the turnaround plan with professional assistance from Joe Considine, principal of Considine Associates LLP who has acted as Executive Chairman of HSS. They have been supported by Gordon Wood, Executive Chairman of the Group's Brands. The Board intends to appoint a Group Finance Director in due course.

STRATEGY AND OUTLOOK

The immediate task of the new management team was to stabilise HSS and restore it to profitability. HSS is now close to breaking even and is expected to shortly become profitable. Focus was also given to the investments most likely to provide shareholder value in the immediate future, Optiscope and Fertiligent. Minority stakes were sold in order to fund the next milestones in their respective development from external sources at superior valuations. The third, and most challenging task, was the assessment of the Ebiox range in order to secure not only additional revenues but also to correctly position the product in the markets it addresses. That work is ongoing.

- Having stabilised HSS, the Group is now in the process of identifying the growth and profit opportunities for that business. The Group will continue to work to build and strengthen its market position as the largest player in the occupational health and first aid sector, as well as optimising its many relationships with our distributors and retail clients.

- Third party investment into HEL and HDS, both at superior valuations compared to book values, provides self funding going forward. The Board are focussed on realising value from one or more of the Brands either through licensing agreement or pursuing other options in the medium term.

- Since the year end, the Board commissioned a study to evaluate the markets to be serviced by the Ebiox product range. This study was conducted by a specialist marketing and brand consultancy. Preliminary findings have been advised to the Board who are now evaluating the best way forward to maximise shareholder value with this wholly owned suite of products.

Healthcare Enterprise Group PLC
Group profit and loss account

	Notes	Year ended 28 February 2006 Before exceptional items £'000	Exceptional items £'000	Total £'000	Year ended 28 February 2005 £'000
Turnover					
Acquisitions		618	-	618	3,687
Continuing activities		15,171	-	15,171	11,280
Discontinued activities		612	-	612	-
		16,401	-	16,401	14,967
Cost of sales		(9,880)	-	(9,880)	(7,275)
Gross profit		6,521	-	6,521	7,692
Net operating expenses		(10,962)	(15,320)	(26,282)	(6,811)
Group operating profit (loss)					
Acquisitions		180	-	180	364
Continuing activities		(4,623)	(15,320)	(19,943)	517
Discontinued activities		2	-	2	-
Group operating profit (loss)		(4,441)	(15,320)	(19,761)	881
Share of operating results of associates		-	-	-	6
Total operating profit (loss)		(4,441)	(15,320)	(19,761)	887
Exceptional income		-	1,522	1,522	(1,135)
Loss on ordinary activities before interest		(4,441)	(13,798)	(18,239)	(248)
Net interest payable and similar charges		(334)	-	(334)	(74)
Loss on ordinary activities before taxation		(4,775)	(13,798)	(18,573)	(322)
Taxation on loss on ordinary activities		-	-	-	(30)
Loss on ordinary activities after taxation		(4,775)	(13,798)	(18,573)	(352)
Minority interests		22	-	22	18
Loss for the financial year		(4,753)	(13,798)	(18,551)	(334)
Basic and diluted loss per share				(11.93)p	(0.27)p

Group statement of total recognised gains and losses
for the year ended 28 February 2006

	2006 £'000	2005 £'000
Loss for the financial year	(18,551)	(334)
Exchange losses offset in reserves	(28)	(45)
Total recognised gains and losses relating to the year	(18,579)	(379)

Healthcare Enterprise Group PLC
Consolidated Balance Sheet
as at 28 February 2006

	Group		Company	
	2006	2005	2006	2005
	£'000	£'000	£'000	£'000
Fixed assets				
Intangible assets	21,933	33,759	–	–
Tangible assets	545	514	68	77
Investments in subsidiary undertakings	-	–	27,304	31,415
Other investments	1,538	116	-	13
	24,016	34,389	27,372	31,505
Current assets				
Stocks	2,096	3,048	–	–
Debtors	3,181	6,008	19,347	14,211
Current asset investments	-	4	-	–
Cash at bank and in hand	489	1,010	240	1,931
	5,766	10,070	19,587	16,142
Creditors: amounts falling due within one year	5,606	5,911	2,108	1,105
Net current assets	160	4,159	17,479	15,037
Total assets less current liabilities	24,176	38,548	44,851	46,542
Creditors: amounts falling due after more than one year	2,827	4,236	2,795	4,198
Provisions for liabilities and charges	-	289	-	447
Deferred shares	746	-	746	-
Warrants issued	357	-	357	-
Net assets	20,246	34,023	40,953	41,897
Capital and reserves				
Called up share capital	4,298	4,492	4,298	4,492
Shares to be allotted	620	2,348	620	2,348
Warrants issued	-	364	-	364
Share premium account	39,078	32,042	45,277	38,241
Profit and Loss Account	(22,249)	(3,670)	(10,936)	(5,083)
Merger reserve	(2,293)	(2,293)	-	–
Other reserves	728	728	1,694	1,535
Shareholders' funds (including non-equity interests)	20,182	34,011	40,953	41,897
Minority Interests	64	12	-	–
Capital employed	20,246	34,023	40,953	41,897

Healthcare Enterprise Group PLC
Consolidated Cash Flow Statement

	Year ended 28 February 2006 £'000	2005 £'000
Net cash outflow from operating activities	(4,868)	(2,634)
Returns on investments and servicing of finance		
Interest received	14	48
Interest paid	(348)	(202)
Net cash outflow for returns on investments and servicing of finance	(334)	(154)
UK corporation tax paid	(73)	(320)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(221)	(293)
Development costs capitalised	(441)	(211)
Proceeds of sale of tangible fixed assets	-	1,288
Purchase of fixed asset investments	(114)	(107)
Net cash inflow / (outflow) from capital expenditure and financial investment	(776)	677
Acquisitions		
Purchase of subsidiary undertakings	(120)	(2,032)
Acquisition expenses	(176)	(719)
Net cash acquired with subsidiaries	297	195
Net cash disposed of with subsidiaries	(73)	–
Net cash outflow from acquisitions	(72)	(2,556)
Net cash outflow before financing	**(6,123)**	**(4,987)**
Financing		
Issue of share capital	4,769	5,766
Share issue costs	(200)	(456)
(Decrease)/increase of long term borrowings	100	(476)
Repayment of short term borrowings	(377)	(1,148)
Repayment of principal under hire purchase contracts	(22)	(28)
Net cash inflow from financing	4,270	3,658
(Decrease) / increase in cash in the year	(1,853)	(1,329)

Healthcare Enterprise Group PLC

Notes

1. Form of statement

The financial information set out above does not constitute the company's statutory accounts for the years ended 28 February 2005 or 28 February 2006. The financial information for 2005 is derived from the statutory accounts for 2005 which have been delivered to the registrar of companies. The financial information for 2006 has been prepared under the same accounting policies as 2005.

2. Goodwill

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 prior years and the goodwill arising on acquisitions made in 2006 and considers that goodwill has been impaired. Goodwill relating to Alpha Trading (Asia) Limited and Healthcare Sales & Service Limited has been written down by £12,000,000.

3. Acquisitions

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

Company acquired	Date acquired	Share holding	Consideration	Goodwill
			£000	**£000**
CICS (Holdings) Ltd	June 2005	100%	1,329	1,046
Alpha Trading (Asia) Limited	November 2005	100%	241	747

4. Loss per share

Basic loss per share

The basic loss per share is based on the loss for the financial year of £18,551,000 (2005: £334,000) and on the weighted average number of ordinary shares in issue during the year of 155,454,106 (2005: 123,908,141).

Diluted loss 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.

5. Exceptional items

Exceptional items	**£000**
Impairment of goodwill	(12,000)
Group restructuring and write offs	(1,649)
Ridgecrest investment write off	(1,671)
	(15,320)

Exceptional income	
Group restructuring and write offs	(149)
Ridgecrest profit on sale	1,671
	1,522
Net exceptional items	(13,798)