

31 May 2007

Healthcare Enterprise Group plc

Preliminary results for year ended 28 February 2007

Healthcare Enterprise Group plc (AIM: HCEG, "HCEG", the "Group", the "Company"), the international healthcare products group, today reports preliminary results for the year ended 28 February 2007.

Highlights

- Turnover from continuing operations £12.7m (2006: £15.8m)
- Net operating expenses before exceptional items reduced 28% to £7.9m (2006: £11.0m)
- Group operating loss before exceptional items reduced 47% to £2.3m (2006: Loss £4.4m)
- Net Loss for the period was £4.1m (2006: Loss £18.6m)
- Loss per share 1.93p (2006: Loss 11.93p)
- Crest Medical marketing relaunched in January 2007
- EPA approval for Ebiox products in the US
- Exclusive distribution agreement signed in January with Sultan Healthcare for Ebiox in the dental market
- Fertiligent 50 patient trial commenced
- Expected closure of London office and relocation of all operations to Warrington

Mark Tompkins, Group Chairman, said:

"We are confident that Crest Medical, is becoming fit for purpose in terms of people, systems and products and we look forward to good growth in the coming quarters.

"Recent Ebiox distribution contracts, which include obligations for sales targets, are a clear endorsement for the product and provide a model for further agreements of this nature.

"We remain committed to delivering value to our shareholders, building Crest Medical as a leading healthcare and first aid products distributor and pursuing every opportunity to develop and realise returns from Ebiox and our other healthcare assets."

Enquiries:

Healthcare Enterprise Group PLC
Lyndon Gaborit, Executive Deputy Chairman

020 7351 7500

Numis
David Poutney /Freddie Barnfield

020 7776 1500

College Hill
Adrian Duffield / Corinna Dorward

020 7457 2020

Overview

The year to 28 February 2007 marks a period of stabilisation, financial recovery and repositioning for the Group. HCEG turnover was £12.7 million (2006: £16.4 million) as the Group refocused its healthcare distribution business in Warrington and moved away from low margin contracts. Furthermore, the Group recorded encouraging initial sales at Ebiox whilst establishing a clearly defined distribution agreement with Sultan Healthcare Inc, a leading dental healthcare distributor worldwide.

As expected, the Group reported a loss before interest, taxation and exceptional items of £2.3 million (2006: loss £4.4 million). Major cost-cutting was achieved throughout the business and operating expenses before exceptional items were reduced to £7.9 million from £11.0 million in 2006.

The loss on ordinary activities before taxation for the year was £4.1 million (2006: loss £18.6 million) after exceptional costs of £1.7 million (2006: £13.8 million). The Group's loss per share was 1.93p (2006: loss per share 11.93p). Net debt decreased in the period by £1.6 million to £1.4 million.

During the year the Group raised £5.7 million (before expenses) through three share placings principally with institutional investors. The Directors, management and consultants subscribed in aggregate to £0.23 million of these placings. Shares were also issued for exercise of warrants and options, drawdown under the share financing facility, earnout and other payments totalling £0.9m (before expenses).

New funds raised were principally used for the development of Ebiox, to support distribution and marketing arrangements and also provided additional working capital for the Group.

Crest Medical

In January 2007 the Group successfully relaunched Crest Medical, its healthcare product distribution brand, which has a long-standing reputation in the industry.

The operations of Safa-IPS, IPS Healthcare, First Aid (UK) and Crest, all of which were previously part of the Healthcare Sales and Services (HSS) division are now managed under the Crest Medical brand from the Group's facility in Warrington. This encompasses the sourcing, supply and distribution of medical products to hospitals, doctors, retailers, pharmacists, dentists, emergency services and occupational health professionals. Crest sells products through distributors, wholesalers, agents and its own dedicated sales force. Ebiox product sales are also handled through the Warrington operation.

As announced in August 2006, the full year Crest sales figure was impacted by the loss of two low margin contracts with the Metropolitan police worth £2.6 million. Sales were £11.0 million for the year, 28% lower than the £15.3 million recorded in the year to February 2006. Despite a successful recruitment drive and marketing relaunch in January, this took place too late in the financial year to have meaningful impact.

The Crest Medical management team has been strengthened, and the sales effort restructured with the creation of a corporate sales team, responsible for major customers, distributors and export; and a B2B sales team, servicing smaller end-user customers and comprised of self employed agents. Since the year end, the sales team has increased to 21 full time staff and 20 self employed agents. Recruitment of suitably qualified individuals is continuing to ensure full nationwide and sub-sector representation.

Following improvements made by the new management team, Crest Medical is more streamlined in terms of working capital management; "on time and in full" stock delivery performance and cost base. However, not all historic purchasing and inventory management difficulties were overcome during the year and further work has been done since year end.

In order to improve operational efficiency, systems and processes at Crest Medical have been substantially reviewed and the Group has decided to invest in new enterprise resource management and customer relationship management systems.

The Company conducted a review of purchasing prices, policies and procedures in the second half of the year and found a number of weak areas and potential cost savings. These are now being more fully explored in the current financial year. A New Products Committee has been established and attention is being paid to the introduction of new products, widening of the markets serviced and expansion of the sale of pharmaceuticals to take advantage of the licences the company already holds.

Capital expenditure was also curtailed during the year at £0.1 million (2006: £0.2 million)

Ebiox

Substantial progress has been achieved by Ebiox, which focuses on cleansing and decontamination products for the healthcare and other sectors.

Ebiox and TruKleen (as it is branded in the US) surface hygiene products, offer significant advantages over other surface cleaners. By removing biofilm and cleaning to the molecular level, the products are effective against pathogens including viruses, fungi and bacteria such as MRSA. TruKleen is free of damaging chemicals and skin irritants such as alcohols, phenols, chlorine and aldehydes. It is therefore well suited for repeated use on washable surfaces over protracted periods of time.

Ebiox sales in the period were £0.90 million, a substantial improvement on sales in 2006 of £0.25 million. Ebiox direct costs have been contained during the year with indirect costs being partially absorbed within the Group. Consequently, Ebiox delivered a near breakeven result for the year.

In February and April respectively, Ebiox secured U.S. Environment Protection Agency ("EPA") approval for Ebiox disinfectant (concentrate and spray) and for its patented TruKleen surface wipes. Applications for individual U.S. state approvals for these products were submitted immediately after EPA approval and the Group expects that these should be granted before the end of 2007.

In January, HCEG secured a five-year agreement worth a total of \$4.5 million with Sultan Healthcare Inc., a leading manufacturer and distributor of dental and medical products. Sultan has agreed to meet minimum annual purchase levels as a contractual obligation, subject only to Ebiox's capacity to supply. The exclusive contract for the dental sector excluding North America was a major endorsement for Ebiox products by Sultan which has three distribution centres; in New Jersey, USA; in Ontario, Canada and in the Netherlands, supporting sales through distribution partners into 70 countries.

The contract with Sultan relieves Ebiox of the costs of building a market in the dental sector and provides a low cost entry into worldwide markets. Sultan will support the product with their own broad marketing campaign, to launch the Ebiox range under the "Solo" banner. "Solo" branded products, with appropriate Ebiox sub labelling, are to be launched across Europe and in the UK in June 2007, accompanied by direct and indirect advertising spend.

Although the current Sultan agreement covers the dental market outside the US, HCEG is actively discussing other markets and product lines with Sultan and other distributors. The intention is to agree similar contractual sales targets. Sultan and the company are in negotiations for a North American contract, which may or may not lead to an agreement later in the year. HCEG remains confident that it has chosen a suitable distributor to roll out the product in the dental sector.

Optiscope

Having received positive feedback from the industrial and commercial evaluation of the 10mm laparoscope prototype disposable rigid endoscope, the Group engaged Burnham Securities Inc., a US investment bank, to advise on licensing and value realisation opportunities for Optiscope. Meetings have been held with leading endoscope manufacturers and discussions are continuing as evaluations are carried out. Management continue to consider the options and opportunities carefully and have restricted costs relating to Optiscope in this pre-commercialisation phase, resulting in a loss of £0.1 million recorded for the business in the year (2006: £0.1 million).

Women's Reproductive Health

Exciting progress has been made with the Group's lead product, Fertiligent, which is a high quality, low cost intra-uterine sperm pump to help assist infertile couples conceive. Initial trials completed during the year in Israel and Germany achieved success rates up to three times greater than those of traditional intra-uterine inseminations.

The Group has invested a further \$50,000 in Fertiligent, in addition to \$100,000 being invested by PIHL Equity LLP ("PIHL") and Nigel Wray, a former non-executive Director of the Group. PIHL has also acquired 20% of HCEG's option to acquire Fertiligent. HCEG now holds an effective 19.81% stake in Fertiligent, and has an option to acquire up to 80% of the remaining outstanding shares in the company at a US\$2 million valuation until after the next trials, and thereafter at a US\$4.5 million valuation.

The funds recently invested in Fertiligent are being used to perform a 50 patient pre-marketing trial at a fertility centre in Turkey with Dogan Medikal, a leading Turkish provider of fertility products, (with a further potential trial in the Czech Republic). Data from this trial can be used to support market entry for Fertiligent in Europe.

Other businesses and investments

Cross Infection Control Systems, the Group's dental supply business had a positive year with sales of £0.8m (2006 £0.7m) and an operating profit of £0.2m (2006 £0.2m). As permitted under the Sultan agreement, CICS also started selling Ebiox products late in the financial year and has shown positive sales growth which has continued into the current financial year.

Ridgecrest Healthcare Group, Inc. the US pink sheets listed healthcare consulting and advisory company had a year of mixed results. The Group is in discussions about the possible realisation of this investment.

The Group has decided not to invest further in Medilator, and that investment is also under review.

Board

The Board is actively considering the recruitment and replacement of a non executive director following the resignation of Nigel Wray, who resigned as non-executive Director in April 2007.

Head Office

The Group has recently signed Heads of Terms to assign its lease relating to Head Office premises in London. It is intended that the Group will vacate the premises before the end of June 2007, relocating all remaining activities to the Crest Medical facilities in Warrington. The annual costs savings as result of the office closure are expected to be in the region of £100,000. In addition, the Group expects to receive a premium on assignment of the lease of £75,000.

Banking arrangements

The Group has discussed with its banker the rescheduling of its debt facilities. As part of the arrangements, the Group will repay £250,000 of its £1.5 million loan, which will be reviewed again in December 2007.

Current trading and outlook

The Crest Medial team is beginning to see the benefits of the substantial changes made to the medical and first aid distribution business. As the impact of the strengthened sales team and tighter procurement management start to take effect the Group is optimistic about the possibility of achieving profitability in the second half of the new financial year.

The business has moved to take advantage of the substantial opportunity in Ebiox's product range and is in proactive discussions with a number of third party distributors. The intention is to agree specific targets which will allow the business to accelerate its marketing activities.

As HCEG recovers towards profitability, management continue to actively explore all options and ways in which to develop the Group and generate shareholder value.

Group Profit and Loss account For the year ended 28 February 2007

	Notes	Year Ended 28 February 2007			Year Ended 28 February 2006		
		Before exceptional Items £'000	Exceptional items £'000	Total £'000	Before exceptional items £'000	Exceptional items £'000	Total £'000
Turnover							
Acquisitions		-	-	-	618	-	618
Continuing activities		12,667	-	12,667	15,171	-	15,171
Discontinued activities		-	-	-	612	-	612
		12,667	-	12,667	16,401	-	16,401
Cost of sales		(7,149)	-	(7,149)	(9,880)	-	(9,880)
Gross Profit		5,518	-	5,518	6,521	-	6,521
Net operating expenses	4	(7,850)	(1,688)	(9,538)	(10,962)	(15,320)	(26,282)
Group operating loss		(2,332)	(1,688)	(4,020)	(4,441)	(15,320)	(19,761)
Exceptional items	4	-	-	-	-	1,522	1,522
Loss on ordinary activities before interest		(2,332)	(1,688)	(4,020)	(4,441)	(13,798)	(18,239)
Net interest payable		(113)	-	(113)	(334)	-	(334)
Loss on ordinary activities		(2,445)	(1,688)	(4,133)	(4,775)	(13,798)	(18,573)
Taxation on ordinary activities		(5)	-	(5)	-	-	-
Loss on ordinary activities after taxation		(2,450)	(1,688)	(4,138)	(4,775)	(13,798)	(18,573)
Minority interests		7	-	7	22	-	22
Loss for the financial year		(2,443)	(1,688)	(4,131)	(4,753)	(13,798)	(18,551)
Basic loss per share	3			(1.93)p			(11.93)p

Group statement of total Recognised gains and losses For the year 28 February 2007

	2007 £'000	2006 £'000
Loss for the financial year	(4,131)	(18,551)
Exchange losses	(58)	(28)
Total recognised gains and losses relating to the year	(4,189)	(18,579)

Balance Sheet

As at 28 February 2007

	Notes	Group 2007 £'000	Group 2006 £'000
Fixed Assets			
Intangible assets		21,802	21,933
Tangible assets		428	545
Investments in subsidiary undertakings		-	-
Other investments		682	1,538
		<u>22,912</u>	<u>24,016</u>
Current assets			
Stocks		1,834	2,096
Debtors		3,311	3,181
Cash at bank and in hand		690	489
		<u>5,835</u>	<u>5,766</u>
Creditors amounts falling due within one year		(5,361)	(5,606)
Net current assets		<u>474</u>	<u>160</u>
Total assets less current liabilities		23,386	24,176
Creditors: amounts falling due in more than one year		(33)	(2,827)
Provisions for liabilities and charges			
Deferred shares		(746)	(746)
Warrants issued		(357)	(357)
Net assets		<u>22,250</u>	<u>20,246</u>
Capital and reserves			
Called up share capital		7,555	4,298
Shares to be allotted		271	620
Share premium account		42,065	39,078
Profit and Loss account		(26,438)	(22,249)
Merger reserves		(2,293)	(2,293)
Other reserves		728	728
Share option reserve		305	-
Shareholders' funds		<u>22,193</u>	<u>20,182</u>
Minority interests		57	64
Capital Employed		<u>22,250</u>	<u>20,246</u>

Group cash flow statement

For the year ended

28 February 2007

	Notes	Year Ended 28 February 2007 £'000	Year Ended 28 February 2006 £'000
Net cash outflow from operating activities	5	(4,101)	(4,868)
Returns on investments and servicing of finance			
Interest received		-	14
Interest paid		(113)	(348)
Net cash outflow for returns on investments and servicing of finance		(113)	(334)
UK Corporation tax paid		(19)	(73)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(87)	(221)
Development costs capitalised		(149)	(441)
Distribution Agreement costs capitalised		(100)	-
Proceeds of sale of fixed assets		-	-
Purchase of fixed asset investment		-	(114)
Net cash outflow from capital expenditure and investment		(336)	(776)
Acquisitions			
Purchase of subsidiary undertakings		(93)	(120)
Acquisition expenses		-	(176)
Net cash acquired with subsidiaries		-	297
Net cash disposed of with subsidiaries		-	(73)
Net cash outflow from acquisitions		(93)	(72)
Net cash outflow before financing		(4,662)	(6,123)
Financing			
Issue of share capital		6,581	4,769
Share issue costs		(337)	(200)
(Decrease)/ increase of long term borrowing	6	(1,125)	100
Repayment of short term borrowings	6	(222)	(377)
Repayment of principal under hire purchase contracts	6	(34)	(22)
Net cash inflow from financing		4,863	4,270
Increase/(decrease) in cash in the year	6	201	(1,853)

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 2006 or 28 February 2007. The financial information for 2006 is derived from the statutory accounts for 2006 which have been delivered to the Registrar of Companies. The financial information for 2007 has been prepared under the same accounting policies as 2006.

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. There has been no goodwill impairment during the year.

3. Loss per share

Basic loss per share

The basic loss per share is based on the loss for the financial year of £4,131,000 (2006: £18,551,000) divided by the weighted average number of ordinary shares in issue during the year of 213,698,645 (2006: 155,454,106).

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 share are identical.

4. Exceptional Items

Operating loss is stated after charging:

	2007 £'000	2006 £'000
Compensation for loss of office for former director and associated costs	(293)	-
Reorganisation costs	(1,593)	(1,938)
Write down of Ridgecrest Investments	(762)	(1,671)
Amortisation adjustment in respect of ATA	(35)	-
Share options	-	289
Amortisation of goodwill	1,300	(12,000)
FRS 20 share option charge	(305)	-
	(1,688)	(15,320)

Exceptional Income:

In 2006 further exceptional income was credited to the profit and loss account as follows:

	2007	2006
	£'000	£'000
Reorganisation costs	-	(149)
Profit on disposal of investments	-	1,671
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	-	1,522
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5. Reconciliation of operating loss to net cash outflow from operating activities

	2007	2006
	£'000	£'000
Operating loss	(3,715)	(19,761)
Amortisation of intangible fixed assets	89	12,077
Depreciation of tangible fixed assets	149	209
Loss on disposal of fixed assets	55	-
Decrease in stocks	262	835
(Increase)/Decrease in debtors	(130)	1,868
Decrease in creditors	(1,644)	(1,291)
Movement in provision for share options	-	(289)
Exceptional income	-	1,522
Investments written off	856	(10)
Exchange differences	(58)	(28)
Amortisation adjustment in respect of ATA	35	-
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	(4,101)	(4,868)
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6. Analysis of movement in net debt

	1 March 2006	Cash flow	28 February 2007
	£'000	£'000	£'000
Cash in hand and at bank	489	201	690
Debt due after more than one year	(1,125)	1,125	-
Debt due within one year	(2,306)	222	(2,084)
Hire purchase contracts	(46)	34	(12)
Net debt	<u>(2,988)</u>	<u>1,582</u>	<u>(1,406)</u>

7. Reconciliation of net cash flow to movement in net debt

	2007 £'000	2006 £'000
Increase/(Decrease) in cash in year	201	(1,853)
Cash outflow from change in debt and lease financing	1,381	287
Changes in net funds resulting from cash flows	<u>1,582</u>	<u>(1,566)</u>
Movement in net debt	1,582	(1,566)
Net debt at the beginning of year	(2,988)	(1,422)
Net debt at end of year	<u>(1,406)</u>	<u>(2,988)</u>