



Healthcare Enterprise Group PLC  
Annual Report 2007

# Healthcare Enterprise Group PLC

is an international product development  
and distribution Group

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- 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 £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 2007 with Sultan Healthcare Inc. for Ebiox products in the dental market
- Fertiligent 50 patient trial commenced



## Crest Medical



**Crest Medical is one of the largest first aid and occupational healthcare operators in the UK. We provide a comprehensive range of first aid, medical and pharmaceutical products for occupational health and first aid professionals, to the retail first aid market and to distributors.**

We continue to actively explore all options and ways in which to develop the Group and generate shareholder value.

### Overview

The year to 28 February 2007 marked 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 for Ebiox outside of the USA, 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 £0.9 million (before expenses).

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

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. A successful recruitment drive and marketing relaunch in January, took place too late in the financial year to have a meaningful impact on sales.

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 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, the widening of the markets serviced and the 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.

Recent Ebiox distribution contracts are a clear endorsement for the product and provide a model for further agreements of this nature

## Ebiox



advanced decontamination technology



Patented cleansing and decontamination products proven to be effective at combating MRSA and other pathogens. The Ebiox range includes hand hygiene products, surface disinfectants and products to clean and decontaminate surgical instruments.

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 July 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 assist infertile couples conceive. Initial trials completed during the year in Israel and Germany achieved success rates up to three times greater than those achieved using traditional intra-uterine insemination.

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.

### Optiscope



Developer of disposable rigid endoscopes using proprietary technology. Designed for single-use, Optiscope is more robust, cost effective and does not risk cross contamination.



Developer of a unique, high quality, low cost intra-uterine sperm pump to help infertile couples conceive in a more effective, natural, less invasive manner than other more costly, conventional fertility treatments.

## Other businesses and investments

Cross Infection Control Systems, the Group's dental supply business, had a positive year with sales of £0.8 million (2006 £0.7 million) and an operating profit of £0.2 million (2006 £0.2 million). 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 Mediator, and that investment is also under review.

## Board

The Board is actively considering the recruitment of a Non-Executive Director to replace Nigel Wray, who resigned as a 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. The Group vacated the premises in June 2007, relocating all remaining activities to the Crest Medical facilities in Warrington. The annual cost savings to be achieved 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 rescheduled its debt facilities with its bankers. As part of the arrangements, the Group repaid £150,000 of its £1.5 million loan, which will be reviewed again in December 2007.

## Current trading and outlook

The Crest Medical 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.

## Mark Tompkins

Chairman

26 June 2007

# Company Board



## **HJ Mark Tompkins (66)**

### **Non-Executive Chairman**

Mark Tompkins is a private investor with experience in assisting emerging companies in Europe and the US. His prior experience includes investment banking, management consulting and investment advice on an international level. He currently serves, inter alia, on the board of Sodexo Alliance SA, the Paris listed food services and facilities management company and on the board of NASDAQ listed Allied Healthcare International Inc. In the past he has served on the boards of two NYSE listed Healthcare companies, Abbey Healthcare Group, Inc. and Apria Healthcare Group, Inc. and on one AIM-quoted company, Vialogy Plc.



## **Lyndon Gaborit (59)**

### **Executive Deputy Chairman**

Lyndon Gaborit, a Chartered Accountant, was formerly the Chief Operating Officer (Europe) for Moore Clayton & Co, Inc. Before that he was Deputy Chairman and CEO of Infoshare Europe Ltd and adviser to ConAgra Foods, Inc. He also serves as Executive Chairman of Industrial Management & Equity Ltd, a corporate strategy adviser to HCEG, and as Deputy Chairman of Capital Accumulation Ltd, a holding company of financial services businesses.



## **Nicholas Brigstocke (64)**

### **Non-Executive Director**

Nick Brigstocke was Chairman of UK Equity Capital Markets at Credit Suisse First Boston ('CSFB') in London from 1998 to 2001 following CSFB's acquisition of Barclays de Zoete Wedd ('BZW'), where he was Chairman and Managing Director of UK Corporate Broking. He is also a non-executive director of Turbo Power Systems Inc, Azure Dynamics Corp, Bridgewell Group plc, DDD Group plc, Capital Accumulation Ltd and Inter Pipeline Fund.



## **Gron Ffoulkes-Davies (42)**

### **Chief Financial Officer & Company Secretary**

Gron Ffoulkes-Davies qualified as a Chartered Accountant with Arthur Andersen & Co. Following qualification, he was Group Financial Controller of Limelight Group plc during the time of its main market listing on the London Stock Exchange. Most recently he was Group Finance Director of AIM quoted Tepnel Life Sciences plc, during a period of substantial growth and international expansion through acquisition.

# Directors' report

## for the year ended 28 February 2007

The Directors present their Annual Report together with the Audited Financial Statements for the year ended 28 February 2007.

### Business review and principal activities

Healthcare Enterprise Group plc is an international healthcare products group.

The Group operates in a number of areas including; medical product distribution, occupational health, first aid and disinfectant markets. A full review of the businesses is given in the Chairman's Statement on pages 2 to 6.

A number of key performance indicators are used by the Group including sales, gross margin, operating expenses and net debt balances. The gross margin for 2007 is 43.6% compared with 39.8% in 2006 and reflects improvements in purchasing. The net debt balance as at 28 February 2007 was £1.4 million compared with £3.0 million, 28 February 2006. This represents an improvement of £1.6 million driven principally by the £6.2 million net inflow from share issues offsetting the £4.1 million net cash outflow from operating activities.

### Results and dividends

The results for the Group show a pre tax loss of £4.1 million (2006: £18.6 million) for the year and sales of £12.7 million (2006: £16.4 million). The Group has net debt of £1.4 million (2006: £3.0 million). Net cash outflow from operating activities was £4.1 million (2006: £4.9 million).

The results for the year ended 28 February 2007 are set out in the Group profit and loss account on page 18.

The Directors have not paid a dividend for this accounting period.

### Risks and uncertainties

The Board regularly reviews the Group's risks and takes the appropriate action as required to manage these risks. The Executive Director has the responsibility for implementing the Board's policies on risk. The key risks are the:

1. competitive pricing environment and low barriers to entry in the market
2. ability to supply the product at the right time
3. sales performance of the sales team and agents' sales force

The first risk has been addressed by rebranding of the business, increased sales effort, and focussing the business on corporate and business to business segments.

The second risk is addressed through sourcing product from a number of suppliers, using past and current customer ordering patterns to assist in determining stock purchasing requirements.

The third risk, the Group's performance to a significant extent depends on the effectiveness of its sale team, its agents' sales force and its marketing methods. The Crest Medical sales effort has recently been 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 year end, both the sales team have been strengthened through key appointments and the self employed sales agents team increased.

However, the resignation of key individuals and the inability to recruit people with the necessary experience and skills could adversely affect the Group's performance. The Group is conscious of this and monitors staff/sales agent turnover accordingly.

### Research & development

The Group capitalises development costs, comprising wages, materials, sub-contractors and development overheads, that can be clearly identified to a specific project that is considered to be technically feasible and commercially viable. These costs will be amortised over the period of production of the specific commercial project to which they relate.

### Share issues

Details of share issues during the year are detailed in note 20 to the financial statements.

### Financial instruments

Details of financial instruments are detailed in note 29 to the financial statements.

## Directors

The Directors who served during the year were as follows:

NO Brigstocke

LJ Gaborit

HJM Tompkins

GA Wood (Resigned 1 November 2006)

NW Wray (Resigned 11 April 2007)

A statement on Directors' remuneration and their interests in the shares and options of the Company are disclosed in the Report on Directors' remuneration on pages 10 to 13.

## Substantial shareholdings

The following interests in 3% or more of the issued share capital of the Company at 22 June 2007 have been disclosed.

	Number of ordinary shares	Percentage of issued share capital
Morley Fund Management	26,858,279	8.83
Fidelity Investments	24,617,043	8.10
NW Wray <sup>1</sup>	17,199,836	5.66
Hargreave Hale, stockbrokers	16,410,000	5.40
Artemis Investment Management	15,971,974	5.25
GA Wood <sup>2</sup>	15,250,323	5.01
L&PMCC	12,922,267	4.25

Note 1 At 22 June 2007 NW Wray had an interest in 4,787,599 ordinary shares of the Company. PIHL Equity LLP, an entity in which NW Wray is entitled to exercise more than one third of the voting power at general meetings, held 12,412,237 ordinary shares. Therefore at 22 June 2007 NW Wray was interested, directly and indirectly, in 17,199,836 ordinary shares of the Company.

Note 2 At 22 June 2007, GA Wood held 13,169,979 ordinary shares in the Company directly. In addition 2,080,344 ordinary shares were held by GA Woods family trust, of which he is a trustee. Therefore at 22 June 2007 GA Wood was interested, directly and indirectly, in 15,250,323 ordinary shares of the Company.

## Payment of creditors

It is the Group's policy to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided goods and services in accordance with agreed terms and conditions. Trade creditors as at 28 February 2007 represented approximately 50 days (2006: 30 days) of purchases.

## International Financial Reporting Standards

As an AIM-listed company, the Company is required to prepare consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) from 2007. The Company is currently undertaking a review of the conversion from UK GAAP to IFRS. The first financial results prepared in accordance with IFRS's will be for the six months ended 31 August 2007.

## Donations

There were no charitable or political contributions made by the Company during the year.

## Annual General Meeting

The formal notice of the Company's Annual General Meeting ('AGM') and resolutions to be proposed at the AGM are set out on pages 37 to 38.

## Auditors

A resolution proposing that HLB Vantis Audit plc be re-appointed as auditors of the Company will be submitted at the forthcoming Annual General Meeting.

By Order of the Board

## GP Ffoulkes-Davies

Company Secretary

26 June 2007

# Report on Directors' remuneration

The remuneration of the Executive Directors is determined by the Remuneration Committee, which consists of the two Non-Executive Directors and the Executive Director under the Chairmanship of Mr HJM Tompkins. The Company is currently seeking to appoint an additional Non-Executive Director who will sit on the Remuneration Committee.

The Committee's principal function is to determine the remuneration, benefits and terms of employment of the Executive Directors with due regard to the interests of shareholders. It is also responsible for making allocations from the Company's share option schemes and setting objective conditions governing its exercise.

## Remuneration policy

In determining the remuneration policy that applies to the Executive Directors, the Committee strives to ensure that Directors are rewarded competitively relative to comparable companies in order to retain and motivate them.

## Remuneration of Executive Directors

The Committee's aim is to provide a balanced package to Executive Directors with both fixed and variable elements to ensure that an appropriate proportion is performance related. No Executive Director is involved in deciding his own remuneration.

Remuneration of Executive Directors comprises elements of basic salary and benefits; bonus, pension arrangements and share options.

The benefits provided to Executive Directors may include a car allowance, medical insurance, permanent health insurance and life assurance.

Under the terms of their service contracts, Executive Directors may earn bonuses that are discretionary and/or based on specific performance targets set by the Committee.

Executive Directors are eligible for share options, granted at the discretion of the Board (or the Remuneration Committee) under the Company's share option schemes.

## Remuneration of Non-Executive Directors

The Board determines the remuneration of Non-Executive Directors. No Non-Executive Director is involved in deciding his own remuneration.

## Directors' service contracts

There is one Executive Director, Mr LJ Gaborit. Mr Gaborit's contract is for a term of 12 months from 1 January 2007 and thereafter may be terminated on not less than three months written notice by either the Company or the Director. The contract may be terminated early in certain specific circumstances.

The agreements with Non-Executive Directors are not for fixed terms, but are each terminable on not less than three months written notice at any time by the Director or the Company.

## Directors' emoluments

Details of the Directors' emoluments for the year are as follows:

	Salaried fees £	Bonus £	Benefits £	Compensation for loss of office £	2007 Total £	2006 Total £	2007 Pension £	2006 Pension £
<b>Current</b>								
NO Brigstocke	15,000	–	–	–	15,000	15,000	–	–
LJ Gaborit <sup>1</sup>	1,250	–	–	–	1,250	15,000	–	–
HJM Tompkins <sup>2</sup>	15,000	–	–	–	15,000	15,000	–	–
<b>Former</b>								
J Bradshaw <sup>3</sup>	–	–	–	–	–	96,000	–	5,000
S Bruck <sup>4</sup>	–	–	–	–	–	147,000	–	12,000
K Denos <sup>5</sup>	–	–	–	–	–	10,000	–	–
M K Low <sup>6</sup>	–	–	–	–	–	89,000	–	2,000
G A Wood <sup>7</sup>	120,667	–	–	200,000	320,667	169,000	10,000	16,000
NW Wray	15,000	–	–	–	15,000	15,000	–	–
	166,917	–	–	200,000	366,917	571,000	10,000	35,000

Note 1 In addition to the Director's emoluments included above, consultancy payments of £373,000 (2006: £175,000) were made to a related company, see note 10.

Note 2 In addition to the Director's emoluments included above, consultancy payments of £165,000 (2006: £51,000) were made to a related company, see note 10.

Note 3 To 15 November 2005.

Note 4 To 30 January 2006.

Note 5 To 8 November 2005.

Note 6 To 8 November 2005.

Note 7 To 1 November 2006.

## Aggregate remuneration

	2007 £	2006 £
Emoluments	166,917	571,000
Compensation for loss of office	200,000	–
Money purchase pension contributions	10,000	35,000
	376,917	606,000

The interests of the Directors in the share capital of the Company at 28 February 2007 were as follows:

	2007 Number of ordinary shares of 2.5p each	2006 Number of ordinary shares of 2.5p each
NO Brigstocke	2,072,186	1,765,755
LJ Gaborit <sup>1</sup>	1,303,351	220,018
HJM Tompkins <sup>2</sup>	1,988,105	787,940
NW Wray <sup>3</sup>	17,222,057	15,376,617

Note 1 At 28 February 2007 LJ Gaborit held 220,018 ordinary shares through a family trust and 1,083,333 Ordinary Shares through Investment Management and Equity Limited.

Note 2 At 28 February 2007 HJM Tompkins has a contingent beneficial interest in 1,083,333 shares through Thurloe Capital Partners Limited and 714,286 shares through Turut Limited, companies which are wholly owned by trusts associated with HJM Tompkins. In addition, he held 190,486 share directly. Accordingly HJM Tompkins is interested in, directly and indirectly, in 1,988,105 shares at 28 February 2007.

Note 3 At 28 February 2007 NW Wray had an interest in 4,809,820 ordinary shares of the Company. PIHL Equity LLP, a company in which NW Wray is entitled to exercise more than one third of the voting power at general meetings, held 12,412,237 ordinary shares. Therefore at 28 February 2007 NW Wray was interested, directly and indirectly, in 17,222,057 ordinary shares of the Company.

# Report on Directors' remuneration continued

At 22 June 2007 these shareholdings had changed as follows:

	2007 Number of ordinary shares of 2.5p each
NO Brigstocke	2,072,186
LJ Gaborit <sup>1</sup>	1,303,351
HJM Tompkins <sup>2</sup>	1,988,105
NW Wray <sup>3</sup>	17,199,836

Note 1 At 22 June 2007 LJ Gaborit held 220,018 ordinary shares through a family trust and 1,083,333 Ordinary Shares through Industrial Management and Equity Limited.

Note 2 At 22 June 2007 HJM Tompkins has a contingent beneficial interest in 1,083,333 shares through Thurloe Capital Partners Limited and 714,286 shares through Turut Limited, companies which are wholly owned by trusts associated with HJM Tompkins. In addition, he held 190,486 shares directly. Accordingly HJM Tompkins is interested in, directly and indirectly, in 1,988,105 shares at 22 June 2007.

Note 3 At 22 June 2007 NW Wray had an interest in 4,787,599 ordinary shares of the Company. PIHL Equity LLP, a company in which NW Wray is entitled to exercise more than one third of the voting power at general meetings, held 12,412,237 ordinary shares. Therefore at 22 June 2007, NW Wray was interested, directly and indirectly, in 17,199,836 ordinary shares of the Company.

## Directors' share options

Details of options held under the Company's share option scheme are set out below:

Options granted under the amended and restated 2001 L&P MCC, Inc. ('L&P MCC') stock option plan, which was adopted by the Company in connection with the acquisition of Healthcare Enterprise Group, Inc. ('HEI') in March 2003.

Directors	At 1 Mar 2006	Exercised in the year	At 28 Feb 2007	Exercise price	First exercise date	Expiry date
NO Brigstocke	276,645	–	276,645	2.5p	1 Jan 2003	31 Dec 2008
NO Brigstocke <sup>1</sup>	113,246	(113,246)	–	2.5p	1 Aug 2001	31 Jul 2006
LJ Gaborit	199,476	–	199,476	2.5p	1 Jan 2003	31 Dec 2008
HJM Tompkins <sup>2</sup>	1,358,952	–	1,358,952	10.25p	19 Dec 2003	18 Dec 2007

Note 1 The share options were exercised on 8 November 2006, the market price on that date being 3.3566p per share. The gain on exercise was £970.

Note 2 HJM Tompkins has a contingent beneficial interest in these options through Ballerat International Limited, a company which is wholly owned by a trust associated with HJM Tompkins.

Options issued under the Healthcare Enterprise Group PLC ('HCEG') 2003 Share Option Scheme.

Directors	At 1 Mar 2006	Granted in the year	Exercised in the year	At 28 Feb 2007	Exercise price	First exercise date	Expiry date
<b>Unapproved</b>							
NO Brigstocke	518,989	–	–	518,989	25p	10 Dec 2003	9 Dec 2013
NO Brigstocke	500,000	–	–	500,000	14p	3 Feb 2006	2 Feb 2016
LJ Gaborit	1,524,961	–	–	1,524,961	25p	10 Dec 2003	9 Dec 2013
LJ Gaborit	1,000,000	–	–	1,000,000	14p	3 Feb 2006	2 Feb 2016
LJ Gaborit	–	6,671,559	–	6,671,559	3p	28 Nov 2006	27 Nov 2016
HJM Tompkins <sup>1</sup>	575,895	–	–	575,895	25p	10 Dec 2003	9 Dec 2013
HJM Tompkins <sup>1</sup>	1,000,000	–	–	1,000,000	14p	3 Feb 2006	2 Feb 2016
HJM Tompkins <sup>1</sup>	–	3,478,871	–	3,478,871	3p	28 Nov 2006	27 Nov 2016
NW Wray	250,000	–	–	250,000	14p	3 Feb 2006	2 Feb 2016

Note 1 HJM Tompkins has a contingent beneficial interest in these options through Ballerat International Limited, a company which is wholly owned by a trust associated with HJM Tompkins.

In addition to the options held above, certain Directors have been granted options over shares held by L&PMCC. These options (with the exception of the options granted to Mr HJM Tompkins) carry warrants in the ratio of five warrants for every two ordinary shares. Details of share warrants are given in Note 22 to the financial statements.

Directors	At 1 Mar 2006	Granted in year	Exercised in year	At 28 Feb 2007	Exercise price	First exercise date	Expiry date
NO Brigstocke	229,323	–	–	229,323	1.35p	15 Jan 2003	31 Dec 2007
NO Brigstocke	1,122,062	–	–	1,122,062	14p	13 Nov 2004	12 Nov 2009
LJ Gaborit <sup>2</sup>	1,310,651	–	–	1,310,651	14p	13 Nov 2004	12 Nov 2009
HJM Tompkins <sup>1</sup>	1,000,000	–	–	1,000,000	14p	13 Nov 2004	12 Nov 2009

Note 1 HJM Tompkins has a contingent beneficial interest in these options through Ballerat International Limited, a company which is wholly owned by a trust associated with HJM Tompkins.

Note 2 These options were granted to LJ Gaborit's family trust.

### Warrants

At 28 February 2007, 45,667 share warrants exercisable at 6p per share were held by Ballerat International Limited, a company which is wholly owned by a trust associated with HJM Tompkins, 208,333 share warrants exercisable at 6p per share were held by Thurloe Capital Partners Limited, a company which is wholly owned by a trust associated with HJM Tompkins; 148,052 share warrants exercisable at 6p per share were held by LJ Gaborit's family trust, 208,333 share warrants exercisable at 6p per share were held by Industrial Management and Equity Limited, a company controlled by LJ Gaborit, and 416,667 exercisable at 6p per share were held by N Wray. Details of these warrants are given in Note 22 to the financial statements.

# Statement of Directors' responsibilities

The Directors are responsible for preparing the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for the year. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The maintenance and integrity of the web site is the responsibility of the Directors; the work carried out by the Auditors does not involve consideration of these matters and, accordingly, the Auditors accept no responsibility for any changes that may have occurred to the information contained in the financial statements since they were presented on the Company's web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Statement of disclosure to auditor

The Directors who held office at the date of approval of this Directors' report confirm that:

- (a) so far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and
- (b) they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

# Corporate governance

## Corporate Governance Committee

HCEG is listed on the Alternative Investment Market ('AIM') and is not subject to the requirements of the Combined Code on Corporate Governance. The Company is also not required to disclose its specific policies in relation to corporate governance. However the Directors are committed to delivering high standards of corporate governance to the Company's shareholders and other stakeholders, including employees, suppliers and the wider community. A Corporate Governance Committee, comprising NO Brigstocke (Chairman), HJM Tompkins and LJ Gaborit, has been established for this purpose. The Board of Directors operates within the framework described below.

## The Board of Directors

The Board comprises the Non-Executive Chairman, the Executive Director and one other Non-Executive Director. The Company is currently seeking to appoint an additional Non-Executive Director. The Directors believe that the composition of the Board is appropriate for the current size of the Group and its stage of development. The Board demonstrates a range of experience and calibre sufficient to ensure appropriate independent judgement on issues of strategy, performance and standards of conduct vital to the continued success of the Group.

The Board meets formally at least four times a year and has a schedule of matters reserved for its decision. The Board directs and controls the Group and is responsible for its strategy, operating performance and the stewardship of the Group's resources. Relevant papers are circulated to the Board on a timely basis and in advance of each meeting. In furtherance of their duties all Directors have access, as appropriate, to independent professional advice and the services of the Company Secretary.

Any Director appointed during the year is required under the Company's Articles of Association to retire and seek re-appointment by the shareholders at the next Annual General Meeting.

At this stage of the Company's development, the Board does not consider it necessary to have a Nomination Committee to make recommendations to the Board on new Board appointments. The Board itself considers all such appointments and decides whether persons nominated have the appropriate skills and experience.

In addition to the Corporate Governance Committee, the Board has appointed two other standing committees as follows:

## The Audit Committee

The Audit Committee is chaired by NO Brigstocke and comprises HJM Tompkins and LJ Gaborit. It meets twice a year and its duties include a comprehensive review of the annual and interim financial statements before they are presented to the Board for approval. It also reviews the findings of the external auditors and key accounting policies and judgements. It has unrestricted access to the Group's auditors. Each year the auditors provided written confirmation in relation to their independence.

## The Remuneration Committee

The Remuneration Committee meets not less than twice a year and comprises the two Non-Executive Directors, HJM Tompkins and NO Brigstocke, and the Executive Director, LJ Gaborit. It is chaired by HJM Tompkins and is responsible for making recommendations to the Board on remuneration policy for Executive Directors and for setting the salaries, incentive payments and granting share options relating to the Executive Directors. The Board of Directors (excluding Non-Executive Directors) determines the remuneration of the Non-Executive Directors.

## Relations with shareholders

The Board of Directors seeks to ensure that all shareholders are kept informed about the Group and its activities. A comprehensive annual report and accounts and an interim report are sent to shareholders and there is frequent dialogue with institutional investors, including presentations following the preliminary and interim announcements.

The Annual General Meeting provides shareholders with the opportunity to meet and question Directors, including the Chairman of the Board. Details of the resolutions to be proposed at the Annual General Meeting, to be held on 1 August 2007, are set out in the Notice of Annual General Meeting which is attached to this report.

# Corporate governance continued

## Internal control

The Directors recognise that they have overall responsibility for ensuring that the Group maintains an effective system of internal control. However, it should be recognised that such a system can provide only reasonable and not absolute assurance.

As an AIM listed company, the Board is not required to make a statement on the effectiveness of its internal controls, however the Directors believe it is useful to highlight the following elements of the Group's systems and control:

- a clearly defined structure which delegates authority, responsibility and accountability;
- a comprehensive system for reporting financial results. Actual results are measured monthly against budget which, together with a commentary on variances and other unusual items, allows the Board to monitor the Group's performance on a regular basis;
- a comprehensive annual budgeting process; and
- a revision of annual forecasts on a quarterly basis.

## Going concern

Under company law, the Directors are required to consider whether it is appropriate to prepare the financial statements on the basis that the Company and Group are going concerns. As part of its normal business practice, budgets, cash flow forecasts and longer term financial projections are prepared, and in reviewing this information, the Directors are satisfied that the Company and the Group have adequate resources to enable them to continue in business for the foreseeable future.

The Directors have therefore adopted the going concern basis in the preparation of the financial statements.

# Independent auditor's report to the Shareholders of Healthcare Enterprise Group PLC

We have audited the Group and parent company financial statements (the "financial statements") of Healthcare Enterprise Group PLC for the year ended 28 February 2007 which comprise the Group profit and loss account, the Group and Company Balance sheets, the Group cash flow statement, the Group statement of total recognised gains and losses and the related notes 1 to 30. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements. The information given in the Directors' report includes that specific information presented in the Chairman's statement that is cross referred from the Business review section of the Directors' report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's statement, the Directors' report and the Report on Directors' remuneration. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the parent company's affairs as at 28 February 2007 and of the Group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the financial statements.

## Emphasis of matter – Going Concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the uncertainty over the Group's ability to continue as a going concern. The financial statements are prepared on a going concern basis which is dependent on the Group managing its cashflows in the foreseeable future by achieving its sales forecasts and realising certain asset and equity inflows. There can be no certainty that the outcome of these assumptions, along with the other matters explained in note 1 to the financial statements, will be as forecast by the Directors. In view of the significance of these uncertainties we consider that they should be drawn to your attention. The financial statements do not include any adjustments that would result if the Group was unable to continue as a going concern.

## HLB Vantis Audit plc

Chartered Accountants  
Registered Auditor  
66 Wigmore Street  
London W1U 2SB  
26 June 2007

# 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
<b>Turnover</b>							
Continuing activities		12,667	–	12,667	15,789	–	15,789
Discontinued activities		–	–	–	612	–	612
Cost of sales	2	12,667 (7,149)	–	12,667 (7,149)	16,401 (9,880)	–	16,401 (9,880)
<b>Gross profit</b>		5,518	–	5,518	6,521	–	6,521
Net operating expenses		(7,850)	(1,688)	(9,538)	(10,962)	(15,320)	(26,282)
<b>Group operating loss</b>							
continuing activities	3	(2,332)	(1,688)	(4,020)	(4,443)	(15,320)	(19,763)
discontinued activities	3	–	–	–	2	–	2
Exceptional items	3	–	–	–	–	1,522	1,522
<b>Loss on ordinary activities before interest</b>		(2,332)	(1,688)	(4,020)	(4,441)	(13,798)	(18,239)
Net interest payable and similar charges	6	(113)	–	(113)	(334)	–	(334)
<b>Loss on ordinary activities before taxation</b>		(2,445)	(1,688)	(4,133)	(4,775)	(13,798)	(18,573)
Taxation on loss on ordinary activities	7	(5)	–	(5)	–	–	–
<b>Loss on ordinary activities after taxation</b>		(2,450)	(1,688)	(4,138)	(4,775)	(13,798)	(18,573)
Minority interests		7	–	7	22	–	22
<b>Loss for the financial year</b>	24	(2,443)	(1,688)	(4,131)	(4,753)	(13,798)	(18,551)
Basic and diluted loss per share	9			(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 offset in reserves	(58)	(28)
<b>Total recognised gains and losses relating to the year</b>	<b>(4,189)</b>	<b>(18,579)</b>

# Balance sheets

as at 28 February 2007

	Notes	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
<b>Fixed assets</b>					
Intangible assets	11	21,802	21,933	94	–
Tangible assets	12	428	545	52	68
Investments in subsidiary undertakings	13	–	–	26,364	27,304
Other investments	13	682	1,538	–	–
		22,912	24,016	26,510	27,372
<b>Current assets</b>					
Stocks	15	1,834	2,096	–	–
Debtors	16	3,311	3,181	8,480	19,347
Cash at bank and in hand		690	489	402	240
		5,835	5,766	8,882	19,587
Creditors: amounts falling due within one year	17	(5,361)	(5,606)	(2,036)	(2,108)
<b>Net current assets</b>		474	160	6,846	17,479
<b>Total assets less current liabilities</b>					
		23,386	24,176	33,356	44,851
Creditors: amounts falling due after more than one year	18	(33)	(2,827)	(18)	(2,795)
Deferred shares	20	(746)	(746)	(746)	(746)
Warrants issued	22	(357)	(357)	(357)	(357)
<b>Net assets</b>		22,250	20,246	32,235	40,953
<b>Capital and reserves</b>					
Called up share capital	20	7,555	4,298	7,555	4,298
Shares to be allotted	20	271	620	271	620
Share premium account	24	42,065	39,078	48,264	45,277
Profit and loss account	24	(26,438)	(22,249)	(25,854)	(10,936)
Merger reserve	24	(2,293)	(2,293)	–	–
Other reserves	24	728	728	1,694	1,694
Share option reserve	24	305	–	305	–
<b>Shareholders' funds</b>	25	22,193	20,182	32,235	40,953
Minority interests		57	64	–	–
<b>Capital employed</b>		22,250	20,246	32,235	40,953

The financial statements were approved by the Board of Directors on 26 June 2007.

HJM Tompkins  
Director

LJ Gaborit  
Director

# Group cash flow statement

for the year ended 28 February 2007

	Notes	Year ended 28 February 2007 £'000	Year ended 28 February 2006 £'000
<b>Net cash outflow from operating activities</b>	26	<b>(4,101)</b>	<b>(4,868)</b>
<b>Returns on investments and servicing of finance</b>			
Interest received		-	14
Interest paid		(113)	(348)
<b>Net cash outflow for returns on investments and servicing of finance</b>		<b>(113)</b>	<b>(334)</b>
<b>UK corporation tax paid</b>		<b>(19)</b>	<b>(73)</b>
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets		(87)	(221)
Development costs capitalised		(149)	(441)
Distribution agreement costs capitalised		(100)	-
Purchase of fixed asset investments		-	(114)
<b>Net cash outflow from capital expenditure and financial investment</b>		<b>(336)</b>	<b>(776)</b>
<b>Acquisitions</b>			
Purchase of subsidiary undertakings		(93)	(120)
Acquisition expenses		-	(176)
Net cash acquired with subsidiaries		-	297
Net cash disposed of with subsidiaries		-	(73)
<b>Net cash outflow from acquisitions</b>		<b>(93)</b>	<b>(72)</b>
<b>Net cash outflow before financing</b>		<b>(4,662)</b>	<b>(6,123)</b>
<b>Financing</b>			
Issue of share capital		6,581	4,769
Share issue costs		(337)	(200)
(Decrease)/increase of long term borrowings	27	(1,125)	100
Repayment of short term borrowings	27	(222)	(377)
Repayment of principal under hire purchase contracts	27	(34)	(22)
<b>Net cash inflow from financing</b>		<b>4,863</b>	<b>4,270</b>
<b>Increase/(decrease) in cash in the year</b>	28	<b>201</b>	<b>(1,853)</b>

# Notes to the financial statements

## for the year ended 28 February 2007

### 1. Accounting policies

#### Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

The principal accounting policies of the Group have remained unchanged from the previous period except that the Group has adopted FRS 20 Share Based Payments as discussed below.

#### Going concern

At 28 February 2007, the Group had net current assets of £0.5 million. After year end, the Group renegotiated its bank loan of £1.5 million originally repayable on 10 June 2007. The Group's bankers have agreed that £150,000 from the existing loan will be repaid in June 2007, with the balance being repayable from certain asset realisations and any equity issue proceeds. The facility, whilst remaining repayable on demand, is due for full repayment on or before 31 December 2007.

The financial statements have been prepared on a going concern basis which is supported by the cash flow forecasts to 31 August 2008 produced by the Directors. The projections reflect an expected increase in the level of sales and margins from the Group's main business activities and certain asset disposals and issues of equity in the period to July 2008.

The Directors believe that they will meet their sales forecasts, achieve the inflows from asset realisations and issues of equity, and manage their cash flow as described above. On this basis the Directors believe it appropriate to prepare the financials statements on the going concern basis having a reasonable expectation that the Group will have sufficient working capital for the foreseeable future.

However, the margin of forecast cash reserves over forecast requirements is not large and inherently there can be no certainty in relation to these matters. If there is any material shortfall in meeting the forecast the Group may need to arrange alternative sources of finance. At this time it is not possible to predict the exact form such alternative sources of finance would take, should they become necessary. The financial statements do not include any adjustments to the value of the balance sheet assets, particularly the carrying value of capitalised development costs of £ 0.8 million and goodwill of £ 21.0 million, or provision for further liabilities, which would result should the going concern concept not be valid.

#### Basis of consolidation and comparative figures

The Group profit and loss account and the Balance sheets include the financial statements of the Company and its subsidiary undertakings made up to 28 February 2007. The results of the subsidiaries sold and acquired are included in the Group profit and loss account up to, or from the date control passes. Intra-group sales and profits are eliminated fully on consolidation.

#### Goodwill

Goodwill represents the difference between the fair value of the consideration paid on the acquisition of a business and the fair value of the identifiable net assets acquired.

Goodwill arising on acquisitions is capitalised and subjected to annual impairment reviews under FRS 11: Impairment of Fixed Assets and Goodwill. Any excess of goodwill over the value in use of the underlying assets is written off to the Group profit and loss account. This accounting policy departs from the specific requirements of the UK Companies Act to amortise goodwill over a finite period for the overriding purpose of giving a true and fair view. The impact of this departure cannot be quantified.

During the current year, the Directors reviewed the remaining life of the Crest Medical Limited business and have concluded that no goodwill adjustment is required. An indefinite life has been applied to the goodwill relating to the business of Ebiox Limited, Optiscope Technologies Limited and Fertilgent Limited due to the strength of the intellectual property and marketing agreements associated with these products.

#### Associates

Entities (other than subsidiary undertakings) in which the Group has a participating interest and over whose operating and financial policies the Group exercises significant influence are treated as associates. In the Group financial statements associates are accounted for using the net equity method.

#### Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Leasehold property	Over the term of the lease
Plant, machinery, fixtures & fittings	15-25% per annum
Motor vehicles	25% per annum

#### Development costs

Development costs are capitalised in accordance with SSAP 13: Accounting for Research and Development and amortised over the period expected to benefit from the cost which is considered to be up to ten years.

# Notes to the financial statements continued

## for the year ended 28 February 2007

### 1. Accounting policies continued

#### Financial instruments

The Company has included additional disclosures in line with the requirements of FRS 13: Derivatives and other financial instruments.

The Group's financing strategy, which is approved at Board Level, is to use medium term debt together with equity to finance the Group's operations. This debt is currently at floating rates and the resulting interest rate exposure is kept under review by the Board.

The Group's activities are undertaken in a number of markets and as a result there is exposure to currency risk at a Group level although at an operating level exposure to currency risk is not significant.

#### Share based payments

The Group grants share options to directors, employees and certain consultants. Equity settled share based payments are measured at fair value at the date of grant and expensed in line with the vesting conditions, based on the estimated number of options that will eventually vest. The fair value is measured using the Black Scholes model as there are no complex market performance criteria to be considered.

Previously share based payments were valued at the difference between the market price of the Company's shares on the date of grant and the exercise price. The value was recognised in the Group profit and loss account over the vesting period.

A prior year adjustment has not been made in respect of the implementation of FRS 20 as the effect on the comparative figures in the financial statements is not considered to be material.

#### Turnover

Turnover represents amounts receivable for goods and services net of VAT and intra-Group transactions.

#### Stock

Stocks are valued at the lower of cost and net realisable value. Provisions are made for obsolete, slow moving and defective stock where appropriate.

#### Operating leases

Costs in respect of operating leases are charged to the Group profit and loss account on a straight line basis over the term of the lease.

#### Hire purchase contracts

Assets obtained under hire purchase contracts, which transfer to the Group substantially all the risks and rewards of ownership of the assets, are capitalised as tangible fixed assets and depreciated over their estimated useful life. Obligations under such contracts are included in creditors net of finance charges allocated to future periods. The finance element of the rental payment is charged to the Group profit and loss account so as to produce a constant periodic rate of charge on the net obligations outstanding in each period.

#### Investments

Investments held as fixed or current assets are stated at cost less provision for impairment.

#### Deferred taxation

Where material, deferred tax is provided in full, as required by FRS 19: Deferred Taxation, in respect of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is not discounted.

#### Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Assets and liabilities expressed in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date.

The results of overseas subsidiary undertakings are translated into sterling at the rates of exchange ruling at the balance sheet date. Any exchange differences arising on the retranslation of opening net assets are taken directly to reserves.

All other foreign exchange differences are taken to the Group profit and loss account in the year which they arise.

#### Pensions

Certain subsidiaries of the Company operate defined contribution pension schemes for their employees and directors. The assets of the schemes are held separately from those of the Group. The annual contributions payable are charged to the Group profit and loss account. The Company provides no other post-retirement benefits to its employees and directors.

## 2. Segmental information

Turnover by destination	2007 £'000	2006 £'000
United Kingdom	10,418	13,461
Continental Europe	1,079	1,629
North America	166	881
Far East	523	163
Middle East	437	253
Other	44	14
	<b>12,667</b>	<b>16,401</b>

Turnover for the year is attributable to the distribution of first aid and disinfectant products and services, originating in the United Kingdom. In the opinion of the Directors the disclosure of the results on ordinary activities before taxation and net assets by geographical segment would be seriously prejudicial to the interests of the Group and have therefore not been provided.

## 3. Group operating loss

Operating loss is stated after charging/(crediting):

	2007 £'000	2006 £'000
Amortisation of development costs (note 11)	83	77
Amortisation of distribution agreement (note 11)	6	–
Exchange gains	(2)	(256)
Depreciation of owned tangible fixed assets	149	197
Depreciation of tangible fixed assets held under hire purchase contracts	11	12
Operating lease rentals – land and buildings	373	380
Operating lease rentals – plant and machinery	139	219
Auditors' remuneration for audit services	55	70
Auditors' remuneration for non audit services	6	4
Exceptional item	1,688	15,320

The exceptional item is as follows:

	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 Healthcare Group Inc. (note 13)	762	1,671
Amortisation adjustment in respect of Alpha Trading (Asia) Limited	35	–
Share options (UITF 25)	–	(289)
Amortisation of goodwill	(1,300)	12,000
FRS 20 share option charge	305	–
	<b>1,688</b>	<b>15,320</b>

In addition a further exceptional item has been (charged)/credited to the profit and loss account as follows:

	2007 £'000	2006 £'000
Reorganisation costs	–	(149)
Profit on disposal of tangible fixed assets	–	–
Profit on disposal of investments	–	1,671
	<b>–</b>	<b>1,522</b>

All exceptional items relate to continuing activities.

# Notes to the financial statements continued

## for the year ended 28 February 2007

### 4. Directors' emoluments

Details of Directors' emoluments are set out in the report on Directors' remuneration on pages 10 to 13.

### 5. Employees

The average number of employees, including Executive Directors, employed by the Group during the year was:

	2007 No	2006 No
Sales	35	24
Distribution	64	94
Administration	35	66
	<b>134</b>	<b>184</b>

At 28 February 2007 the number of employees, including Executive Directors, employed by the Group was:

	No
Sales	30
Distribution	53
Administration	30
	<b>113</b>

Staff costs, including Executive Directors' remuneration was:

	2007 £'000	2006 £'000
Wages and salaries	3,236	4,808
Social security costs	314	428
Other pension costs	123	170
Redundancy costs	446	–
	<b>4,119</b>	<b>5,406</b>

The costs disclosed above include an exceptional charge relating to share options as follows: wages and salaries – £305,000 – FRS 20 charge (2006: £289,000 – UITF 25 credit).

### 6. Net interest payable and similar charges

	2007 £'000	2006 £'000
Interest payable on bank loans and overdrafts	(104)	(342)
Interest payable on hire purchase contracts	(9)	(7)
	<b>(113)</b>	<b>(349)</b>
Other interest receivable	–	15
	<b>(113)</b>	<b>(334)</b>

## 7. Taxation on loss on ordinary activities

	2007 £'000	2006 £'000
Tax charge comprises:		
United Kingdom corporation tax at 30%	(5)	-
The reconciliation of the current year tax charge is as follows		
Group loss on ordinary activities before taxation	(4,133)	(18,573)
Amortisation of goodwill	-	12,000
Exceptional items	-	(289)
	(4,133)	(6,862)
Standard UK corporation tax at 30%	(1,240)	(2,058)
Effects of:		
Expenses not deductible for tax purposes	361	30
Capital allowances for the year (higher)/lower than depreciation	44	(10)
Chargeable gains	-	6
Net Creation of overseas taxation losses	-	240
Net Creation of UK taxation losses	835	1,798
Other	(5)	(6)
Current tax charge	(5)	-

UK taxation losses as at 28 February 2007 which are available for offset against future trading profits and management expenses are estimated to be in the region of £10.9 million (2006: £8.1 million).

### Deferred tax assets not provided

	2007 £'000	2006 £'000
Accelerated capital allowances	99	99
Other timing differences	-	-
Tax losses carried forward	3,277	2,442
	3,376	2,541

## 8. Loss attributable to Healthcare Enterprise Group plc

No separate profit and loss account is presented for the Company as permitted by section 230 of the Companies Act 1985. The loss after taxation of the Company is £14,918,000 (2006: £5,853,000).

## 9. Loss per share

### (a) 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) and on the weighted average number of ordinary shares in issue during the year of 213,698,645 (2006: 155,454,106).

### (b) 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.

## 10. Related party transactions

HJM Tompkins is the Managing Director of Thurloe Capital Partners Limited. The Company purchased management services from Thurloe Capital Partners Limited totalling £165,000 (2006: £51,000) in the year. As at 28 February 2007 the Company owed Thurloe Capital Partners Limited £nil (2006: £nil).

LJ Gaborit is the Executive Chairman of Industrial Management and Equity Limited ('IME'). The company purchased strategic consultancy services from IME totalling £373,000 (2006: £175,000) in the year. As at 28 February 2007 the Company owed IME £nil (2006: £nil).

KI Denos (a Non-Executive Director until 8 November 2005) is the principal of Kenneth I. Denos, P.C. ('KID'). The Group purchased legal services from KID totalling US\$nil (2006: US\$125,000) in the year. As at 28 February 2007 the Group owed KID US\$nil (2006: US\$nil).

# Notes to the financial statements continued

for the year ended 28 February 2007

## 11. Intangible fixed assets

Group	Patents acquired £'000	Distribution agreement £'000	Development costs £'000	Goodwill arising on reverse acquisition £'000	Goodwill arising on acquisitions £'000	Total £'000
<b>Cost</b>						
At 1 March 2006	6	–	776	840	33,495	35,117
Additions	–	100	149	–	–	249
Adjustments to consideration payable for past acquisitions	–	–	–	–	(384)	(384)
Increased investment in subsidiaries	–	–	–	–	93	93
<b>At 28 February 2007</b>	<b>6</b>	<b>100</b>	<b>925</b>	<b>840</b>	<b>33,204</b>	<b>35,075</b>
<b>Amortisation</b>						
At 1 March 2006	6	–	93	840	12,245	13,184
Charge for the year	–	6	83	–	–	89
<b>At 28 February 2007</b>	<b>6</b>	<b>6</b>	<b>176</b>	<b>840</b>	<b>12,245</b>	<b>13,273</b>
<b>Net book value</b>						
<b>At 28 February 2007</b>	<b>–</b>	<b>94</b>	<b>749</b>	<b>–</b>	<b>20,959</b>	<b>21,802</b>
At 28 February 2006	–	–	683	–	21,250	21,933

Company	Distribution agreement £'000
<b>Cost</b>	
At 1 March 2006	–
Additions	100
<b>At 28 February 2007</b>	<b>100</b>
<b>Amortisation</b>	
At 1 March 2006	–
Charge for the year	6
<b>At 28 February 2007</b>	<b>6</b>
<b>Net book value</b>	
<b>At 28 February 2007</b>	<b>94</b>
At 28 February 2006	–

## 12. Tangible fixed assets

Group	Leasehold land & buildings £'000	Plant machinery fixtures & fittings £'000	Motor vehicles £'000	Total £'000
<b>Cost</b>				
At 1 March 2006	62	1,879	108	2,049
Additions	30	57	–	87
Disposals	(3)	(1,243)	(57)	(1,303)
<b>At 28 February 2007</b>	<b>89</b>	<b>693</b>	<b>51</b>	<b>833</b>
<b>Depreciation</b>				
At 1 March 2006	14	1,419	71	1,504
Charge for the year	6	129	14	149
Disposals	(1)	(1,202)	(45)	(1,248)
<b>At 28 February 2007</b>	<b>19</b>	<b>346</b>	<b>40</b>	<b>405</b>
<b>Net book value</b>				
<b>At 28 February 2007</b>	<b>70</b>	<b>347</b>	<b>11</b>	<b>428</b>
At 28 February 2006	48	460	37	545

The net book value of motor vehicles includes an amount of £11,000 (2006: £22,000) in respect of assets held under hire purchase contracts and a related depreciation charge of £11,000 (2006: £12,000).

Company	Leasehold land & buildings £'000	Plant machinery fixtures & fittings £'000	Total £'000
<b>Cost</b>			
At 1 March 2006	6	97	103
Additions	–	4	4
Disposals	–	(14)	(14)
<b>At 28 February 2007</b>	<b>6</b>	<b>87</b>	<b>93</b>
<b>Depreciation</b>			
At 1 March 2006	1	34	35
Charge for the year	1	19	20
Disposals	–	(14)	(14)
<b>At 28 February 2007</b>	<b>2</b>	<b>39</b>	<b>41</b>
<b>Net book value</b>			
<b>At 28 February 2007</b>	<b>4</b>	<b>48</b>	<b>52</b>
At 28 February 2006	5	63	68

# Notes to the financial statements continued

## for the year ended 28 February 2007

### 13. Fixed asset investments

#### (a) Investments in subsidiary undertakings

Company	£'000
At 1 March 2006	27,304
Adjustments to consideration payable for past acquisitions	(259)
Provision for impairment	(681)
At 28 February 2007	26,364

The adjustment to consideration relates to the acquisition of Crest Medical Limited.

The provision for impairment relates to Crest Medical Limited.

#### (b) Other investments

Group	£'000
At 1 March 2006	1,538
Provision for impairment	(856)
At 28 February 2007	682

The investment in Ridgecrest Healthcare Group Inc. has been impaired by £856,000 to £510,000 to reflect the Directors' view of its market value as at 28 February 2007.

### 14. Principal subsidiaries

The principal subsidiary undertakings of the Group are as follows:

Names	Principal activity	Country of incorporation or registration	Proportion of issued shares held
Crest Medical Ltd	Distribution of occupational health and first aid products	England & Wales	100%
Ebiox Limited	Developer and manufacturer of surface decontamination products	England & Wales	100%
Healthcare Enterprise Limited	Holding company	England & Wales	100%
SAFAtec (UK) Limited	Holding company	England & Wales	100%
Optiscope Technologies Limited	Developer and manufacturer of disposable endoscopes	Israel	69%
Alpha Trading (Asia) Limited	Distribution of occupational health and first aid products	Thailand	100%
Healthcare Enterprise Group Inc.	Healthcare consulting and advisory services	USA	100%

All Group companies have accounting reference dates of 28 February except Optiscope Technologies Limited whose accounting reference date is 31 December and Ebiox Limited which changed its accounting reference date during the year to 31 December.

The results of Optiscope Technologies Limited are considered immaterial so the Directors did not consider it necessary to change the accounting reference date.

Ebiox Limited changed its accounting reference date to 31 December 2006 as part of the Group review of opportunities to maximise shareholder value.

For the purposes of consolidation, the results of Ebiox Limited have been included both for ten months ending 31 December 2006 and two months ending 28 February 2007 using interim accounts prepared for this period.

### 15. Stocks

	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
Finished goods and goods for resale	1,834	2,096	–	–

## 16. Debtors

	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
Trade debtors	1,570	2,557	–	–
Amounts due from group undertakings	–	–	6,916	19,187
Amounts due from undertakings in which the group has a participating interest	5	–	5	–
Prepayments and accrued income	203	272	57	83
Other debtors	1,533	352	1,502	77
	<b>3,311</b>	<b>3,181</b>	<b>8,480</b>	<b>19,347</b>

Included in amounts due from subsidiary undertakings, in the Company's balance sheet, is an amount of £5,785,012 (2006: £7,500,000) which is due after one year.

## 17. Creditors: amounts falling due within one year

	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
Bank loans and overdrafts	2,084	2,306	1,500	1,375
Net obligations under hire purchase contracts	11	19	–	–
Trade creditors	1,772	1,745	318	22
Corporation tax	36	49	–	–
Taxes and social security	253	185	3	–
Amounts owed to group undertakings	–	–	89	312
Other creditors	200	26	–	–
Accruals and deferred income	1,005	1,276	126	399
	<b>5,361</b>	<b>5,606</b>	<b>2,036</b>	<b>2,108</b>

Bank and other loans are repayable as follows:

	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
In one year or less	1,500	2,306	1,500	1,375
Between one and two years	–	500	–	500
Between two and five years	–	625	–	625
	<b>1,500</b>	<b>3,431</b>	<b>1,500</b>	<b>2,500</b>

Bank and other loans repayable in one year or less includes a £1,500,000 loan with Barclays Bank Plc which was taken out on 21 February 2006 and is due for repayment on 31 December 2007. The Group has repaid £150,000 of this loan since 28 February 2007.

Bank loans of £1,500,000 are secured as follows:

- (a) Cross-guarantees from the Company and certain of its subsidiaries;
- (b) Fixed and floating charges over the business and assets of the Company and certain of its subsidiaries;

The Group's £1,500,000 (2006: £2,500,000) invoice discounting facility was drawn down by £584,000 at 28 February 2007 (2006: £931,000) and it is secured over the trade debtors of certain members of the Group.

# Notes to the financial statements continued

for the year ended 28 February 2007

## 18. Creditors: amounts falling due after more than one year

	Group 2007 €'000	Group 2006 €'000	Company 2007 €'000	Company 2006 €'000
Bank loans and overdrafts	–	1,125	–	1,125
Net obligations under hire purchase contracts	–	27	–	–
Accruals and deferred income	33	1,675	18	1,670
	33	2,827	18	2,795

Deferred consideration of €19,000 (2006: €1,631,000) was included within Accruals and deferred income at 28 February 2007.

## 19. Obligations under hire purchase contracts

The maturity of amounts due under hire purchase contracts is as follows:

Group	2007 €'000	2006 €'000
Repayable within one year	12	25
Repayable between one and five years	–	31
	12	56
Finance charges and interest allocated to future periods	(1)	(10)
	11	46
Included in creditors falling due within one year	11	19
Included in creditors falling due after more than one year	–	27

## 20. Called up share capital

Group and Company	2007 €'000	2006 €'000
<b>Authorised</b>		
800,000,000 ordinary shares of 2.5p each	20,000	20,000
186,502,731 deferred shares of 0.4p each	746	746
	20,746	20,746

Group and Company	2007 €'000	2006 €'000
<b>Allotted, called up and fully paid</b>		
<b>Ordinary shares</b>		
302,216,720 ordinary shares of 2.5p each (2006: 171,931,438 ordinary shares of 2.5p each)	7,555	4,298
	7,555	4,298
<b>Deferred shares</b>		
186,502,731 deferred shares of 0.4p each	746	746
	746	746

The rights of the holders of the deferred shares are set out below:

- The holder is not entitled to receive any dividend or other distribution;
- The holder is not entitled to receive any notice of or to attend, speak or vote at any general meeting of the Company;
- The holder is entitled to a return of capital on liquidation or capital reductions.

The deferred shares are presented as financial liabilities.

During the year the Company issued 130,285,282 ordinary shares of 2.5p each as follows:

Number	Price (p)	Reason
14,458,291	14.0	Placing by Numis Securities Limited on 2 March 2006
455,996	14.0	Issued in settlement of legal fees
105,686	12.75	Issued in settlement of Non-Executive Directors' Fees
213,334	15.75	Issued to satisfy MDS deferred consideration
509,606	2.5	Issued as a result of the exercise of share options
19,216	37.5	Issued as a result of the exercise of warrants
1,370,426	7.29	Issued to satisfy the Ngamdee Cotton Agreement
659,341	4.55	Issued in settlement of Headstart fees
6,983,926	5.0	Issued to satisfy CICS deferred consideration
1,475,947	4.9	Issued to satisfy Ebiox deferred consideration
3,007,518	3.25	Issued to satisfy Headstart drawdown
1,008,428	3.22	Issued in connection with Settlement Agreement
1,076,210	3.88	Issued in connection with Settlement Agreement with former employee
332,089	4.0	Issued to satisfy Ebiox deferred consideration
289,179	3.29	Issued in connection with Settlement Agreement with former employee
6,666,667	3	Placing by Numis Securities Limited on 2 November 2006
1,520,681	2.5	Issued as a result of the exercise of share options
399,408	3.38	Issued in settlement of Non-Executive Directors' Fees
60,000,000	3	Placing by Numis Securities Limited on 2 November 2006
2,533,333	3	Issued in settlement of Numis Securities Limited's fees
27,200,000	6	Placing by Numis Securities Limited on 28 February 2007

#### Shares to be allotted

	2007 £'000	2006 £'000
Shares to be allotted	271	620

During the year 6,983,926 ordinary shares of 2.5p each were issued in respect of CICS deferred consideration valued at £349,000.

#### 21. Options

The Company operates an Inland Revenue approved share option scheme, an unapproved share option scheme and an Enterprise Management Incentive Scheme ('EMI') under which options have been granted to employees and Directors.

Date of grant	No of shares as at 1 March 2006	Issued during year	Exercised	Lapsed	As at 28 February 2007	Exercise price	First exercise date	Expiry date
<b>Approved</b>								
14 Nov 2003	75,000	-	-	(75,000)	-	40p	14 Nov 2003	13 Nov 2013
20 Oct 2004	61,690	-	-	(61,690)	-	48.63p	20 Oct 2004	28 Feb 2007
20 Oct 2004	123,380	-	-	(61,690)	61,690	48.63p	20 Oct 2004	19 Oct 2014
1 Dec 2004	100,677	-	-	-	100,677	54.63p	1 Dec 2004	30 Nov 2014
7 Dec 2004	50,632	-	-	(50,632)	-	59.25p	7 Dec 2004	6 Dec 2014
21 Sep 2005	41,379	-	-	(41,379)	-	72.5p	21 Sep 2005	31 Mar 2006
21 Sep 2005	41,379	-	-	(41,379)	-	72.5p	21 Sep 2005	20 Sep 2015
28 Feb 2006	2,077,153	-	-	(826,943)	1,250,210	14.75p	28 Feb 2006	28 Feb 2016
	2,571,290	-	-	(1,158,713)	1,412,577			

# Notes to the financial statements continued

## for the year ended 28 February 2007

### 21. Options continued

Date of grant	No of shares as at 1 March 2006	Issued during year	Exercised	Lapsed	As at 28 February 2007	Exercise price	First exercise date	Expiry date
<b>Unapproved</b>								
1 Aug 2001	2,179,983	-	-	(368,047)	1,811,936	2.5p	1 Aug 2001	1 May 2007
1 Aug 2001	1,462,760	-	(1,462,760)	-	-	2.5p	1 Aug 2001	7 Nov 2006
19 Dec 2002	1,358,952	-	-	-	1,358,952	10.25p	19 Dec 2002	18 Dec 2007
1 Jan 2003	312,745	-	(312,745)	-	-	2.5p	1 Jan 2003	7 Nov 2006
1 Jan 2003	730,924	-	(254,802)	-	476,122	2.5p	1 Jan 2003	31 Dec 2008
14 Nov 2003	1,925,000	-	-	(1,925,000)	-	24.42p	14 Nov 2003	13 Nov 2013
14 Nov 2003	842,606	-	-	(842,606)	-	25p	14 Nov 2003	13 Nov 2006
10 Dec 2003	2,982,134	-	-	(362,289)	2,619,845	25p	10 Dec 2003	9 Dec 2013
10 Dec 2003	16,609	-	-	(16,609)	-	22.08p	10 Dec 2003	23 Jun 2006
6 Jan 2004	1,600,000	-	-	(1,600,000)	-	34.5p	6 Jan 2004	5 Jan 2014
20 Oct 2004	358,310	-	-	(358,310)	-	48.63p	20 Oct 2004	28 Feb 2007
20 Oct 2004	164,508	-	-	(82,254)	82,254	48.63p	20 Oct 2004	19 Oct 2014
5 Nov 2004	388,664	-	-	(388,664)	-	48.75p	5 Nov 2004	7 Nov 2006
1 Dec 2004	183,048	-	-	-	183,048	54.63p	1 Dec 2004	30 Dec 2014
7 Dec 2004	50,632	-	-	(50,632)	-	59.25p	7 Dec 2004	6 Dec 2014
1 Mar 2005	1,000,000	-	-	(1,000,000)	-	79.25p	1 Mar 2005	31 May 2006
1 Mar 2005	150,000	-	-	-	150,000	79.25p	1 Mar 2005	28 Feb 2015
21 Sep 2005	38,137	-	-	(38,137)	-	72.5p	21 Sep 2005	31 Mar 2006
21 Sep 2005	27,586	-	-	(27,586)	-	72.5p	21 Sep 2005	20 Sep 2015
3 Feb 2006	4,350,000	-	-	(1,150,000)	3,200,000	14p	3 Feb 2006	2 Feb 2016
28 Nov 2006	-	10,150,430	-	-	10,150,430	3p	28 Nov 2006	27 Nov 2016
13 Dec 2006	-	3,100,000	-	-	3,100,000	3p	13 Dec 2006	12 Dec 2016
	20,122,598	13,250,430	(2,030,307)	(8,210,134)	23,132,587			

### EMI scheme

Date of grant	No of shares as at 1 March 2006	Issued during year	Exercised	Lapsed	As at 28 February 2007	Exercise price	First exercise date	Expiry date
13 Dec 2006	-	6,250,000	-	-	6,250,000	3p	13 Dec 2006	12 Dec 2016

## 22. Warrants issued

	2007 £'000	2006 £'000
Warrants	357	357

As at 1 March 2006 there were 277,652,090 warrants in issue.

The warrants are tradeable on AIM, separately from the ordinary shares of the Company. At the beginning of the year, the holder of twenty five warrants was entitled to subscribe for one ordinary share of 2.5p each of the Company at a price of 1.5p per warrant on any one of the following dates: 30 June 2006, 2007 and 2008 (or if later, the thirtieth day after the date on which copies of the audited accounts of the Company for the immediately preceding year are despatched to shareholders). These warrants were assigned a value of 0.13p each at the date of issue.

On 4 August 2006, warrant holders exercised a total of 480,400 warrants for a total consideration of £7,206. The Company issued 19,216 ordinary shares of 2.5p each.

At an EGM of warrant holders held on 27 November 2006, the warrant terms were changed such that one new warrant was issued for twenty five old warrants held, convertible into ordinary shares on a one for one basis at a subscription price of 6p. The dates for conversion of warrants remain unchanged as 30 June 2007 and 30 June 2008 or 30 days after the date of posting of the previous year's annual report, whichever is the later date. The remaining 277,171,690 warrants were converted into 11,086,867 new warrants as at that date.

An additional 17,299,998 new warrants were issued on 27 November 2006, as part of the fund raising approved at the EGM of ordinary shareholders held on the same date. These new warrants entitle the holder to subscribe for one ordinary share of 2.5p each at a price of 6p.

As at 28 February 2007, there were 28,386,865 warrants in issue entitling the holder to subscribe for ordinary shares of the Company 2.5p each at a price of 6p.

On 5 September 2006, 500,000 warrants were issued to Headstart Global Fund Limited and Headstart Global Aggressive Fund Limited entitling the warrant holder to subscribe for one ordinary share of 2.5p at a price of 5p per share, on or before 4 September 2010.

# Notes to the financial statements continued

## for the year ended 28 February 2007

### 23. Share based payments

	2007 £'000	2006 £'000
FRS 20 share option provision	305	–

	Number of options	Weighted average exercise price
Options subject to FRS 20		
As at 1 March 2006	12,975,294	20.65p
Lapsed during year	(4,068,392)	26.12p
Issued	19,500,430	3.00p
<b>As at 28 February 2007</b>	<b>28,407,332</b>	<b>7.75p</b>

Of the 28,407,332 options outstanding applicable to FRS 20; 19,500,430 relate to options issued during the year at 3.00p per share exercisable over the next 9.75 years on average, the remainder, 8,906,902 relate to options issued at a range of exercise prices from 2.50p per share to 79.25p per share exercisable over the next 6.691 years on average.

Options are granted to employees from the approved Healthcare Enterprise Group plc 2003 Share Option Scheme, an EMI scheme or an unapproved share option scheme. The Company has taken the exemption available within FRS 20, which allows the charge for share based payments to be calculated only in respect of options granted to employees after 7 November 2002, which had not vested by 1 March 2006. The Company's effective date for implementation of FRS 20 Share Based Payments is 1 March 2006. For each relevant grant that had not vested by the effective date, certain assumptions were used for the calculation of fair values under FRS 20 using the Black Scholes model. These assumptions are as follows:

- The exercise price is equal to the share price at the date of grant of the option with the exception of the following options:
  - 14 Nov 2003 Share price 36.25p Exercise price 40.0p
  - 10 Dec 2003 Share price 37.25p Exercise price 25.0p
- There are no market conditions attached
- The exercise period is ten years except in the case of the following options:
  - 28 February 2006 five years Share price 14.00p Exercise price 14.00p
- The expected dividend yield is 0%
- The expected volatility is 15%
- The risk free rate of investment ranges from 3.99% to 5.25%
- The expected option lapse rate is 40%
- The proportion of exercisable period closed is 33.33%.

The expected volatility is a management estimate taking into account historic volatility.

### 24. Reserves

Group	Note	Share premium account £'000	Profit and loss account £'000	Merger reserve £'000	Share option reserve £'000	Other reserves £'000
At 28 February 2006		39,078	(22,249)	(2,293)	–	728
Exchange losses offset in reserves		–	(58)	–	–	–
Retained loss for the financial year		–	(4,131)	–	–	–
Issue of ordinary share capital		3,324	–	–	–	–
Costs associated with issue of ordinary share capital		(337)	–	–	–	–
FRS 20 share option charge	23	–	–	–	305	–
<b>At 28 February 2007</b>		<b>42,065</b>	<b>(26,438)</b>	<b>(2,293)</b>	<b>305</b>	<b>728</b>

Company	Note	Share premium account £'000	Profit and loss account £'000	Merger reserve £'000	Share option reserve £'000	Other reserves £'000
At 28 February 2006		45,277	(10,936)	–	–	1,694
Retained loss for the financial year		–	(14,918)	–	–	–
Issue of ordinary share capital		3,324	–	–	–	–
Costs associated with issue of ordinary share capital		(337)	–	–	–	–
FRS 20 share option charge	23	–	–	–	305	–
<b>At 28 February 2007</b>		<b>48,264</b>	<b>(25,854)</b>	<b>–</b>	<b>305</b>	<b>1,694</b>

## 25. Reconciliation of movements in shareholders' funds

	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
Loss for the financial year	(4,131)	(18,551)	(14,918)	(5,853)
Issue of new share capital net of expenses	6,244	7,581	6,244	7,581
Movement in shares to be allotted	(349)	(1,728)	(349)	(1,728)
Movement in provision for share options	-	-	-	159
FRS 20 share option reserve	305	-	305	-
Exchange losses offset in reserves	(58)	(28)	-	-
Deferred shares transferred	-	(746)	-	(746)
Warrants issued transferred	-	(357)	-	(357)
Opening shareholders' funds	20,182	34,011	40,953	41,897
Closing shareholders' funds	22,193	20,182	32,235	40,953

## 26. Reconciliation of operating loss to net cash outflow from operating activities

	2007 £'000	2006 £'000
Operating loss	(4,020)	(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)
FRS 20 share option provision	305	-
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 Alpha Trading (Asia) Limited	35	-
Net cash outflow from operating activities	(4,101)	(4,868)

## 27. Analysis of movement in net debt

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

## 28. Reconciliation of net cash flow to movement in net debt

	2007 £'000	2006 £'000
Increase/(decrease) in cash in the year	201	(1,853)
Cash outflow from change in debt and hire purchase contracts	1,381	287
Movement in net debt	1,582	(1,566)
Net debt at the beginning of the year	(2,988)	(1,422)
Net debt at the end of the year	(1,406)	(2,988)

# Notes to the financial statements continued

for the year ended 28 February 2007

## 29. Financial instruments

The following analysis excludes short term debtors and creditors as permitted under FRS 13: Derivatives and Other Financial Instruments.

### (a) Financial assets

	Non-interest bearing 2007 £'000	Total 2007 £'000	Non-interest bearing 2006 £'000	Total 2006 £'000
Sterling	641	641	436	436
Euro	–	–	2	2
Other	49	49	51	51
	690	690	489	489

The financial assets consist of cash at bank and in hand.

### (b) Financial liabilities

	Fixed rate 2007 £'000	Floating rate 2007 £'000	Total 2007 £'000	Fixed rate 2006 £'000	Floating rate 2006 £'000	Total 2006 £'000
Sterling	11	2,084	2,095	27	3,431	3,458
US Dollar	–	–	–	19	–	19
	11	2,084	2,095	46	3,431	3,477

The floating rate liabilities incur interest at rates related to LIBOR.

In 2007 the weighted average interest rate on fixed rate liabilities of £11,000 was 11% and was fixed for a period of one year (2006: £46,000 at 11% for two years).

### (c) Currency exposure

Group companies operate in their functional currency and the impact of any currency exposure would not be material.

### (d) Borrowing Facilities

At the balance sheet date the Group had an undrawn invoice discounting facility of £916,000 which is subject to review in less than one year.

### (e) Fair value of assets and liabilities

There is no material difference between the fair value of the Group's financial assets and liabilities and their book value as shown in the financial statements.

## 30. Financial commitments

At 28 February 2007, the Group had annual commitments under non-cancellable operating leases as follows:

	Land and buildings 2007 £'000	Land and buildings 2006 £'000	Other 2007 £'000	Other 2006 £'000
Operating lease which expire				
Within one year	4	–	103	3
In one to two years	–	–	36	–
In two to five years	61	–	–	161
In more than five years	297	405	–	–
	362	405	139	164

# Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that an Annual General Meeting of the Company will be held at the offices of Numis Securities Limited, Stock Exchange Building, 10 Paternoster Square, London EC4M 7LT on Wednesday 1 August 2007 at 11.00am for the following purposes:

## As Ordinary Business:

- 1 To receive and adopt the report of the Directors and the audited accounts of the Company for the year ended 28 February 2007 together with the report of the auditors thereon.
- 2 To receive and adopt the Directors' remuneration report for the year ended 28 February 2007.
- 3 To re-elect Mark Tompkins, who retires by rotation pursuant to Article 19.6 of the Company's Articles of Association and who, being eligible, offers himself for re-election, as a Director.
- 4 To re-appoint HLB Vantis Audit plc as auditors of the Company from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the Company and to authorise the Directors to fix their remuneration.

## As Special Business:

- 5 To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

THAT the Directors be and they are hereby generally and unconditionally authorised in accordance with section 80 Companies Act 1985 ('CA 1985') and in substitution for any existing power to allot relevant securities to exercise all the powers of the Company to allot relevant securities (within the meaning of the said section 80) up to an aggregate nominal amount of £2,533,572 during the period commencing on the date of the passing of this resolution and expiring on the earlier of the conclusion of the annual general meeting of the Company in 2008 and 30 October 2008, but so that this authority shall allow the Company to make before the expiry of this authority offers or agreements which would or might require relevant securities to be allotted after such expiry and notwithstanding such expiry the Directors may allot relevant securities in pursuance of such offers or agreements.

- 6 To consider and, if thought fit, to pass the following resolution as a special resolution:

THAT

- (a) the Directors be and they are hereby empowered, pursuant to section 95 Companies Act 1985 ('CA 1985'):
  - (i) subject to the passing of Resolution 5 set out in the notice of this meeting, to allot equity securities (within the meaning of section 94 CA 1985) for cash consideration pursuant to the authority given by the said Resolution; and
  - (ii) to transfer equity securities (within the meaning of section 94 CA 1985) which are held by the Company in treasury;

as if section 89(1) CA 1985 did not apply to any such allotments or transfers, provided that this power shall be limited to the allotment or transfer of equity securities:

- (A) in connection with or the subject of an offer or invitation, open for acceptance for a period fixed by the Directors, to holders of ordinary shares and such other equity securities of the Company as the Directors may determine on the register on a fixed record date in proportion (as nearly as may be) to their respective holdings of such securities or in accordance with the rights attached thereto (including equity securities which, in connection with such offer or invitation, are the subject of such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements that would otherwise arise or with legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory);
- (B) pursuant to the grant or exercise of any share options pursuant to any share scheme of the Company in force from time to time and any shares acquired or held by the Company in treasury may be transferred in satisfaction of the exercise of such options;
- (C) (otherwise than pursuant to sub paragraphs (A) and (B) above) up to an aggregate nominal amount of £760,072 (representing approximately 10 per cent. of the issued share capital of the Company);

and shall expire at the earlier of the conclusion of the annual general meeting of the Company in 2008 and 30 October 2008, except that the Company may before such expiry make offers or agreements which would or might require equity securities to be allotted after such expiry and notwithstanding such expiry the Directors may allot equity securities in pursuance of such offers or agreements; and

- (b) all authorities previously conferred under section 95 CA 1985 be and are hereby revoked, provided that such revocation shall not have retrospective effect.

# Notice of Annual General Meeting continued

7 To consider and, if thought fit, to pass the following resolution as a special resolution:

THAT in substitution for any existing power under section 166 CA 1985, but without prejudice to the exercise of any such power prior to the date hereof, the Company generally be and is hereby generally and unconditionally authorised for the purposes of section 166 CA 1985 to make market purchases (as defined in section 163 CA 1985) of fully paid ordinary shares of 2.5p each provided that:

- (a) the maximum aggregate number of ordinary shares hereby authorised to be purchased is 30,402,866 (being approximately 10 per cent. of the issued ordinary share capital of the Company as at the date of the passing of this resolution);
- (b) the minimum price which may be paid for any such ordinary share is 2.5p being the nominal value thereof;
- (c) the maximum price (exclusive of expenses) which may be paid for such shares for so long as the ordinary shares of the Company are listed on AIM shall be 5 per cent. above the average of the middle market quotations for an ordinary share in the Company taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which such share is contracted to be purchased;
- (d) the authority hereby conferred shall expire on whichever is the earlier of the conclusion of the next annual general meeting of the Company in 2008 or 30 October 2008; and
- (e) the Company may make a contract to purchase its ordinary shares under the authority hereby conferred prior to the expiry of such authority, which contract will or may be completed or executed wholly or partly after the expiry of such authority, and may purchase its ordinary shares in pursuance of any such contract.

By Order of the Board  
**GP Foulkes-Davies**  
Secretary  
26 June 2007

Registered office:  
Healthcare Enterprise House  
17 Chesford Grange  
Woolston  
Warrington WA1 4RQ

#### Notes:

- 1 A member entitled to attend and vote at the Meeting may appoint one or more proxies to attend and (on a poll) vote instead of him. A proxy need not be a member of the Company.
- 2 A form of proxy is provided with this notice. Completion and return of such a proxy will not prevent a member from attending the Meeting and voting in person.
- 3 To be effective, the form of proxy and any power of attorney or other authority under which it is signed (or a notarially certified copy of such authority) must be deposited with the Company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not less than 48 hours before the time of the holding of the Meeting or any adjournment thereof.
- 4 Pursuant to regulation 41(1) of the Uncertificated Securities Regulations 2001 (2001 No. 3755), the Company has specified that only those members registered on the register of members of the Company at 11.00am on 30 July 2007 shall be entitled to attend and vote at the Meeting in respect of the number of Shares registered in their name at that time. Changes to the register of members after 11.00am on 30 July 2007 shall be disregarded in determining the rights of any person to attend and vote at the Meeting.
- 5 The following documents will be available for inspection at the registered office of the Company during usual business hours on any weekday (Saturdays, Sundays and public holidays excluded) until the date of the annual general meeting and also on the date and at the place of the meeting from 11.00am until the conclusion of the meeting:
  - (a) copies of the Directors' service contracts and letters of appointment; and
  - (b) the Register of Directors' Interests required to be kept by CA 1985.

# Company information

<b>Non-executive Chairman</b>	HJM Tompkins
<b>Executive Deputy Chairman</b>	LJ Gaborit
<b>Non-executive Director</b>	NO Brigstocke
<b>Secretary</b>	GP Ffoulkes-Davies
<b>Company Number</b>	3627383
<b>Registered Office</b>	Healthcare Enterprise House 17 Chesford Grange Woolston Warrington WA1 4RQ
<b>Auditors</b>	HLB Vantis Audit plc 66 Wigmore Street London W1U 2SB
<b>Nominated Advisers and Stockbroker</b>	Numis Securities Limited The London Stock Exchange Building 10 Paternoster Square London EC4M 7LT
<b>Solicitors</b>	Norton Rose 3 More London Riverside London SE1 2AQ
<b>Bankers</b>	Barclays Bank plc 1 Churchill Place London E14 5HP
<b>Registrars</b>	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU

# Notes

The image shows the Crest Medical logo at the top, which consists of a stylized blue 'C' icon followed by the text 'crest medical' in a bold, sans-serif font. Below this, the tagline 'suppliers to the medical industry' is written in a smaller, italicized font. The background of the top right section is a photograph of a modern building with a glass and metal facade, viewed from a low angle looking up. The building is partially obscured by a large, curved blue graphic element that sweeps across the right side of the page.

**crest medical**  
*suppliers to the medical industry*

Healthcare Enterprise Group PLC  
17 Chesford Grange, Woolston  
Warrington WA1 4RQ  
[www.hcegroup.com](http://www.hcegroup.com)