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If you have sold or transferred all of your Ordinary Shares or Warrants in Healthcare Enterprise Group PLC, you should send this document, together with the accompanying forms of proxy, to the stockbroker, bank or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee. However, such documents should not be forwarded or transmitted into any jurisdiction in which such act would constitute a violation of the relevant laws of such jurisdiction.

The Directors of the Company, whose names appear on page 1, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and this document makes no omission likely to affect the import of such information.

Healthcare Enterprise Group PLC

(Registered number 3627383)

Interim results

Proposed cash placing

Proposed increase in Directors' authority to allot relevant securities

Proposed renewal of dis-application of statutory pre-emption rights

Proposed amendment to the terms of the Warrants

Notice of Extraordinary General Meeting

and

Notice of Warrantholders' Meeting

Your attention is drawn to the letter from the Chairman of the Company which is set out on pages 1 to 6 of this document and which recommends you vote in favour of the Shareholder Resolutions and the Warrantholder Resolution which are to be proposed at the Extraordinary General Meeting of the Company and the Warrantholders' Meeting respectively.

The Extraordinary General Meeting of the Company and the Warrantholders' Meeting are to be held at Kempson House, Camomile Street, London EC3A 7AN on 27 November 2006 at 11.00 a.m. and 11.05 a.m. respectively. A form of proxy for use at each of the Extraordinary General Meeting and the Warrantholders' Meeting, at which the Shareholder Resolutions and the Warrantholder Resolution will be considered, is enclosed. To be valid the forms of proxy should be completed, signed and returned in accordance with the instructions printed thereon so as to be received by the Company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, as soon as possible, but in any event not later than forty-eight hours before the Extraordinary General Meeting and the Warrantholders' Meeting. Completion and posting of the forms of proxy will not prevent a Shareholder or a Warrantholder (as the case may be) from attending and voting in person at the Extraordinary General Meeting or the Warrantholders' Meeting (as appropriate).

Copies of this document are available from the office of Numis Securities Limited, Cheapside House, 138 Cheapside, London EC2V 6LH during normal business hours on any weekday (Saturday, Sundays and public holidays excepted) until the date of the Extraordinary General Meeting and the Warrantholders' Meeting.

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EXPECTED TIMETABLE OF PRINCIPAL EVENTS

2006

| | |
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| Admission and dealings in the Firm Placing Shares expected to commence on AIM | 8.00 a.m. on 8 November |
| Latest time and date for receipt of form of proxy to be valid at the Extraordinary General Meeting | 11.00 a.m. on 25 November |
| Latest time and date for receipt of form of proxy to be valid at the Warrantholders' Meeting | 11.05 a.m. on 25 November |
| Extraordinary General Meeting | 11.00 a.m. on 27 November |
| Warrantholders' Meeting | 11.05 a.m. on 27 November |
| Admission and dealings in the Conditional Placing Shares, the Firm Warrants and the Conditional Warrants expected to commence on AIM | 8.00 a.m. on 28 November |
| Admission and dealings in the Conditional Placing Shares are conditional on the passing of the Issue Authority Resolution. | |
| Admission and dealings in the Firm Warrants and the Conditional Warrants are conditional on the passing of the Warrantholder Resolution and the Shareholder Resolutions. | |

DEFINITIONS

The following definitions apply throughout this document unless the context requires otherwise:

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| “Admission” | admission to trading on AIM; |
| “AIM” | the market of that name operated by the London Stock Exchange plc; |
| “Amended Warrants” | the Warrants, as amended pursuant to the Supplemental Deed Poll, following the passing of the Warrantholder Resolution and the second resolution set out in the Notice of EGM; |
| “Board” or “Directors” | the board of directors of the Company; |
| “Company” or “Group” | Healthcare Enterprise Group PLC; |
| “Conditional Placing” | the conditional placing of the Conditional Placing Shares; |
| “Conditional Placing Shares” | the 60,000,000 Ordinary Shares conditionally placed with investors that will be allotted following the EGM subject (<i>inter alia</i>) to the passing of the Issue Authority Resolution; |
| “Conditional Warrants” | the 15,000,000 Amended Warrants to be allotted following the EGM and Warrantholders’ Meeting to investors of Conditional Placing Shares, (on the basis that a holding of 4 Conditional Placing Shares entitles the holder to 1 Amended Warrant), subject (<i>inter alia</i>) to the Conditional Placing taking place and the passing of the Shareholder Resolutions and the Warrantholder Resolution; |
| “EGM” | the extraordinary general meeting of the Company to be held on 27 November 2006; |
| “Firm Placing” | the placing of the Firm Placing Shares; |
| “Firm Placing Shares” | the 6,666,667 Ordinary Shares placed firm with investors and to be issued on or around 2 November 2006; |
| “Firm Warrants” | the 1,666,665 Amended Warrants to be allotted following the EGM and Warrantholders’ Meeting to investors of Firm Placing Shares (on the basis that a holding of 4 Firm Placing Shares entitles the holder to 1 Amended Warrant), subject (<i>inter alia</i>) to the Firm Placing taking place and the passing of the Shareholder Resolutions and the Warrantholder Resolution; |
| “HSS” | Healthcare Sales & Service Limited, a wholly owned subsidiary of the Company; |
| “Issue Authority Resolution” | the first resolution set out in the Notice of the EGM relating to the increase in the Directors’ authority to allot relevant securities and the dis-application of statutory pre-emption rights in relation (<i>inter alia</i>) to cash placings; |
| “New Warrants” | the Firm Warrants and the Conditional Warrants; |
| “Numis” | Numis Securities Limited; |
| “Option Scheme” | the Healthcare Enterprise Group plc 2003 Share Option Scheme; |
| “Options” | options to acquire Ordinary Shares under the Option Scheme; |

| | |
|---------------------------|---|
| “Ordinary Shares” | ordinary shares of 2.5 pence each in the capital of the Company; |
| “Placing” | the placing by Numis Securities Limited on behalf of the Company of the Firm Placing Shares and the Conditional Placing Shares at the Placing Price; |
| “Placing Agreement” | the agreement between the Company and Numis dated 2 November 2006 in relation to the Placing; |
| “Placing Price” | the price of 3p per share; |
| “Placing Shares” | the Firm Placing Shares and the Conditional Placing Shares; |
| “Shareholder Resolutions” | the Issue Authority Resolution and the resolution approving the amendment to the terms of the Warrants to be proposed at the EGM; |
| “Shareholders” | the holders of the Ordinary Shares; |
| “Supplemental Deed Poll” | the proposed supplemental deed poll to be executed by the Company providing for the modifications to the terms of the Warrant Deed Poll; |
| “Warrant Deed Poll” | the instrument by way of deed poll executed by the Company and dated 14 November 2003 under which the Warrants are constituted; |
| “Warranholders’ Meeting” | the meeting of the Warranholders to be held on 27 November 2006; |
| “Warranholder Resolution” | the extraordinary resolution to be proposed at the Warranholders’ Meeting relating to the amendment to the exercise price and the consolidation of the Warrants; |
| “Warranholders” | the holders of the Warrants; and |
| “Warrants” | the outstanding rights created by the Warrant Deed Poll entitling the Warranholders, upon the valid exercise of such rights, to subscribe for Ordinary Shares on the terms and conditions set out in the Warrant Deed Poll, as amended pursuant to the capital reorganisation of the Company effected on 10 January 2005. |

All references in this document to time are to London time.

PART I

LETTER FROM THE CHAIRMAN

Healthcare Enterprise Group PLC

(incorporated and registered in England and Wales with registered number 3627383)

Directors:

Henry John Mark Tompkins (Non-executive Chairman)
Lyndon James Gaborit (Executive deputy Chairman)
Nicholas Owen Brigstocke (Non-executive Director)
Nigel Wray (Non-executive Director)

Registered office:

Second Floor
College House
272 King's Road
London SW3 5AW

2 November 2006

To the Shareholders and to the Warrant holders, and, for information only, to the holders of Options under the Company's Option Schemes

Dear Shareholder

**Interim financial results, proposed cash placing,
increase in Directors' authority to allot relevant securities,
dis-application of statutory pre-emption rights and amendment
to the terms of the Warrants**

Introduction

The purpose of this document is to announce to you our interim financial results and to provide you with details of, and the reasons for, the proposed increase in the Directors' authority to allot relevant securities and dis-application of statutory pre-emption rights in connection with the Conditional Placing, together with the proposed amendments to the terms of the Warrants.

The Company's interim financial results are set out in Part II of this document.

Your Company intends to raise £2 million, before expenses, through an equity fund raising. Pursuant to the Placing Agreement, Numis has agreed to assist the Company by the placing of 6,666,667 Firm Placing Shares and 60,000,000 Conditional Placing Shares, all at 3p per share. The Firm Placing Shares will be issued and admitted to trading on AIM on 8 November 2006 provided the Placing Agreement is not terminated prior to this date but the issue of the Conditional Placing Shares is conditional (*inter alia*) on the passing by Shareholders of the Issue Authority Resolution, which will give the Directors authority to allot relevant securities up to an agreed limit and to disapply statutory pre-emption rights in respect of the allotment of Ordinary Shares.

It is further proposed that each subscription for 4 Placing Shares shall include the issue of 1 New Warrant together with such Placing Shares, but the issue of the New Warrants is conditional on the amendment to the Warrants (i.e. the passing of the Warrantholder Resolution and the Shareholder Resolutions). If one or more of the Warrantholder Resolution and the Shareholder Resolutions is not passed, no New Warrants will be issued in connection with the Placing.

The funds raised by the Placing will be used in connection with the Company's restructuring, to maintain its current investments in a suitable state to maximise value, to provide additional working capital and for other corporate purposes, including certain termination payments to Gordon Wood in respect of his contractual entitlements. In particular the proceeds of the Placing will be used for financing overseas shipments of products for resale. As the Company moves

product sourcing towards cheaper overseas suppliers, the use of trade credit, which would normally be available from local suppliers, is replaced with the requirement for letter of credit and shipping finance.

The Board has decided to restructure the Warrants on the basis that the exercise price be reduced from 37.5p to 6p per Ordinary Share. To aid simplicity and transparency, it is intended that every 25 warrants be consolidated into 1 new warrant entitling the holder thereof to subscribe for 1 Ordinary Share at 6p.

Finally, in order to reflect the hard work of its Directors and employees in often quite difficult circumstances and to incentivise the Directors and new management team going forward, the Company intends to grant certain of its employees and Directors a number of Options, further described under "Grant of Share Options" below.

I am therefore writing to you to set out our interim results, to give you further details of the Placing and the proposed amendments to the terms of the Warrants and to give you notice of an EGM and a Warranholders' Meeting which are to be held on 27 November 2006 at Kempson House, Camomile Street, London EC3A 7AN.

Interim Results

The Company is reporting its results for the six months ended 31 August 2006. Points to note are the following:

- Turnover from continuing operations down 12 per cent. to £7.6 million (2005: £8.6 million);
- Net operating expenses reduced 30 per cent. to £4.0 million (2005: £5.7 million);
- Operating loss before exceptional items reduced to £0.95 million (2005: Loss £2.1 million); and
- Loss per share 0.05p (2005: Loss 1.5p).

We have cut approximately £1.7 million in costs, slimmed down inventory and receivables by approximately £4.9 million, restructured all operations and cut back unnecessary capital expenditure. We have reduced losses significantly at HSS, our UK operating business. In our brands business, sales of Ebiox have improved and we have made significant progress in our efforts to monetise the Company's investment in Optiscope.

Whilst there is a lot more work required in terms of cost reduction and exploiting the Group's assets and businesses, the Directors consider the Group should now be stabilised. Overall we are relatively confident about the prospects for the Group with continued recovery at HSS, further progress being made on Ebiox sales and with the initial responses to Optiscope prototypes being encouraging.

The Directors understand that there may have been some speculation about potential corporate events relating to the Company, but as far as they are aware such speculation is without concrete foundation.

The full set of interim results are in Part II of this document.

Terms of the Placing

The Placing, principally with institutional Shareholders and the Directors, is of 6,666,667 Firm Placing Shares and 60,000,000 Conditional Placing Shares, all at 3p per share a discount of approximately 13.8 per cent. to the closing mid-market price of 3.48p per Ordinary Share on 1 November 2006. It is proposed that each subscription for 4 Placing Shares shall include the issue of 1 New Warrant together with such Placing Shares (with fractions of New Warrants not being issued). Further details of the terms of the Amended Warrants, including the New Warrants, (reflecting the proposed amendments following the Warranholder Resolution and the second of

the Shareholder Resolutions) are set out in Part IV of this document. It should be noted that if the Warrantholder Resolution and/or the Shareholder Resolutions are not passed, no New Warrants will be issued.

In consideration for arranging the Placing, Numis will be entitled to a commission of 4 per cent. of the value of those Ordinary Shares placed by Numis on behalf of the Company (excluding the Ordinary Shares subscribed for by the Directors), amounting to £76,000, which will be applied in subscribing for Ordinary Shares (with Warrants on a 1 for 4 basis) at the Placing Price. In the Conditional Placing, Numis has secured a commitment from Ludgate Investments Limited to subscribe for, or procure places for, 23,400,000 Placing Shares in return for a commission of 1.5 per cent. of the value of such Placing Shares at the Placing Price, equal to £10,530. Along with other places, Ludgate Investments Limited will, assuming the necessary authorities to issue the New Warrants are granted, also receive New Warrants on a 1 for 4 Placing Shares basis, exercisable in accordance with the terms of the New Warrants, amounting to 5,850,000 New Warrants.

The terms of settlement relating to the Placing are set out in placing letters issued by Numis.

At the Company's Annual General Meeting on 27 July 2006, Shareholders passed resolutions granting the directors authority to allot 62,558,080 Ordinary Shares, and dis-applying the statutory pre-emption rights on new issues in respect of 18,767,400 Ordinary Shares. The placing of the Firm Placing Shares together with other relevant allotments renders the second of these authorities insufficient to allow the placing of the Conditional Placing Shares (and the New Warrants) to proceed without further shareholder approval. Accordingly, the placing of the Conditional Placing Shares is conditional on the passing by Shareholders of the Issue Authority Resolution at the EGM. The issue of the New Warrants is conditional (*inter alia*) on the passing of both the Shareholder Resolutions and the Warrantholder Resolution.

The Company is, therefore, proposing the Issue Authority Resolution, which is a special resolution, to grant further authority to the Directors to allot relevant securities up to an agreed limit and to allot Ordinary Shares for cash without the application of statutory pre-emption rights. This authority, if approved, will enable the Company to issue the Conditional Placing Shares and the New Warrants. This authority will also permit the Company to issue further Ordinary Shares for cash with an aggregate nominal value of up to £680,221, representing approximately 10 per cent. of the nominal value of the Ordinary Shares in issue following the allotment of the Placing Shares, New Warrants and the Ordinary Shares (with New Warrants) to be subscribed by Numis.

The reason for taking this new authority is to give the Directors flexibility to raise cash by way of a private placement without having to implement a rights issue or open offer which would be disproportionately expensive. The Company will apply for Admission of the Placing Shares and the New Warrants (as the case may be), together with the new Ordinary Shares (with New Warrants) to be subscribed by Numis as described above, to trading on AIM.

Use of proceeds of the Placing

The net proceeds of the Placing, after costs estimated to be approximately £150,000, are expected to be approximately £1.85 million. This sum will be used, in connection with the Company's restructuring, to maintain its current investments in a suitable state to maximise value, to provide additional working capital and for other corporate purposes, including certain termination payments to Gordon Wood in respect of his contractual entitlements, who, as described under "Board Change" is leaving the Company with immediate effect.

Shareholders should note that in the event the Conditional Placing does not proceed, there can be no certainty that the Company will be able to meet its financial commitments (assuming other sources of funding cannot be secured) in the medium to long term. In this regard, the Company does have the arrangement enabling it to drawdown sums upon the issue of Ordinary Shares pursuant to the equity facility with Headstart Global Fund Limited and Headstart Global Aggressive Fund Limited. However, it should be noted that the ability of the Company to utilise such facility

is dependent upon having sufficient share allotment and dis-application of pre-emption rights authority at the time of such proposed drawdown and, in this respect, it will be necessary for the renewal of such authorities to be sanctioned at the EGM. Further, it should be noted that the Company's £1.5 million loan facility is an on demand facility.

Directors' interests in the Placing

Each of Mark Tompkins, Lyndon Gaborit and Nigel Wray and/or their connected persons has agreed to subscribe under the Firm Placing. In total, the Directors will acquire 3,333,333 Firm Placing Shares at the Placing Price, together with 833,333 New Warrants. This represents 1.2 per cent. of the issued share capital as enlarged by the Placing, assuming the Issue Authority Resolution is passed and the Conditional Placing Shares and Ordinary Shares to be subscribed by Numis are allotted ("**Enlarged Issued Share Capital**"). Following completion of the Placing, the Directors will collectively own or be interested in 21,109,349 Ordinary Shares representing approximately 7.8 per cent. of the Enlarged Issued Share Capital, and 1,333,065 Amended Warrants representing approximately 4.7 per cent. of the total Amended Warrants in issue. Further details are set out in the table contained in Part III of this document.

Amendment to the terms of the Warrants

The Company currently has 277,171,690 unexercised Warrants in issue. Following the consolidation of the Ordinary Shares effected in January 2005, a holder of 25 Warrants is currently entitled to subscribe for cash for 1 Ordinary Share at a subscription price of 37.5 pence per Ordinary Share. These Warrants are currently exercisable on 30 June (or if such day is not a business day, on the next following business day) in 2007 and 2008 (inclusive) (or if later, on the thirtieth day after the date on which copies of the audited accounts of the Company for the immediately preceding financial year are despatched to Shareholders).

The proposed amendments to the Warrants are set out in the Notice of the Warrantholder Meeting at the end of this document. Further details of the terms of the Amended Warrants (reflecting the proposed amendments following the Warrantholder Resolution and the second of the Shareholder Resolutions) are set out in Part IV of this document. In summary, it is proposed that the exercise price be reduced from 37.5 pence to 6 pence per Ordinary Share, and to aid simplicity and transparency, it is proposed that every 25 Warrants are consolidated into 1 new warrant, entitling the holder thereof to subscribe for 1 Ordinary Share, with fractions of new warrants being disregarded for this purpose.

By way of example, if you hold 1000 Warrants today, you are currently entitled to subscribe for 40 Ordinary Shares at 37.5 pence per Ordinary Share. Following the sanction of the Warrantholder Resolution, you will still be entitled to subscribe for 40 Ordinary Shares, but at 6 pence. Your holding of 1,000 Warrants will be reduced to 40 Amended Warrants, each of which entitles you to an Ordinary Share on a 1 for 1 basis at the new price of 6 pence per Ordinary Share.

The proposed amendments to the terms and conditions of the Warrants require the sanction of the Warrantholders who must pass an extraordinary resolution, requiring a majority of not less than three-fourths of the votes cast, whether on a poll or on a show of hands. The Company also proposes that the Shareholders sanction such changes, as set out in the second of the Shareholder Resolutions. If the Warrantholder Resolution and the second of the Shareholder Resolutions is passed, the Company will execute the Supplemental Deed Poll to give effect to such amendments.

Assuming the Warrantholder Resolution is passed, and Admission occurs, then the Company intends to despatch new certificates relating to the Warrants to those Warrantholders that hold in certificated form. Pending despatch of warrant certificates or crediting of CREST accounts, the Company's registrar will certify any transfers against the register.

The quorum for the Warrantholders' Meeting is the requisite number of Warrantholders (present in person or by proxy) entitled to subscribe one third in nominal amount of the Ordinary Shares

attributable to such outstanding Warrants. Every Warrantholder present in person at the Warranholders' Meeting shall be entitled on a show of hands to one vote and every such Warrantholder present in person or by proxy shall be entitled on a poll to one vote for each Ordinary Share for which he is entitled to subscribe. Any Warrantholder present in person or by proxy may demand or join in demanding a poll. If at any adjourned Warranholders' Meeting a quorum is not present, the holder or holders of Warrants then present in person or by proxy shall be a quorum.

The Conditional Placing is not conditional in any way on the Warrantholder Resolution being passed. If the Warrantholder Resolution is not passed, the terms of the Warrants will remain as set out in the Warrant Deed Poll, as amended pursuant to the approval of the share capital consolidation of the Company on 10 January 2005, and no New Warrants will be issued to places in connection with the Firm Placing or the Conditional Placing.

The amendment to the terms of the Warrants is, however, conditional on the sanction of Shareholders and in this regard the Company is proposing resolution 2 as an ordinary resolution at the EGM.

Taxation

It is arguable that the amendments to the terms of the Warrants are such that, for tax purposes, the Warrants after the amendments could be regarded as different assets to those which were held prior to the amendments. If this is the case, the amendments would give rise to a deemed disposal of the "old" Warrants for a consideration equal to the value (if any) of the "new" Warrants. For Warranholders who are resident or ordinarily resident in the UK (or for Warranholders who are non-UK residents who carry on a trade in the UK through a permanent establishment, branch or agency, in connection with which the Warrants are held), this deemed disposal could give rise to an allowable loss or a chargeable gain for the purposes of UK taxation of capital gains. This will depend on the value of the Warrants immediately after the amendments and the respective original base cost of the "old" Warrants in the hands of Warranholders. Warranholders who may be affected should consult their professional advisers.

Board Change

Gordon Wood has resigned as an executive director with immediate effect, to pursue other opportunities. He will remain as a consultant to the Group for a short period to assist in the commercialisation of the Optiscope business. The Board wishes to thank Dr Wood for his contribution over the three years that he has been with the Group, and wishes him well in pursuing endeavours in the United States.

Grant of Options

The Company's Remuneration Committee has granted Options to some of the Directors and senior members of the management team to reflect their hard work in difficult circumstances, and to provide them with the appropriate incentive going forward. The following grants of Options have been or are proposed to be made to Directors and management (or their connected persons), each with an exercise price of 3 pence per Ordinary Share:

| <i>Name</i> | <i>Option Grants following and conditional upon Option Grants on 2 November 2006</i> | <i>Option Grants following and conditional upon shareholder approvals of authorities at EGM</i> | <i>Proposed Option Grants on 7 November 2006 from expired Option pool*</i> | <i>Total</i> |
|----------------------------------|--|---|--|-------------------|
| Mark Tompkins | - | 2,401,960 | 1,076,911 | 3,478,871 |
| Lyndon Gaborit | - | 4,876,707 | 1,794,852 | 6,671,559 |
| Other executives and consultants | 6,325,296 | 333,333 | 717,941 | 7,376,570 |
| TOTAL | 6,325,296 | 7,612,000 | 3,589,704 | 17,527,000 |

* future expired options will be re-allocated by the Remuneration Committee

The Company will ensure that all grants are within the 11 per cent. Option Scheme limit.

Action to be taken

A form of proxy is enclosed in respect of each of the EGM and the Warranholders' Meeting. Whether or not you intend to attend the EGM and/or the Warranholders' Meeting, you are asked to complete and return the relevant form of proxy in accordance with the instructions printed thereon so as to be received by the Company's registrars, Capita Registrars, not later than forty-eight hours before the EGM and the Warranholders' Meeting.

Completion and return of the form(s) of proxy will not preclude you from attending the EGM or the Warranholders' Meeting (as the case may be) and voting in person, if you so wish.

Recommendation

The Directors consider the proposals put to the Shareholders and the Warranholders as described in this letter to be in the best interests of the Company, the Shareholders and the Warranholders as a whole.

Accordingly, your Directors unanimously recommend that you vote in favour of Shareholder Resolutions and the Warranholder Resolution. The Directors intend to vote in favour of the Shareholder Resolutions in respect of their own beneficial shareholdings (direct and indirect), amounting to 21,109,349 Ordinary Shares (representing approximately 10.1 per cent. of the Company's ordinary issued share capital following the Firm Placing). The Directors also intend to vote in favour of the Warranholder Resolution in respect of their own holdings of Warrants, amounting to 12,493,298 Warrants.

Yours faithfully

Mark Tompkins
(Chairman)

PART II

INTERIM RESULTS

The Group has shown progress in terms of a recovery in the six months ended 31 August 2006. Turnover for the period was £7.6 million (2005: £8.6 million) with increased contributions from Ebiox, although the loss of the Metropolitan Police contracts at HSS reduced the headline figure.

The Group reported a loss before tax and exceptional items of £0.95 million (2005: loss £2.1 million). This was achieved following significant cuts in overheads as costs were reduced to £4.0 million (2005: £5.7 million).

The net loss for the period was £0.1m (2005: loss was £2.3m).

The Group's loss per share was 0.05p (2005: loss per share 1.5p). Net debt decreased in the period by £1.14 million to £1.85 million.

Healthcare Sales & Service

HSS distributes products primarily to the occupational health, first aid and medical markets from a warehouse facility in Warrington. HSS had sales during the period of £7.17 million (2005: £8.3 million). As expected, despite delivering month on month profitability earlier in the period, a seasonal slowdown in July and August combined with the loss of two low margin Metropolitan Police contracts, resulted in a minimal operating loss of £0.07 million (2005: loss £0.6 million) for the six months.

As stated in August, the annual revenue of the Metropolitan Police contracts was £2.6 million but they were extremely complex and barely profitable outsourcing agreements, which provided few synergistic opportunities within HSS's Warrington operation. Furthermore, the additional £1.3 million and final consideration for the acquisition of Crest Medical, acquired in November 2004, was no longer required to be satisfied by the Company.

HSS management has made significant reductions in overheads, capital expenditure and reduced working capital requirements. "On time and in full" delivery figures have seen a significant improvement and the HSS management team has recently been strengthened with the appointment of Adrian Hughes as sales and marketing director, with excellent experience in the sector. In addition, sales of the Ebiox products are being handled through the Warrington operation.

During the period HSS also secured supplier arrangements in the Far East, although the funding required to finance overseas orders has resulted in a requirement for additional working capital.

Ebiox

Ebiox sales in the period were £0.44 million (2005 £0.1 million) and with an almost breakeven performance at the operating level with losses of £0.09 million (2005: loss £0.24 million).

The ongoing assessment of the full range of Ebiox products has resulted in the Group focusing on specific product areas where it has the most immediate and commercial advantages, such as the instrument cleaning range.

The Company's consultants continue to work towards gaining EPA approval in the United States for the Ebiox surface cleaning product by the end of the year, although this timing cannot be guaranteed.

Optiscope

The Group continues to receive positive feedback from the industrial and commercial evaluation of the 10mm laparoscope prototype disposable rigid endoscope.

The Group has engaged Burnham Securities, Inc, an US investment bank to assist in monetising its investment in Optiscope. An information memorandum is being sent to interested parties.

Since Optiscope is in a pre commercialisation phase of development no revenues were recorded and a loss of £0.06 million reported.

Women's Reproductive Health

The Group has restricted its focus to just two product groups in women's health namely Fertiligent, a high quality, low cost intrauterine sperm pump to help assist infertile couples conceive and Medilator, which has developed a platform for single-use, disposable cervical dilatation devices.

Initial trial results for Fertiligent have been positive but were not as good as anticipated. There are indications that the results may be of limited value due to the small size of the sample. Market tests for Medilator continue.

Current trading and outlook

Whilst HSS' operations have in the view of the Board been stabilised and structured to facilitate potential growth, the second half of the year started slowly following the non renewal of the Metropolitan Police contracts announced in August 2006. The Group expects second half revenues to be lower than those recorded in the first half of the year as the full effect of these non renewed contracts are felt. Time will also be required for the strengthened HSS management team to achieve results.

The Board expects to continue to record a loss for the second half of the year at the operating level, although it is anticipated that this will be lower than the first half loss as the benefits of cost reductions and improved margins are experienced.

The Company has now brought to a conclusion outstanding post-completion issues in relation to the 2004 Crest Medical acquisition without any negative impact upon the Company's financial position.

With new management in place at HSS and trading at a near breakeven position, the Board remains relatively optimistic about the prospects for the Group. It is focused, not only on achieving a resumption of profitability, but also in exploring all alternatives to realise value for Shareholders.

Healthcare Enterprise Group PLC

Unaudited Consolidated Profit and Loss Account for the 6 months ended 31 August 2006

| | | Six months ended 31 August | | | | | |
|---|---|------------------------------|----------------|---|------------------------------|----------------|--|
| | | 2006 | | | 2005 | | |
| Notes | <i>Before exceptional items</i> | <i>Exceptional items</i> | <i>Total</i> | <i>Before exceptional items</i> | <i>Exceptional items</i> | <i>Total</i> | |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | |
| Turnover | | | | | | | |
| Acquisitions | – | – | – | – | – | – | |
| Continuing activities | 7,614 | – | 7,614 | 8,666 | – | 8,666 | |
| Discontinued activities | – | – | – | 136 | – | 136 | |
| | <u>7,614</u> | <u>–</u> | <u>7,614</u> | <u>8,802</u> | <u>–</u> | <u>8,802</u> | |
| Cost of sales | <u>(4,533)</u> | <u>–</u> | <u>(4,533)</u> | <u>(5,140)</u> | <u>–</u> | <u>(5,140)</u> | |
| Gross profit | 3,081 | – | 3,081 | 3,662 | – | 3,662 | |
| Net operating expenses | 3 (4,031) | 927 | (3,104) | (5,737) | (105) | (5,842) | |
| Group operating profit/(loss) | | | | | | | |
| Acquisitions | – | – | – | 25 | – | 25 | |
| Continuing activities | (950) | 927 | (23) | (2,100) | – | (2,100) | |
| Discontinued activities | – | – | – | – | – | – | |
| Group operating profit/(loss) | (950) | 927 | (23) | (2,075) | (105) | (2,180) | |
| Share of operating results of associates | | | | | | | |
| | – | – | – | – | – | – | |
| Total operating profit/(loss) | (950) | 927 | (23) | (2,075) | (105) | (2,180) | |
| Exceptional income/(costs) | 3 – | – | – | – | – | – | |
| Profit/(loss) on ordinary activities before interest | (950) | 927 | (23) | (2,075) | (105) | (2,180) | |
| Net interest payable and similar charges | (101) | – | (101) | (98) | – | (98) | |
| Profit/(loss) on ordinary activities before taxation | (1,051) | 927 | (124) | (2,173) | (105) | (2,278) | |
| Taxation | – | – | – | – | – | – | |
| Profit/(loss) on ordinary activities after taxation | (1,051) | 927 | (124) | (2,173) | (105) | (2,278) | |
| Minority interests | 27 | – | 27 | 9 | – | 9 | |
| Profit/(loss) for the period | (1,024) | 927 | (97) | (2,164) | (105) | (2,269) | |
| Basic and diluted loss per share | 4 | | (0.05)p | | | (1.50)p | |

Healthcare Enterprise Group PLC

Audited Consolidated Profit and Loss Account for the year ended 28 February 2006

| <i>Year ended 28 February 2006</i> | | | |
|--|---|--|------------------------|
| <i>Notes</i> | <i>Before exceptional items £'000</i> | <i>Exceptional items £'000</i> | <i>Total £'000</i> |
| Turnover | | | |
| Acquisitions | 618 | - | 618 |
| Continuing operations | 15,171 | - | 15,171 |
| Discontinued activities | 612 | - | 612 |
| | <u>16,401</u> | <u>-</u> | <u>16,401</u> |
| Cost of sales | (9,880) | - | (9,880) |
| Gross profit | <u>6,521</u> | <u>-</u> | <u>6,521</u> |
| Net operating expenses | (10,962) | (15,320) | (26,282) |
| Group operating profit/(loss) | | | |
| Acquisitions | 180 | - | 180 |
| Continuing operations | (4,623) | (15,320) | (19,943) |
| Discontinued activities | 2 | - | 2 |
| Group operating loss | <u>(4,441)</u> | <u>(15,320)</u> | <u>(19,761)</u> |
| Share of operating results of associates | - | - | - |
| Total operating loss | <u>(4,441)</u> | <u>(15,320)</u> | <u>(19,761)</u> |
| Exceptional income/(costs) | - | 1,522 | 1,522 |
| Loss on ordinary activities before interest | <u>(4,441)</u> | <u>(13,798)</u> | <u>(18,239)</u> |
| Net interest payable and similar charges | (334) | - | (334) |
| Loss on ordinary activities before taxation | <u>(4,775)</u> | <u>(13,798)</u> | <u>(18,573)</u> |
| Taxation | - | - | - |
| Loss on ordinary activities after taxation | <u>(4,775)</u> | <u>(13,798)</u> | <u>(18,573)</u> |
| Minority interests | 22 | - | 22 |
| Loss for the financial year | <u>(4,753)</u> | <u>(13,798)</u> | <u>(18,551)</u> |
| Basic and diluted loss per share | 4 | | <u>(11.93)p</u> |

Healthcare Enterprise Group PLC

Consolidated Balance Sheet

| | <i>Unaudited</i> 31 August 2006 £'000 | <i>Unaudited</i> 31 August 2005 £'000 | <i>Audited</i> 28 February 2006 £'000 |
|---|--|--|--|
| Fixed assets | | | |
| Intangible assets | 21,998 | 34,911 | 21,933 |
| Tangible assets | 496 | 618 | 545 |
| Other investments | 1,592 | 145 | 1,538 |
| | <u>24,086</u> | <u>35,674</u> | <u>24,016</u> |
| Current assets | | | |
| Stocks | 1,866 | 3,141 | 2,096 |
| Debtors | 2,391 | 6,107 | 3,181 |
| Cash at bank and in hand | 201 | 710 | 489 |
| | <u>4,458</u> | <u>9,958</u> | <u>5,766</u> |
| Creditors: amounts falling due within one year | <u>(4,903)</u> | <u>(7,870)</u> | <u>(5,606)</u> |
| Net current assets/(liabilities) | <u>(445)</u> | <u>2,088</u> | <u>160</u> |
| Total assets less current liabilities | <u>23,641</u> | <u>37,762</u> | <u>24,176</u> |
| Creditors: amounts falling due after more than one year | (245) | (4,211) | (2,827) |
| Provisions for liabilities and charges | - | (289) | - |
| Deferred shares | (746) | - | (746) |
| Warrants issued | (364) | - | (357) |
| Net assets | <u>22,286</u> | <u>33,262</u> | <u>20,246</u> |
| Capital and reserves | | | |
| Called up share capital | 4,726 | 4,566 | 4,298 |
| Shares to be allotted | 620 | 1,997 | 620 |
| Share premium account | 40,814 | 34,191 | 39,078 |
| Profit and loss account | (22,346) | (5,939) | (22,249) |
| Merger reserve | (2,293) | (2,293) | (2,293) |
| Other reserves | 728 | 728 | 728 |
| Shareholders funds | <u>22,249</u> | <u>33,250</u> | <u>20,182</u> |
| Minority interests | 37 | 12 | 64 |
| Capital employed | <u>22,286</u> | <u>33,262</u> | <u>20,246</u> |

Healthcare Enterprise Group PLC

Group Cash Flow Statement

| | <i>Unaudited Six months ended 31 August 2006 £'000</i> | <i>Unaudited Six months ended 31 August 2005 £'000</i> | <i>Audited Year ended 28 February 2006 £'000</i> |
|---|--|--|--|
| Net cash outflow from operating activities | (751) | (1,585) | (4,868) |
| Return on investments and servicing of financing | | | |
| Interest received | – | 16 | 14 |
| Interest paid | (101) | (115) | (348) |
| Net cash outflow for returns on investments and servicing of finance | (101) | (99) | (334) |
| UK Corporation tax paid | – | (36) | (73) |
| Capital expenditure and financial investment | | | |
| Purchase of tangible fixed assets | (35) | (179) | (221) |
| Development costs capitalised | (100) | (199) | (441) |
| Purchase of fixed asset investments | (54) | (50) | (114) |
| Net cash outflow from capital expenditure and financial investment | (189) | (428) | (776) |
| Acquisitions | | | |
| Purchase of subsidiary undertakings | – | (78) | (120) |
| Acquisition expenses | – | (169) | (176) |
| Net cash acquired with subsidiaries | – | 250 | 297 |
| Net cash disposed of with subsidiaries | – | – | (73) |
| Net cash inflow/(outflow) from acquisitions | – | 3 | (72) |
| Net cash outflow before financing | (1,041) | (2,145) | (6,123) |
| Financing | | | |
| Issue of share capital | 2,172 | 182 | 4,769 |
| Share issue costs | – | – | (200) |
| Increase/(decrease) of long term borrowings | (1,125) | – | 100 |
| Increase/(decrease) of short term borrowings | (272) | 89 | (377) |
| Repayment of principal under hire purchase contracts | (22) | (7) | (22) |
| Net cash inflow from financing | 753 | 264 | 4,270 |
| Decrease in cash in the period | (288) | (1,881) | (1,853) |

| | <i>Unaudited</i> <i>Six months</i> <i>ended</i> <i>31 August</i> <i>2006</i> <i>£'000</i> | <i>Unaudited</i> <i>Six months</i> <i>ended</i> <i>31 August</i> <i>2005</i> <i>£'000</i> | <i>Audited</i> <i>Year</i> <i>ended</i> <i>28 February</i> <i>2006</i> <i>£'000</i> |
|---|--|--|--|
| Reconciliation of operating loss to net cash outflow from operating activities | | | |
| Operating loss | (23) | (2,075) | (19,761) |
| Amortisation | 35 | 39 | 12,077 |
| Depreciation | 83 | 80 | 209 |
| (Increase)/decrease in stocks | 230 | (40) | 835 |
| Decrease in debtors | 790 | 2 | 1,868 |
| Increase/(decrease) in creditors | (1,866) | 484 | (1,291) |
| Movement in provision for share options | - | - | (289) |
| Exceptional costs | - | (105) | 1,522 |
| Investments written off | - | 30 | (10) |
| Exchange differences | - | - | (28) |
| Net cash outflow from operating activities | (751) | (1,585) | (4,868) |
| Analysis of net debt | | | |
| Cash at bank and in hand | 201 | 710 | 489 |
| Invoice discounting facility | (534) | (1,850) | - |
| Debt due within one year | (1,500) | (970) | (2,306) |
| Debt due after one year | - | (1,025) | (1,125) |
| Hire purchase contracts | (18) | (49) | (46) |
| Net debt | (1,851) | (3,184) | (2,988) |

Healthcare Enterprise Group PLC

Notes to the interim financial statements

1. Form of statements

These statements do not constitute statutory accounts within the meaning of the Companies Act 1985 and are unaudited. The figures for the year ended 28 February 2006 have been extracted from the statutory accounts for that year which have been delivered to the Registrar of Companies and contain an unqualified opinion with an added emphasis of matter paragraph.

2. Accounting policies

The accounting policies used are those expected to be applied for the year ended 28 February 2007 and consistent with those used for the year ended 28 February 2006.

3. Exceptional items

Exceptional items comprise exceptional costs of £373,000 in connection with reorganisation costs and an exceptional gain of £1,300,000 arising from a write back of amortisation following an impairment review.

4. Loss per share

The basic loss per share has been calculated on the following basis:

| | <i>Unaudited Six months ended 31 August 2006</i> | <i>Unaudited Six months ended 31 August 2005</i> | <i>Audited Year ended 28 February 2006</i> |
|-----------------------------------|--|--|--|
| Loss for the period £'000 | (97) | (2,269) | (18,551) |
| Weighted average number of shares | <u>187,010,495</u> | <u>151,145,902</u> | <u>155,454,106</u> |

In the current period the average number of ordinary shares is the same on a diluted basis.

5. Interim dividend

The directors are not recommending the payment of an interim dividend.

PART III

DIRECTORS' INTERESTS

The table below sets out the interests of the Directors and their immediate families in the Ordinary Shares, Options and Amended Warrants of the Company which had been notified pursuant to section 324 or 328 of the Companies Act or which are required to be entered in the register maintained by the Company under section 325 of the Companies Act or which were (so far as is known to the Directors, or could with reasonable diligence be ascertained by the Directors) interests of persons connected with them (within the meaning of section 346 of the Companies Act), in each case following the Placing.

| | <i>Number of Ordinary Shares acquired under the Firm Placing</i> | <i>Percentage of Enlarged Issued Share Capital*</i> | <i>Number of Ordinary Shares held after the Placing</i> | <i>Percentage of Enlarged Issued Share Capital*</i> | <i>Number of Options to be granted on 2 November 2006, out of expired pool and following the EGM*</i> | <i>Total number of Options held after EGM#</i> | <i>Number of New Warrants to be acquired under the Placing</i> | <i>Total number of Amended Warrants held after Placing**</i> |
|---------------------|--|---|---|---|---|--|--|--|
| Mark Tompkins | 833,333 ⁽¹⁾ | 0.3 | 1,141,273 | 0.4 | 3,478,871 | 7,413,718 | 208,333 | 254,000 |
| Lyndon Gaborit | 833,333 ⁽²⁾ | 0.3 | 1,053,351 | 0.4 | 6,671,558 | 10,706,646 | 208,333 | 208,333 |
| Nicholas Brigstocke | - | - | 1,825,804 | 0.7 | - | 2,760,265 | - | - |
| Nigel Wray | 1,666,667 ⁽³⁾ | 0.6 | 17,088,921 | 6.3 | - | 250,000 | 416,667 | 870,732 |

* This assumes that the Issue Authority Resolution is passed and the Conditional Placing Shares are all allotted.

** This assumes that the Shareholder Resolutions and the Warrantholder Resolution are passed. The figures ignore fractions of warrants following the consolidation pursuant to the Warrantholder Resolution.

This excludes options granted by LPMCC, Inc., details of which have previously been announced.

- (1) through Thurlowe Capital Partners Limited
- (2) through Industrial Management & Equity Limited
- (3) through PIHL Equity LLP

PART IV

AMENDED WARRANT TERMS

The Amended Warrants will be constituted by, and are issued subject to and with the benefit of, a Supplemental Deed Poll of the Company. Holders of Amended Warrants will be bound by all the terms and conditions set out in the Supplemental Deed Poll. A summary of the terms and conditions to be attached to the Amended Warrants are set out below.

1. Exercise of subscription rights

1.1

1.1.1 A registered holder for the time being of Amended Warrants (a “**holder**” or “**warrantholder**”) shall have rights (“**subscription rights**”) to subscribe in cash on 30 June (or, if such day is not a Business Day, on the next following Business Day) in either of the years 2007 and 2008 (both inclusive) (or, if later, on the thirtieth day after the date on which copies of the audited accounts of the Company for the immediately preceding financial year are despatched to shareholders) (each such day a “**subscription date**”), for all (but not some only) of the Ordinary Shares for which it is entitled to subscribe under such Amended Warrants of which it is the holder at the subscription price payable in full on subscription.

1.1.2 The subscription price shall be, subject to adjustment as provided in paragraph 2 below, 6 pence per Ordinary Share to be subscribed.

1.1.3 The number of Ordinary Shares to which each Amended Warrant relates is (prior to any adjustment as provided in paragraph 2 below) one (1) Ordinary Share. The subscription price, the number of Amended Warrants outstanding and the number and/or nominal value of the Ordinary Shares to be subscribed upon exercise of the Amended Warrants shall be subject to adjustment as provided in paragraph 2 below. Amended Warrants may be evidenced by a warrant certificate issued by the Company.

1.2 In order to exercise the subscription rights, the warrantholders must lodge the relevant warrant certificate(s) (or such other document as the Company may, in its absolute discretion, accept) at the registered office of the Company or the office of the registrars for the time being of the Company (the “**Registrars**”) by 3.30 p.m. not less than 5 days before a subscription date (the “**conversion date**”) having completed the notice of exercise of subscription rights thereon (or by giving such other notice of exercise of subscription rights as the Company may, in its absolute discretion, accept), accompanied by a banker’s draft or certified funds in respect of the subscription price for the Ordinary Shares in respect of which the subscription rights are exercised. Once lodged, a notice of exercise of subscription rights shall be irrevocable save with the consent of the Board of Directors of the Company.

1.3 For the avoidance of doubt, unless the Company otherwise determines, or unless the Regulations (as defined in paragraph 1.8 below) and/or rules of the relevant system concerned otherwise require, the Ordinary Shares issued on the exercise of any subscription rights shall be issued in either uncertificated or certificated form in accordance with the instructions of the warrantholders pursuant to the notice of exercise of subscription rights, save that where no such instructions are received by the Registrars (or where inadequate instructions are received to enable the Registrars to match within the relevant system), Ordinary Shares shall be issued in certificated form.

1.4 Subject to the receipt of the subscription price in full, Ordinary Shares issued pursuant to the exercise of subscription rights will be allotted on the conversion date and (i) in the

case of Ordinary Shares to be issued in certificated form, certificates in respect of such Ordinary Shares will be despatched (at the risk of the person(s) entitled thereto) not later than 5 days after the relevant conversion date with effect from the conversion date and (ii) in the case of Ordinary Shares to be issued in uncertificated form, credited to the account within the relevant system of the person in whose name the Amended Warrants are registered at the date of such exercise (and, if more than one, to the first-named, which shall be sufficient for all) or (subject as provided by law and to the payment of stamp duty reserve tax or any other tax as may be applicable) to such other person(s) (not being more than four in number) (as may be named in the form of nomination available for the purpose from the Registrars and, if more than one, to the first-named, which shall be sufficient despatch for all).

- 1.5 Ordinary Shares allotted pursuant to the exercise of subscription rights will not rank for any dividends or other distributions declared, paid or made on the ordinary share capital of the Company by reference to a record date prior to the relevant issue date but, subject thereto, will rank in full for all dividends and other distributions declared, paid or made on the ordinary share capital of the Company and otherwise will rank *pari passu* in all other respects with the Ordinary Shares in issue at the relevant issue date.
- 1.6 For so long as the Company's ordinary share capital is traded on AIM, it is the intention of the Company to apply to the London Stock Exchange for the Ordinary Shares allotted pursuant to any exercise of subscription rights to be admitted to trading on the Alternative Investment Market and the Company will use all reasonable endeavours to obtain the admission thereof not later than 14 days after the relevant date of issue.
- 1.7 Following the expiry of the final subscription date, the Amended Warrants shall lapse and shall not be capable of any further exercise.
- 1.8 In these terms and conditions, the Regulations means The Uncertificated Securities Regulations 2001 (S1 2001 No. 3755) including any modification thereof or any regulations made in substitution therefor under section 207 of the Companies Act 1989 and for the time being in force. Words and expressions used in the Regulations have the same meanings when used herein. References herein to Ordinary Shares being in uncertificated form or in certificated form are references, respectively, to those Ordinary Shares being an uncertificated unit of a security or a certificated unit of a security.

2. Adjustments

- 2.1 Without prejudice to the generality of paragraph 2.3 and subject to paragraph 3.1.2 below, in the event of any consolidation or subdivision or reduction of capital or issue by way of rights (including for the avoidance of doubt an open offer), capitalisation of profits or reserves or capital dividend or other reconstruction, adjustment or amalgamation relating to or affecting the equity share capital, (or any shares, stock or securities derived therefrom) made after the date of the grant of the Amended Warrants, such adjustments shall be made (subject to all necessary consents being in place) as the Board of Directors of the Company for the time being reasonably determine and the auditors of the Company (or, if they are unable or unwilling to act, another independent firm of chartered accounts nominated by the Company) confirm in writing to be in their reasonable opinion, fair and reasonable (in order to preserve so far as possible the equivalent economic value of the rights of the warrant holders immediately prior to the relevant event or transaction) to either or both of:
 - 2.1.1 the number of Ordinary Shares subject to the Amended Warrants provided that such number shall always be a whole number; or
 - 2.1.2 the subscription price.
 - 2.2 The Board of Directors of the Company may (subject to the prior agreement of the auditors of the Company (or, if they are unable or unwilling to act, another independent firm of
-

chartered accountants nominated by the Company)) make retrospective adjustments to an exercised Amended Warrant where any of the events referred to in the preceding paragraph occurs by reference to a record date prior to such exercise.

- 2.3 In addition to any specific adjustments aforesaid, such other adjustments or modifications to the terms of the Amended Warrants (including, but not limited to the number of Ordinary Shares the subject of the Amended Warrants (provided that such number shall always be a whole number) or the subscription price) may be made by the Board of Directors of the Company as may be necessary in the event of any manifest error or inconsistency arising from the operation of these terms, in order to give full effect to any other provision of the Amended Warrants, or to reflect any change of accounting policy of the Company or of law provided that any such adjustments or modifications shall be certified (as fair and accurate having regard to all relevant circumstances) by the auditors of the Company from time to time (or, if they are unable or unwilling to act, another independent firm of chartered accountants nominated by the Company) acting as experts and whose decision shall be binding.
- 2.4 No adjustment shall be made under this paragraph which would cause the aggregate subscription price under the Amended Warrants to be reduced below the nominal value of the Ordinary Shares comprised therein.

3. Other provisions

- 3.1 So long as any subscription rights remain outstanding:
- 3.1.1 the Company shall not (except with the sanction of an extraordinary resolution of the warrant holder or for a reduction not involving any payment to shareholders) reduce any of its share capital or any uncalled or unpaid liability in respect of any of its share capital or (except as permitted by section 130 or 170 Companies Act 1985) reduce any share premium account or capital redemption reserve;
- 3.1.2 the Company shall not issue any Ordinary Shares credited as fully paid by way of capitalisation of profits or reserves nor make any such offer or invitation (whether by way of rights or otherwise but being an offer made in connection with scrip dividend arrangements) to the holders of the Ordinary Shares if, in either case, the Company would on any subsequent exercise of the subscription rights be obliged to issue ordinary shares at a discount to nominal value;
- 3.1.3 the Company shall keep available for issue sufficient authorised but unissued share capital to satisfy in full all subscription rights remaining exercisable at any time;
- 3.1.4 if an order is made or an effective resolution is passed for winding up the Company (except for the purpose of reconstruction, amalgamation or unitisation on terms sanctioned by an extraordinary resolution of the warrant holders), each warrant holder shall, if in such winding-up, and on the basis that all vested subscription rights then unexercised had been exercised in full and the subscription price therefor had been received in full by the Company, there shall be a surplus available for distribution amongst the holders of the Ordinary Shares, including for this purpose the Ordinary Shares, which would arise on exercise of all the vested subscription rights (taking into account any adjustments previously made pursuant to paragraph 2 above) which surplus would, on such basis, exceed in respect of each Ordinary Share a sum equal to such subscription price, be treated as if immediately before the date of such order or resolution (as the case may be) his vested subscription rights had been exercised in full on the terms (subject to any adjustments previously made pursuant to paragraph 2 above) on which the same could have been exercised if they had vested and been exercised immediately before the date of such order or resolution (as the case may be), and shall accordingly be entitled to receive out of the assets available

in the liquidation *pari passu* with the holders of the Ordinary Shares such a sum as he would have received had he been the holder of the Ordinary Shares to which he would have become entitled by virtue of such subscription after deducting a sum per Ordinary Share equal to the subscription price (subject to any adjustments previously made pursuant to paragraph 2 above). Subject to the foregoing, all subscription rights shall lapse on liquidation of the Company;

- 3.1.5 if at any time an offer or invitation is made by the Company to the holders of its Ordinary Shares generally for purchase by the Company of any of its Ordinary Shares, the Company shall simultaneously give notice thereof to the warrant holder;
- 3.1.6 subject as provided in paragraph 3.1.7 below, if at any time an offer is made to all holders of Ordinary Shares (or all such holders other than the offeror and/or any company controlled by the offeror and/or persons acting in concert with the offeror) to acquire the whole or any part of the issued ordinary share capital of the Company and the Company becomes aware on or before the final subscription date that as a result of such offer the right to cast a majority of the votes which may ordinarily be cast on a poll at a general meeting of the Company has or will become vested in the offeror and/or such companies or persons as aforesaid, the Company shall give notice to the holders of the Amended Warrants of such vesting within 14 days of its becoming so aware, and each such holder shall be entitled, at any time within the period of 30 days immediately following the date of such notice, to exercise his subscription rights on the terms (subject to any adjustments pursuant to paragraph 2 above) on which the same could have been exercised if they had been exercisable and had been exercised on the date on which the Company shall have become aware as aforesaid. The publication of a scheme of arrangement under section 435 of the Companies Act 1985 providing for the acquisition by any person of the whole or any part of the ordinary share capital of the Company shall be deemed to be the making of an offer for the purposes of this paragraph 3.1.6 and reference herein to such an offer shall be read and construed accordingly. If any part of such period falls after 30 June 2008 the final subscription date shall be deemed to be the last business day of such 30 day period;
- 3.1.7 if under any offer as referred to in paragraph 3.1.6 above the consideration shall consist solely of the issue of ordinary shares of the offeror and the offeror shall make available an offer of warrants to subscribe for ordinary shares in the offeror in exchange for the Amended Warrants, which offer the financial advisers to the Company (acting as experts and not as arbitrators) shall consider to be fair and reasonable (having regard to the terms of the offer and any other circumstances which may appear to such financial advisers to be relevant), then a warrant holder shall not have the right to exercise his subscription rights on the basis referred to in paragraph 3.1.6 above and, subject to the offer as referred to in paragraph 3.1.6 above becoming or being declared wholly unconditional and the offeror being in a position to acquire compulsorily the whole of the then issued ordinary share capital of the Company not already owned by it, and/or any company controlled by it and/or any persons acting in concert with it, any Director of the Company shall be irrevocably authorised as attorney for the warrant holders who have not accepted the offer of warrants to subscribe for ordinary shares in the offeror in exchange for the Amended Warrants:
- (a) to execute a transfer thereof in favour of the offeror in consideration of the issue of warrants to subscribe for ordinary shares in the offeror as aforesaid, whereupon all such warrants shall lapse; and
 - (b) to do such acts and things as may be necessary or appropriate in connection therewith.

4. Modification of rights

4.1 Subject to the rights of the holders of Ordinary Shares, all or any of the rights for the time being attached to the Amended Warrants and all or any of these terms and conditions may from time to time (whether or not the Company is being wound up) be altered or abrogated with the sanction of an extraordinary resolution of the holders of the Amended Warrants requiring a majority of not less than three-fourths of the votes cast, whether on a show or hands or on a poll. All the provisions of the Articles of Association for the time being of the Company as to general meetings shall apply *mutatis mutandis* as though the Amended Warrants were a class of shares forming part of the capital of the Company, but so that:

4.1.1 the necessary quorum shall be the requisite number of holders (present in person or by proxy) entitled to subscribe one-third in nominal amount of the Ordinary Shares attributable to such outstanding Amended Warrants;

4.1.2 every holder of an Amended Warrant present in person at any such meeting shall be entitled on a show of hands to one vote and every such holder present in person or by proxy shall be entitled on a poll to one vote for each Ordinary Share for which he is entitled to subscribe;

4.1.3 any holder of an Amended Warrant present in person or by proxy may demand or join in demanding a poll; and

4.1.4 if at any adjourned meeting a quorum as above defined is not present, the holder or holders of Amended Warrants then present in person or by proxy shall be a quorum.

Any such alteration or abrogation approved as aforesaid shall be effected by deed poll executed by the Company and expressed to be supplemental to the Warrant Instrument. Modifications to the Warrant Instrument which are of a formal, minor or technical nature, or made to correct a manifest error, and which do not materially adversely affect the interests of the holders of the Amended Warrants, may be effected without the sanction of an extraordinary resolution by deed poll executed by the Company and expressed to be supplemental to the Warrant Instrument and notice of such alteration or abrogation or modification shall be given by the Company to the holders of the Amended Warrants.

5. Purchase

5.1 The Company and its subsidiaries shall have the right to purchase Amended Warrants in the market, by tender or by private treaty or otherwise, and the Company may accept the surrender of Amended Warrants at any time but:

5.1.1 such purchases will be limited to a maximum price per Amended Warrant which, through the market, will not exceed 5 per cent. above the average of the middle market quotations (as derived from the London Stock Exchange Daily Official List) for the 10 consecutive AIM dealing days ending on the dealing day immediately preceding the date on which the purchase is made in the case of purchases through the market of or, in the case of a purchase by tender, the tender is announced; and

5.1.2 if such purchases are by tender, such tender will be available to all holders of Amended Warrants alike.

5.2 All Amended Warrants so purchased or surrendered shall forthwith be cancelled and shall not be available for re-issue or resale.

6. Transfer

Each Amended Warrant will be in registered form and will be transferable by instrument of transfer in any usual or common form, or in any other form which may be approved by the

Directors of the Company. No transfer of a right to subscribe for a fraction of an Ordinary Share may be effected.

7. General

- 7.1 The Company will, concurrently with the issue of the same to the holders of the Ordinary Shares, send to the warrant holders (or, in the case of joint holders, to the first-named) a copy of each published annual report and accounts of the Company (or such abbreviated or summary financial statement sent to ordinary shareholders in lieu thereof), together with all documents required by law to be annexed thereto, and a copy of every other statement, notice or circular issued by the Company to holders of Ordinary Shares.
- 7.2 The provisions of the Articles of Association for the time being of the Company relating to untraced members, lost certificates and the registration, transfer and transmission of Ordinary Shares, including compulsory transfer of shares, shall *mutatis mutandis*, apply to the Amended Warrants as if they were Ordinary Shares.
- 7.3 Any determination or adjustment made pursuant to these terms and conditions by the auditors (or, if they are unable or unwilling to act, another independent firm of chartered accountants nominated by the Company) shall be made by them as experts and not as arbitrators and any such determination or adjustment made by them shall be final and binding on the Company and the warrant holder.
- 7.4 Any reference in these particulars to a statutory provision shall include that provision as from time to time modified or re-enacted.

Healthcare Enterprise Group PLC

(the “Company”)

(Incorporated in England and Wales with registered number 3627383)

Notice of Extraordinary General Meeting

Notice is hereby given that an Extraordinary General Meeting of shareholders of Healthcare Enterprise Group PLC (the “Company”) will be held at Kempson House, Camomile Street, London EC3A 7AN on 27 November 2006 at 11.00 a.m. for the purpose of considering, and if thought fit, passing the following resolutions as a special resolution and an ordinary resolution respectively:

SPECIAL RESOLUTION

THAT:

1. A. 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 £4,263,235 during the period commencing on the date of the passing of this resolution and expiring 18 months after the date of this notice or, if earlier, at the conclusion of the Annual General Meeting of the Company in 2007, 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; and
- B. the Directors be and they are hereby empowered, pursuant to the CA 1985 and pursuant to the authority under section 80 CA 1985 conferred on the Directors under paragraph A above in substitution for any existing power, (a) to allot equity securities (within the meaning of section 94 CA 1985) for cash and (b) 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:
 - (i) 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 or otherwise howsoever);
 - (ii) pursuant to the exercise of any share options, warrants and any shares acquired or held by the Company in treasury may be transferred in satisfaction of the exercise of such options or warrants;
 - (iii) pursuant to the Conditional Placing (as defined in the circular of the Company dated 2 November 2006 (the “Circular”) and other issues of Ordinary Shares contemplated in the Circular;

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- (iv) pursuant to the issue of the New Warrants (as defined in the Circular); and
 - (v) (otherwise than pursuant to sub-paragraphs (i) to (iv) above) up to an aggregate nominal amount of £680,221 (representing approximately 10 per cent. of the issued share capital of the Company following the implementation of the Placing (as defined in the Circular),

and shall expire 18 months after the date of this notice or, if earlier, at the conclusion of the Annual General Meeting of the Company in 2007, 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.

ORDINARY RESOLUTION

THAT:

2. Subject to the passing of the extraordinary resolution of holders of Warrants to subscribe Ordinary Shares set out in the notice of the Warrantholders' Meeting at the end of the circular of the Company dated 2 November 2006, the modifications to the Warrants described in such circular and the supplemental deed poll recording such modifications proposed to be made to the terms and conditions of the Warrants to be executed by the Company in the form of the draft produced to the Meeting and initialled by the Chairman of the Meeting for the purposes of identification be and are hereby approved.

By Order of the Board

L Gaborit
Secretary

2 November 2006

Registered Office
2nd Floor
College House
272 King's Road
London SW3 5AW

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 11.00 a.m. on Saturday, 25 November 2006 or, in the event that the Meeting is adjourned, on the register of members 48 hours before the time of any adjourned meeting, 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 11.00 a.m. on Saturday, 25 November 2006 or, in the event that the meeting is adjourned, 48 hours before the time of any adjourned meeting, shall be disregarded in determining the right of any person to attend and vote at the Meeting.

Healthcare Enterprise Group PLC

(the “Company”)

(Incorporated in England and Wales with registered number 3627383)

Notice of Warrantholders’ Meeting

Notice is hereby given that a meeting of the holders of warrants (“**Warrants**”) created by a deed poll dated 14 November 2003 (“**Warrant Deed Poll**”), whose terms were amended pursuant to the capital reorganisation of the Company effected on 10 January 2005, is to be held at Kempson House, Camomile Street, London EC3A 7AN on 27 November 2006 at 11.05 a.m. (or as soon thereafter as the Extraordinary General Meeting of the Company convened for 11.00 a.m. on the same date shall have concluded or been adjourned) for the purpose of considering, and if thought fit, passing the following resolution as an extraordinary resolution:

EXTRAORDINARY RESOLUTION

This meeting (the “**Warrantholders’ Meeting**”) of the outstanding Warrants of Healthcare Enterprise Group plc (the “**Company**”) hereby resolves **THAT**, subject to passing of the resolution numbered 2 at the Extraordinary General Meeting of the Company notice of which is set out in the circular of the Company dated 2 November 2006 (“**Circular**”):

- A. the following modifications to the terms and conditions of the Warrants be and are hereby approved and sanctioned:
 - (i) with effect from 28 November 2006 (or such later date as shall be determined by the Directors being not later than the latest possible date of the closing of the Conditional Placing (as defined in the Circular) every 25 Warrants entitling the holder thereof to subscribe for 1 Ordinary Share shall be consolidated into 1 new warrant to subscribe for 1 Ordinary Share, and that any resultant fractions of Warrants are ignored or otherwise dealt with at the Directors’ direction; and
 - (ii) the subscription price for each Ordinary Share shall be 6 pence rather than 37.5 pence;
- B. the supplemental deed poll recording the aforementioned modifications and certain other minor changes to the terms and conditions of the Warrants to be executed by the Company in the form of the draft produced to the Meeting and initialled by the Chairman of the Meeting for the purposes of identification (the “**Supplemental Deed Poll**”) be and is hereby approved; and
- C. each Director be authorised, directed and instructed to execute the Supplemental Deed Poll, where necessary with any such modifications, variations or amendments as in the opinion of the Company are of a formal, minor or technical nature, to correct a manifest error or are not materially prejudicial to the interests of the Warrantholders, and execute all such other deeds and instruments, and do all such acts and things as may be necessary or desirable to carry out and give effect to this resolution of the Warrantholders.

By Order of the Board

L Gaborit
Secretary

2 November 2006

Registered Office
2nd Floor
College House
272 King’s Road
London SW3 5AW

Notes:

1. A warrant holder 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 nor warrant holder of the Company.
2. A form of proxy is provided with this notice. Completion and return of such a proxy will not prevent a warrant holder 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 Warrant holders registered on the register of Warrant holders at 11.05 a.m. on Saturday, 25 November 2006 or, in the event that the Meeting is adjourned, on the register of Warrant holders 48 hours before the time of any adjourned meeting, shall be entitled to attend and vote at the Meeting in respect of the number of Warrants registered in their name at that time. Changes to the register of Warrant holders after 11.05 a.m. on Saturday, 25 November 2006 or, in the event that the meeting is adjourned, 48 hours before the time of any adjourned meeting, shall be disregarded in determining the right of any person to attend and vote at the Meeting.