

# **Healthcare Enterprise Group PLC**

**Annual Report 2009**

**Company Registration Number: 3627383**

## **Chairman's statement**

I present the results for the year ended 30 June 2009.

The year under review was one of further significant change for Healthcare Enterprise Group plc ("HCEG"), as the Group engaged in a process of refinancing whereby certain significant liabilities, including secured loan stock and convertible unsecured loan stock, were converted into a combination of equity in HCEG and HCEG's underlying investments in Ebiox Limited ("Ebiox"), Reproductive Sciences Limited ("RSL") and First Aid Holdings Limited ("FAH"). This refinancing exercise announced on 19 June 2009 was approved by shareholders in general meeting on 15 July 2009.

The refinancing exercise has helped to reduce the Group's current indebtedness to a level that the Directors consider to be more manageable. The Capitalisation will also reduce the Group's funding obligations in respect of and the Group's interests in, RSL and Ebiox, although the Group will remain materially interested in the future performance of these companies. Following the refinancing exercise the holding in FAH has been reduced to 9% and it is the board's intention to sell the remaining stake in FAH at the appropriate time.

### **Ebiox Limited**

In September 2008, the Company announced that Ebiox had secured the services of Mr. John Honey, former senior VP with Reckitt Benckiser plc as Executive Chairman.

On 4 June 2009, the Company announced that Ebiox had witnessed a surge in demand following the outbreak of swine flu, and that the Ebiox management team, headed by John Honey, was keen to take advantage of the flow of new orders. Accordingly, the Ebiox board determined that the best way for Ebiox to raise new funds (whilst the Company was still finalising its own restructuring) was to undertake a fundraising exercise directly. Subscriptions for £700,000 representing 37% of the enlarged share capital of Ebiox were received, of which £100,000 was repaid to the Company in the form of management fees. The Ebiox board believes that the balance of funds available to it should leave Ebiox adequately funded for the short and medium term. On 15 July, the Company subsequently announced that it had sold 39% of its equity in Ebiox to partly repay secured loan stock holders, convertible loan stock holders and other lenders.

It is hoped that, with the injection of new funds (as mentioned above), and the introduction of Mr. Nigel Wray to its board of directors, Ebiox will be able to achieve additional sales such as those which have now been contracted to Great Ormond Street Hospital under the Ebiox brand, and generate further revenue by distributing additional complimentary non-proprietary products.

### **Reproductive Sciences Limited (RSL)**

RSL is currently focussed on Fertiligent's "Evie" product, a high quality, low cost intrauterine sperm pump to help assist infertile couples conceive. For a marginal price increase, Fertiligent offers infertile couples a dramatically enhanced IUI success rate and the chance of avoiding invasive and costly artificial reproductive techniques such as in vitro fertilisation.

At the 30 June 2009 RSL owned 35% of the issued capital in the Israeli company Fertiligent Limited, with options to increase that holding to 65% of the fully diluted capital. RSL also owns the exclusive, worldwide sale & marketing rights to Fertiligent's products.

A two-centre clinical study already conducted in Germany and Israel demonstrated that the Fertiligent "Evie" product increases the IUI success rate by a factor of 2.7, from 6% to 16%. A further clinical trial

(supervised by Professor Martha Dirnfeld an acknowledged leader in the field) is currently being conducted at the Carmel Medical Centre, Israel. Professor Dirnfeld is also a medical consultant to the London Bridge Clinic. Data from these trials will be used to support market entry in Europe, the US and in selected Asian and Latin American countries.

The Fertiligent “Evie” product is the first and only CE-approved slow release IUI device. The company received CE Mark clearance in Q2 2007 and has submitted an application to the US FDA in Q3 2008. FDA approval is expected in 2010.

Once the product has received acceptable trial results (defined as not less than bolus IUI pregnancy rates), RSL and Fertiligent will initiate a global commercialisation plan, including contract manufacture in the US, with the aim of commencing sales in 2010.

As announced on 27 April 2009, RSL raised an additional US\$100,000 (approximately £70,000) by the sale of a 25% equity stake to persons associated with Nigel Wray, this reduced the Group’s interest to 75%. Those funds were necessary to meet RSL’s working capital requirements and to fund Fertiligent’s FDA application. In order to achieve its commercial objectives, RSL will be required to raise additional capital, and the Company is currently involved in discussions with various potential new investors. On 15 July, the Company subsequently announced that it had sold 31% of its equity in RSL to partly repay secured loan stock holders, convertible loan stock holders and other lenders.

### **Outlook**

Following the approval by shareholders of the refinancing exercise, the Company became an “investing company” under AIM rule 15.

The Company’s Investing Policy, following approval by shareholders of the refinancing exercise, is to seek complimentary acquisitions in the healthcare market. The Company intends to focus on the healthcare and wellness markets and act as a consolidator of smaller quoted and unquoted companies in that sector. With its established shareholder base, access to institutional and private funding and its experienced team, the Directors believe that the Company is well placed to expand by acquiring smaller businesses which have good products or services but which lack the critical mass to gain significant market entry. The creation of a larger listed entity will allow entrepreneurs and business managers the opportunity to combine with a larger entity to provide both diversification of risk and economies of scale.

The Directors anticipate that for its immediate future, the Group will operate as a holding company for its investments with substantially reduced overheads. Any ongoing capital requirement of the Group will be funded through further fundraisings or further partial or full realisations of the Group’s existing investments. Notwithstanding the current economic climate and the existing financial constraints upon the Group, the Directors remain convinced that the Company has a number of valuable investments in exciting niches of the healthcare market.

JH Gunn  
Chairman  
22 December 2009

## **Company Board**

### **John Gunn (68)**

Chairman

John Gunn is Executive Deputy Chairman of Ludgate Investments Limited which specialises in providing venture capital for high growth early stage companies. John trained at Barclays Bank until 1968 when he left to work for Exco International plc which, under his management, grew to become the world's largest money broking company. In 1985 he joined British & Commonwealth Shipping plc, becoming Managing Director and Chairman. From 1991 to 1999 he ran John Duncan & Company Limited, a business strategy consultancy.

### **Lyndon Gaborit (62)**

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.

### **Gron Ffoulkes-Davies (45)**

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.

### **John Honey (54)**

Non-Executive Director

John Honey previously served as Senior Vice President of Reckitt Benckiser plc, responsible at various times during his 29 year tenure as executive responsible for Reckitt's global cleaning and disinfectant businesses, including Dettol, Lysol and Cilit Bang brands and its worldwide over the counter business which included Boots Healthcare International. He retired from Reckitt's in 2007 to pursue private interests.

## **Directors' report**

for the period ended 30 June 2009

The Directors present their Annual Report together with the Audited Financial Statements for the period ended 30 June 2009.

### **Business review and principal activities**

Healthcare Enterprise Group plc is an international healthcare investment group.

The Group concentrated on reducing the breadth of its activities in the period and is now an investing company focussed on its investments in the disinfectant market and on female reproductive health medical devices. A full review of the businesses is given in the Chairman's Statement on pages 1 and 2.

A number of key performance indicators are used by the Group including revenue, gross margin, operating expenses and net debt balances. The level of revenue has fallen by 12% in the year to 30 June 2009 compared to 2008 due to the restricted level of funding available for business development. The gross margin has also fallen from 48% in the 16 months to 30 June 2008 to 39% in the year to 30 June 2009 as some of the synergies from being a larger organisation were lost and raw material price increases and sterling depreciation had an impact on finished goods prices. The net debt balance as at 30 June 2009 and 30 June 2008 was £2.4 million. Cash flow from operations improved significantly in the period from a £1.9m cash outflow in the 16 months to 30 June 2008 to a £1.0m cash outflow in the year ended 30 June 2009.

### **Results and dividends**

The results for the Group for the year ended 30 June 2009 show a pre tax loss of £2.3 million (16 months to 30 June 2008: £13.3 million) and sales of £0.5 million (16 months to 30 June 2008: £0.8 million) for continuing activities. The Group has net debt of £2.4 million (2008: £2.4 million). Net cash outflow from operating activities was £1.0 million (16 months to June 2008: £2.2 million).

The results for the year ended 30 June 2009 are set out in the Consolidated income statement on page 16.

The Directors do not recommend the payment of a dividend for this accounting period (2008: £nil).

### **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
2. ability to supply the product at the right time
3. sales performance of the business
4. availability of adequate funding to meet liabilities when they fall due
5. inherent uncertainty of product development

The first risk has been addressed by increased business development effort.

The second risk is addressed through sourcing product from a number of suppliers and 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 the sales team and its marketing methods. Additional resources have been deployed during the period to improve market penetration and awareness of Ebiox products.

The fourth risk has been addressed since the year end by completing a refinancing whereby certain significant liabilities, including convertible unsecured loan stock, held by Healthcare Enterprise Group plc ("HCEG") were converted into a combination of equity in HCEG, Ebiox Limited, Reproductive Sciences Limited and First Aid Holdings Limited (see note 29). However, given the Group's continuing losses, further funding will be required to meet the Group's continuing operating costs and liabilities. These will be funded through small fund-raising exercises, the first of which was completed in November 2009, and the further realisation of the Group's investments. The directors believe that the Group's plans are achievable given the continued support of significant shareholders and the ability to achieve piecemeal investment sales already evidenced. However these conditions constitute a material uncertainty that may cast significant doubt about the group's and company's ability to continue as a going concern. After making enquiries, and considering the uncertainties surrounding funding and future operations described above, the directors have a reasonable expectation that the Group and the Company have adequate resources, or the expectation of access to adequate resources, to continue trading for the foreseeable future (see note 1).

The fifth risk is addressed through the directors applying their knowledge and experience of the healthcare industry to choose those products for investment and development that, in their estimation, have the potential to be commercially successful in the marketplace.

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 turnover accordingly.

## **Research & development**

The Group capitalises development costs, comprising wages, materials, sub-contractors and development overheads, which 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. No development costs were capitalised in the year (2008: £nil).

## **Share issues**

Details of share issues during the period are detailed in note 21 to the financial statements.

## **Financial instruments**

Details of financial instruments are given in notes 2 and 26 of the financial statements.

## Directors

The Directors who served during the period were as follows:

GP Ffoulkes-Davies (appointed 19 June 2009)

LJ Gaborit

JH Gunn

JC Honey (appointed 19 June 2009)

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 8 to 10.

## Substantial shareholdings

The following interests in 3% or more of the issued share capital of the Company at 22 December 2009 have been disclosed.

	Number of ordinary shares	Percentage of issued share capital
LJ Gaborit <sup>1</sup>	755,958	13.03
Schweco Nominees	607,275	10.46
JH Gunn <sup>2</sup>	458,729	7.90
Bank of New York Nominees	384,000	6.62
Norton Rose	363,698	6.27
NW Wray <sup>3</sup>	353,983	6.10
Numis Nominees	287,261	4.95
Aviva	231,432	3.99
TD Waterhouse Nominees	201,873	3.48

Note 1 At 22 December 2009 LJ Gaborit held 880 ordinary shares through a family trust and 4,333 ordinary shares through Industrial Management and Equity Limited.

Note 2 At 22 December 2009 JH Gunn held 77,500 ordinary shares through Wengen Limited a related company that he controls and is interested in 43,809 ordinary shares through Ludgate Investments Limited a company for which he is Executive Deputy Chairman.

Note 3 At 22 December 2009 NW Wray had an interest in 7,716,272 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 56,615 ordinary shares. Therefore at 22 December 2009 NW Wray was interested, directly and indirectly, in 353,983 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 30 June 2009 represented approximately 171 days (2008: 101 days) of purchases.

## Donations

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

**Other**

The Directors' report does not contain information about:

- (i) environmental matters (including the impact of the company's business on the environment),
- (ii) the company's employees, and
- (iii) social and community issues, including information about any policies of the company in relation to those matters and the effectiveness of those policies.

**Auditors reappointment**

BDO LLP have expressed a willingness to continue in office and a resolution to reappoint them will be proposed at the Annual General Meeting.

By Order of the Board

**GP Ffoulkes-Davies**  
Company Secretary  
22 December 2009

## **Report on Directors' remuneration**

The remuneration of the Executive Directors is determined by the Remuneration Committee, which consists of the Non-Executive Directors and the Executive Director under the Chairmanship of Mr JH Gunn.

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 the Non-Executive Directors. No Non-Executive Director is involved in deciding his own remuneration.

### **Directors' service contracts**

There are two Executive Directors, Mr LJ Gaborit and Mr GP Ffoulkes-Davies.

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. Mr Ffoulkes-Davies contract is not for a fixed term but is terminable on not less than six months written notice at any time by the Director or the Company.

The Non-Executive Directors contracts 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' remuneration

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

	Directors' fees £	Directors' bonus £	2009 Total £	2008 Total £
<b>Current</b>				
GP Ffoulkes-Davies <sup>1</sup>	5,000	–	5,000	–
LJ Gaborit <sup>2</sup>	180,000	–	180,000	497,000
JH Gunn <sup>3</sup>	25,000	–	25,000	11,270
JC Honey <sup>1</sup>	–	–	–	–
<b>Former</b>				
NO Brigstocke <sup>4</sup>	10,000	–	10,000	20,000
HJM Tompkins <sup>5</sup>	7,500	–	7,500	76,933
NW Wray <sup>6</sup>	–	–	–	1,767
	<b>388,500</b>	<b>–</b>	<b>388,500</b>	<b>845,176</b>

Note 1 Appointed 19 June 2009.

Note 2 The Director's emoluments above include consultancy services of £180,000 (2008: £497,000) purchased from a company controlled by the director in respect of services provided by the director, see note 11.

Note 3 Appointed 17 January 2008. Including the Director's emoluments above, consultancy services of £25,000 (2008: £20,833) were invoiced by a company controlled by the director, see note 11.

Note 4 Resigned 2 February 2009.

Note 5 The Director's emoluments above include consultancy services of £7,500 (2008: £25,500) that were invoiced by a company controlled by the director, see note 11. Resigned 18 December 2008.

Note 6 Resigned 12 April 2007.

## Aggregate remuneration of the highest paid director

	2009 £	2008 £
Emoluments	180,000	497,000

The interests of the Directors in the share capital of the Company at 30 June 2009 were as follows:

	2009 Number of ordinary shares of 0.1p each	2008 Number of ordinary shares of 0.1p each
LJ Gaborit <sup>1</sup>	1,303,351	1,303,351
JH Gunn	41,140,581	24,473,914
GP Ffoulkes-Davies	1,250,000	1,250,000
JC Honey	33,333,333	–

Note 1 At 30 June 2009 LJ Gaborit held 220,018 ordinary shares through a family trust and 1,083,333 Ordinary Shares through Industrial Management and Equity Limited.

At 22 December 2009 these shareholdings had changed as follows:

	2009 Number of ordinary shares of 25.0p each
LJ Gaborit <sup>1</sup>	755,958
JH Gunn <sup>2</sup>	458,729
GP Ffoulkes-Davies	151,098
JC Honey	151,333

Note 1 At 22 December 2009 LJ Gaborit held 880 ordinary shares through a family trust and 4,333 ordinary shares through Industrial Management and Equity Limited.

Note 2 At 22 December 2009 JH Gunn held 77,500 ordinary shares through Wengen Limited a related company that he controls and is interested in 43,809 ordinary shares through Ludgate Investments Limited a company for which he is Executive Deputy Chairman.

### 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 Jul 2008	Lapsed in the period	At 30 Jun 2009	Exercise price	First exercise date	Expiry date
LJ Gaborit	199,476	(199,476)	–	2.5p	1 Jan 2003	31 Dec 2008

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

Directors	At 1 Jul 2008	Lapsed in the period	Exercised in the period	At 30 Jun 2009	Exercise price	First exercise date	Expiry date
Unapproved							
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

Options granted under the 2006 HCEG Enterprise Management Incentive ("EMI") scheme.

Directors	At 1 Jul 2008	Lapsed in the period	At 30 Jun 2009	Exercise price	First exercise date	Expiry date
GP Ffoulkes-Davies	3,000,000	–	3,000,000	3p	13 Dec 2006	12 Dec 2016

## **Directors' responsibilities**

The directors are responsible for preparing the annual report and 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 group and company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group and company for that period. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **Website publication**

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

## **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, chaired by JH Gunn and comprising all of the directors, has been established for this purpose. The Board of Directors operates within the framework described below.

### **The Board of Directors**

The Board normally comprises the Non-Executive Chairman, the Executive Director, the Finance Director and the other 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 period 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 JH Gunn and also comprises LJ Gaborit and JC Honey. 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 provide written confirmation in relation to their independence.

### **The Remuneration Committee**

The Remuneration Committee meets not less than twice a year, it is chaired by JH Gunn and also comprises JC Honey. It is chaired by JH Gunn 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.

### **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 controls:

- 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, or can raise adequate resources through its supportive shareholders, to enable them to continue in business for the foreseeable future. More detailed disclosures of the directors' plans for refinancing the Group and ensuring adequate funding are included in note 1 and note 29.

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

## **Independent auditor's report to the Members of Healthcare Enterprise Group plc**

We have audited the financial statements of Healthcare Enterprise Group plc for the year ended 30 June 2009 which comprise the consolidated income statement, the group and company balance sheets, the group and company cash flow statements and the group and company statements of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with sections 495 and 496 of the Companies Act 2006. 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 auditor's 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*

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### *Scope of the audit of the financial statements*

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

### *Opinion on financial statements*

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 30 June 2009 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### **Emphasis of matter – going concern**

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the group's and company's ability to continue as a going concern.

In July 2009 the group completed a refinancing whereby £3,268,110 of indebtedness was converted into a combination of equity in HCEG plc, Ebiox Limited, Reproductive Sciences Limited and First Aid Holdings

Limited. Given the Group's continuing losses however, further funding will be required to meet the Group's continuing operating costs and liabilities.

Going forwards the Group expects to function as an investment holding company with a minimal overhead base which will be funded through small fund-raising exercises, the first of which was completed in November 2009, and the further realisation of the Group's investments. The Group is reliant upon raising these funds to meet its ongoing liabilities as they fall due. The directors have a reasonable expectation that shareholders will support the business through additional funding or further asset realisations. However, the raising of these additional funds is not certain. Should the Group be unable to raise these funds, it may not be able to meet its ongoing operating costs and liabilities.

These conditions, along with the matters disclosed in note 1 to the financial statements indicate the existence of a material uncertainty which may cast significant doubt about the Group's and Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group and Company were unable to continue as a going concern.

*Opinion on other matters prescribed by the Companies Act 2006*

In our opinion the information given in the directors' report for the financial year [period] for which the financial statements are prepared is consistent with the financial statements.

*Matters on which we are required to report by exception*

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

*Julien Rye (senior statutory auditor)  
For and on behalf of BDO LLP, statutory auditor  
Manchester  
United Kingdom  
22 December 2009*

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

# Healthcare Enterprise Group plc

## Consolidated income statement

for the year ended 30 June 2009

		Group before exceptional items Year to 30 June 2009 £'000	Exceptional Items (note 5) Year to 30 June 2009 £'000	Group after exceptional items Year to 30 June 2009 £'000	Group before exceptional items 16 months to 30 June 2008 £'000	Exceptional Items (note 5) 16 months to 30 June 2008 £'000	Group after exceptional items 16 months to 30 June 2008 £'000
<b>Continuing operations</b>	<b>Notes</b>						
Revenue	3	524	-	524	793	-	793
Cost of Sales		(319)	-	(319)	(413)	-	(413)
Gross profit		205	-	205	380	-	380
Administrative expenses	5	(1,533)	(693)	(2,226)	(2,444)	(10,966)	(13,410)
<b>Operating loss</b>	3, 4	<b>(1,328)</b>	<b>(693)</b>	<b>(2,021)</b>	<b>(2,064)</b>	<b>(10,966)</b>	<b>(13,030)</b>
Finance costs	7	(256)	-	(256)	(233)	-	(233)
<b>Loss before tax</b>		<b>(1,584)</b>	<b>(693)</b>	<b>(2,277)</b>	<b>(2,297)</b>	<b>(10,966)</b>	<b>(13,263)</b>
Income tax expense	8	-	-	-	-	-	-
<b>Loss for the period from continuing operations</b>		<b>(1,584)</b>	<b>(693)</b>	<b>(2,277)</b>	<b>(2,297)</b>	<b>(10,966)</b>	<b>(13,263)</b>
Discontinued operations	5	-	-	-	(1,886)	(4,804)	(6,690)
<b>Loss for the period</b>		<b>(1,584)</b>	<b>(693)</b>	<b>(2,277)</b>	<b>(4,183)</b>	<b>(15,770)</b>	<b>(19,953)</b>
Attributable to:							
Equity holders of the parent		(1,584)	(693)	(2,277)	(4,116)	(15,770)	(19,886)
Minority interest		-	-	-	(67)	-	(67)
		<b>(1,584)</b>	<b>(693)</b>	<b>(2,277)</b>	<b>(4,183)</b>	<b>(15,770)</b>	<b>(19,953)</b>
<b>Loss per share</b>							
From continuing operations:							
Basic	10			(0.5) p			(4.2) p
Diluted	10			(0.5) p			(4.2) p
From continuing and discontinued operations:							
Basic	10			(0.5) p			(6.4) p
Diluted	10			(0.5) p			(6.4) p

# Healthcare Enterprise Group plc

## Balance sheets

as at 30 June 2009

	Notes	Group	Group	Company	Company
		2009	2008	2009	2008
Assets		£'000	£'000	£'000	£'000
<b>Non-current assets</b>					
Property, plant & equipment	13	14	41	13	16
Goodwill	12	2,084	3,300	-	-
Other intangible assets	12	440	534	-	-
Investments in subsidiaries	14	-	0	4,290	4,325
Available for sale investments	14	1,016	2,164	651	1,780
		<u>3,554</u>	<u>6,039</u>	<u>4,954</u>	<u>6,121</u>
<b>Current assets</b>					
Inventories	16	19	36	-	-
Trade and other receivables	17	423	357	266	1,807
Cash and cash equivalents	25	375	47	80	22
		<u>817</u>	<u>440</u>	<u>346</u>	<u>1,829</u>
<b>Total assets</b>	<b>3</b>	<b><u>4,371</u></b>	<b><u>6,479</u></b>	<b><u>5,300</u></b>	<b><u>7,950</u></b>
<b>Current liabilities</b>					
Loans and borrowings	19	(751)	(549)	(751)	(549)
Trade and other payables	18	(1,764)	(1,706)	(3,105)	(3,191)
Current tax payable	8	-	-	-	-
		<u>(2,515)</u>	<u>(2,255)</u>	<u>(3,856)</u>	<u>(3,740)</u>
<b>Non-current liabilities</b>					
Loans and borrowings	19	(2,054)	(1,900)	(2,054)	(1,900)
Other payables	20	-	(14)	-	-
		<u>(2,054)</u>	<u>(1,914)</u>	<u>(2,054)</u>	<u>(1,900)</u>
<b>Net liabilities/assets</b>	<b>3</b>	<b><u>(198)</u></b>	<b><u>2,310</u></b>	<b><u>(610)</u></b>	<b><u>2,310</u></b>
<b>Equity attributable to the equity holders of the parent</b>					
Ordinary shares	21, 28	439	339	439	339
Share premium	28	42,273	42,088	48,472	48,287
Deferred shares	21, 28	8,371	8,371	8,371	8,371
Retained earnings	28	(50,662)	(47,736)	(60,467)	(57,262)
Translation reserve	28	(68)	(68)	-	-
Other reserves	28	(684)	(684)	2,575	2,575
		<u>(331)</u>	<u>2,310</u>	<u>(610)</u>	<u>2,310</u>
Minority interest		133	-	-	-
<b>Total equity</b>		<b><u>(198)</u></b>	<b><u>2,310</u></b>	<b><u>(610)</u></b>	<b><u>2,310</u></b>

The financial statements were approved and authorised for issue by the Board of Directors on 22 December 2009.

GP Ffoulkes-Davies  
Director

# Healthcare Enterprise Group plc

## Cash flow statements

for the year ended 30 June 2009

	Notes	Group Year to 30 June 2009 £'000	Group 16 months to 30 June 2008 £'000	Company Year to 30 June 2009 £'000	Company 16 months to 30 June 2008 £'000
<b>Cash flows from operating activities</b>					
Operating loss					
- continuing operations		(2,021)	(13,030)	(3,205)	(29,705)
- discontinued operations (see note 5)		-	(6,628)	-	-
- exceptional operating costs charged		693	15,770	2,142	28,216
Total group operating loss before exceptional items		(1,328)	(3,888)	(1,063)	(1,489)
Cash payments in respect of exceptional costs and provisions		-	(789)	-	(441)
Depreciation and amortisation		77	209	3	24
Decrease in working capital		295	2,576	103	965
Other		-	32	-	24
Net cash from operations		(956)	(1,860)	(957)	(917)
Interest paid		-	(295)	-	(233)
<b>Net cash from operating activities</b>		<b>(956)</b>	<b>(2,155)</b>	<b>(957)</b>	<b>(1,150)</b>
<b>Cash flows from investing activities</b>					
Purchase of plant and equipment	13	(2)	(69)	(1)	(3)
Proceeds from sale of business		436	437	-	462
Purchase of other investments		(150)	(111)	-	-
Proceeds from sale of other investments		615	180	567	180
<b>Net cash from investing activities</b>		<b>899</b>	<b>437</b>	<b>566</b>	<b>639</b>
<b>Cash flows from financing activities</b>					
Net proceeds from issue of ordinary share capital		285	-	285	-
Debt due within one year					
- repayment of sterling borrowings		-	(1,500)	-	(1,500)
- issue of sterling borrowings		-	500	-	500
Debt due after more than one year					
- net movements on long term facilities		-	1,750	-	1,750
- other		100	300	100	300
Inception of finance leases		-	26	-	-
Finance lease principal repayments		-	(1)	-	(1)
Amounts received by subsidiaries		-	-	64	(918)
<b>Net cash from financing activities</b>		<b>385</b>	<b>1,075</b>	<b>449</b>	<b>131</b>
<b>Net increase in cash and cash equivalents</b>		<b>328</b>	<b>(643)</b>	<b>58</b>	<b>(380)</b>
Cash and cash equivalents at 1 July/1 March		47	690	22	402
<b>Cash and cash equivalents at 30 June</b>	<b>27</b>	<b>375</b>	<b>47</b>	<b>80</b>	<b>22</b>

# Healthcare Enterprise Group plc

## Statements of changes in equity for the year ended 30 June 2009

Group	Attributable to equity shareholders of the parent							Minority	Total equity	
	Issued capital	Shares to be issued	Share premium	Deferred shares	Other reserves	Translation reserve	Retained earnings			
	£'000	£'000	£'000	£'000	£'000	£'000	£'000			
<b>At 28 February 2007</b>	<b>7,555</b>	<b>271</b>	<b>42,065</b>	<b>746</b>	<b>(903)</b>	<b>(58)</b>	<b>(27,850)</b>	<b>21,826</b>	<b>57</b>	<b>21,883</b>
Exchange losses offset in reserves	-	-	-	-	-	(10)	-	(10)	-	(10)
Net income recognised directly in equity	-	-	-	-	-	(10)	-	(10)	-	(10)
Loss for the period	-	-	-	-	-	-	(19,886)	(19,886)	(67)	(19,953)
Total recognised expense for the year	-	-	-	-	-	(10)	(19,886)	(19,896)	(67)	(19,963)
Issue of shares	409	(271)	23	-	-	-	-	161	-	161
Share based payments	-	-	-	-	75	-	-	75	-	75
Capital reorganisation	(7,625)	-	-	7,625	-	-	-	-	-	-
Equity element of convertible debt	-	-	-	-	144	-	-	144	-	144
Disposal	-	-	-	-	-	-	-	-	10	10
<b>At 30 June 2008</b>	<b>339</b>	<b>-</b>	<b>42,088</b>	<b>8,371</b>	<b>(684)</b>	<b>(68)</b>	<b>(47,736)</b>	<b>2,310</b>	<b>-</b>	<b>2,310</b>
Loss for the year	-	-	-	-	-	-	(2,277)	(2,277)	-	(2,277)
Total recognised expense for the year	-	-	-	-	-	-	(2,277)	(2,277)	-	(2,277)
Issue of shares	100	-	185	-	-	-	-	285	-	285
Dilution of interest in subsidiary undertakings	-	-	-	-	-	-	(649)	(649)	133	(516)
<b>At 30 June 2009</b>	<b>439</b>	<b>-</b>	<b>42,273</b>	<b>8,371</b>	<b>(684)</b>	<b>(68)</b>	<b>(50,662)</b>	<b>(331)</b>	<b>133</b>	<b>(198)</b>

  

Company	Issued capital	Shares to be issued	Share premium	Deferred shares	Other reserves	Retained earnings	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
	<b>At 28 February 2007</b>	<b>7,555</b>	<b>271</b>	<b>48,264</b>	<b>746</b>	<b>2,356</b>	<b>(27,324)</b>
Loss for the period	-	-	-	-	-	(29,938)	(29,938)
Total recognised expense for the year	7,555	271	48,264	746	2,356	(57,262)	1,930
Issue of shares	409	(271)	23	-	-	-	161
Share based payments	-	-	-	-	75	-	75
Capital reorganisation	(7,625)	-	-	7,625	-	-	-
Equity element of convertible debt	-	-	-	-	144	-	144
<b>At 30 June 2008</b>	<b>339</b>	<b>-</b>	<b>48,287</b>	<b>8,371</b>	<b>2,575</b>	<b>(57,262)</b>	<b>2,310</b>
Loss for the year	-	-	-	-	-	(3,205)	(3,205)
Total recognised expense for the year	-	-	-	-	-	(3,205)	(3,205)
Issue of shares	100	-	185	-	-	-	285
Share based payments	-	-	-	-	-	-	-
<b>At 30 June 2009</b>	<b>439</b>	<b>-</b>	<b>48,472</b>	<b>8,371</b>	<b>2,575</b>	<b>(60,467)</b>	<b>(610)</b>

Explanations of the various classes of equity are given in note 28.

# Healthcare Enterprise Group plc

## Notes to the financial statements

for the year ended 30 June 2009

### 1. Principal Accounting Policies

#### (a) Statement of compliance

Healthcare Enterprise Group plc is a company incorporated in the United Kingdom. These consolidated financial statements of Healthcare Enterprise Group plc for the year ended 30 June 2009 consolidate those of the company and its subsidiaries (together referred to as the "group"). The parent company financial statements present information about the company as a separate entity and not about the group.

Both the parent company financial statements and the group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU ("Adopted IFRSs"). In publishing the parent company financial statements here together with the group financial statements, the company has taken advantage of the exemptions in s408 of the Companies Act 2006 not to present its income statement and related notes that form part of these approved financial statements.

#### (b) Basis of preparation

Healthcare Enterprise Group plc's financial statements are prepared under IFRS.

The financial statements have been prepared on the going concern basis which assumes that the Group will be able to meet its liabilities as they fall due.

Notwithstanding the net liabilities at the balance sheet date, in July 2009 the Group completed a refinancing whereby £3,268,110 of indebtedness owed by the company was deemed to have been satisfied by: the issue of 2,635,728 Healthcare Enterprise Group new ordinary shares, the transfer of 738,360 Ebiox Limited ordinary shares, the transfer of 16,240 Reproductive Sciences Limited ordinary shares and the transfer of 303,688 First Aid Holdings Limited ordinary shares.

Going forwards the Group expects to function as an investment holding company with a minimal overhead base. However, given the Group's continuing losses, further funding will be required to meet the Group's continuing operating costs and liabilities. These will be funded through small fund-raising exercises, the first of which was completed in November 2009, and the further realisation of the Group's investments. The directors believe that the Group's plans are achievable given the continued support of significant shareholders and the ability to achieve piecemeal investment sales already evidenced. After making enquiries, and considering the uncertainties surrounding funding and future operations described above, the directors have a reasonable expectation that the Group and the any have adequate resources, or the expectation of access to adequate resources, to continue trading for the foreseeable future. They therefore believe it is appropriate to prepare the financial statements on a going concern basis. However, these conditions constitute a material uncertainty that may cast doubt about the Group's and Company's ability to continue as a going concern. The financial statements do not contain the adjustments that would result if the Group and Company were unable to continue as a going concern.

**(c) New standards and interpretations applied**

The following standards and interpretations to existing standards have been published but are not mandatory for the period ended 30 June 2009 and have not been applied during the period:

**Effective dates**

**(periods beginning on or after)**

IFRS 8 - Operating Segments	1 January 2009
IFRS 7 – Improving disclosures about financial statements	1 January 2009
IAS 23 - Borrowing costs - revised	1 January 2009
IFRIC 15 - Agreements for the Construction of Real Estate	1 January 2009
IFRS 2 - Share-based payments - amended	1 January 2009
IAS 1 - Presentation of Financial Statements - revised	1 January 2009
IAS 32, IAS 1 - Puttable Financial Instruments and Obligations Arising on Liquidation	1 January 2009
Improvements to IFRSs	1 January 2009
IFRS 1, IAS 27 - Cost of an Investment in a Subsidiary, Jointly-controlled Entity or Associate	1 January 2009
IFRIC 9, IAS 39 – Embedded derivatives – amended	30 June 2009
IAS 39 - Financial Instruments: Eligible Hedged Items	1 July 2009
IFRS 3 - Business Combinations - revised	1 July 2009
IAS 27 - Consolidated and Separate Financial Statements	1 July 2009
IFRIC 17 – Distributions of Non-cash Assets to Owners	1 July 2009
IFRIC 18 – Transfer of Assets from Customers	1 July 2009
Improvements to IFRSs	1 January 2010
IFRS 2 – Group Cash-settled Share-based Payment Transactions – amended	1 January 2010
IAS 32 – Classification of Rights Issues – amended	1 February 2010
IAS 24 – Related Party Disclosures – revised	1 January 2011
IFRS 9 – Financial Instruments	1 January 2013

The directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the group's financial statements in the period of initial application.

**(d) Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company. Control is achieved where the company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Associates are all entities over which the Group exercises significant influence. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost, in accordance with the alternative treatment allowed by IAS 31 and IAS 28. The Group's share of any associate profits or losses after tax are recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the Group's share of losses after tax in an associate equals or exceeds its interest or participation, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. Unrealised gains on transactions between the Group and any associates are eliminated to the extent of its interest or participation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

**(e) Acquisition method of accounting**

The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date. The results of acquired operations are included in the consolidated income statement from the date on which control is obtained.

**(f) Goodwill**

Goodwill arising on consolidation represents the excess of the cost of acquisition over the group's interest in the fair value of the identifiable assets and liabilities, including contingent liabilities, of a subsidiary. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired if the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Recoverable amount is defined as the higher of an asset's fair value less costs to sell and its value in use. An Impairment loss recognised for goodwill is not reversed in a subsequent period.

Goodwill arising on other acquisitions before the date of transition to IFRSs, 1 March 2007, has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date.

**(g) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for product sales provided in the normal course of business, net of discounts, VAT and other sales related taxes.

Revenue is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods, the Group retains neither the continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Group and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

**(h) Operating loss**

Operating loss is stated after exceptional items, but before finance income and finance costs.

**(i) Exceptional items**

Exceptional items are material items that are unusual in nature, where separate disclosure is necessary and relevant to provide an understanding of the group's financial performance (see note 5).

**(j) Plant and equipment**

Fixtures and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost or valuation of assets over their estimated useful lives. The rates generally applicable are:

Leasehold improvements	- Over the length of the lease
Plant, machinery, fixtures & fittings	- 15-25% per annum on cost
Motor vehicles	- 25% per annum on cost

**(k) Development costs**

Development costs are capitalised by the group where:

- it is technically feasible to develop the product for it to be sold
- adequate resources are available to complete the development
- there is an intention to complete and sell the product
- the group is able to sell the product
- sale of the product will generate future economic benefits
- expenditure on the project can be measured reliably

Development costs are recognised as an internally generated intangible asset with a definite useful life and are amortised over that useful life, generally 10 years, they are also reviewed for impairment at least annually. Amortisation of development costs is included in depreciation and amortisation costs in the consolidated income statement on page 16. Any impairment is recognised immediately in the income statement and not subsequently reversed.

**(l) Deferred taxation**

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the balance sheet differs from its tax base, except for differences arising on:

- the initial recognition of goodwill,
- goodwill for which amortisation is not tax deductible,
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit, and
- investments in subsidiaries and jointly controlled entities where the group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered). Deferred tax balances are not discounted.

Deferred tax assets and liabilities are offset when the group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- the same taxable group company, or
- different group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

#### **(m) Inventories**

Inventories are valued at the lower of cost and net realisable value. Cost is based on the cost of purchase on a first in, first out basis. Net realisable value is based on estimated selling price.

#### **(n) Financial instruments**

The only categories the directors consider the group to have financial instruments in are as follows:

##### *Available for sale financial assets*

Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included within non-current assets unless the Group intends to dispose of them within a year of the balance sheet date. When investments classified as available for sale assets are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement.

If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. If the fair value of an unquoted entity cannot be measured reliably, it is measured at cost.

##### *Loans and receivables*

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the income statement. On confirmation that the trade receivable will not be collectable, the gross carrying value of the assets is written off against the associated provision. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the income statement. Impairment losses

recognized in the income statement on equity instruments are not reversed through the income statement.

From time to time, the group elects to renegotiate the terms of trade receivables due from customers with which it has previously had a good trading history. Such renegotiations will lead to changes in the timing of payments rather than changes to the amounts owed and, in consequence, the new expected cash flows are discounted at the original effective interest rate.

The group's loans and receivables comprise trade and other receivables and cash and cash equivalents in the balance sheet.

Cash and cash equivalents includes cash in hand and deposits held with banks.

#### *Leases and hire purchase contracts*

Where assets are financed by leasing agreements that give rights approximating to ownership (finance leases), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the income statement.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to the income statement over the period of the lease and represents a constant proportion of the balances of capital repayments outstanding. The capital part reduces the amounts payable to the lessor.

All other leases are treated as operating leases. Their annual rentals are charged to the income statement on a straight-line basis over the term of the lease, even if the payments are not made on such a basis.

#### *Other financial liabilities*

These include trade payables and other short-term monetary liabilities, which are recognised at fair value and thereafter at amortised cost.

#### *Convertible debt*

The proceeds received on issue of the group's convertible debt are allocated into their liability and equity components. The amount initially attributed to the debt component equals the discounted cash flows using a market rate of interest that would be payable on a similar debt instrument that did not include an option to convert. Subsequently, the debt component is accounted for as a financial liability measured at amortised cost.

The difference between the net proceeds of the convertible debt and the amount allocated to the debt component is credited directly to equity and is not subsequently remeasured if converted, the debt and equity elements are credited to share capital and share premium, as appropriate.

### **(o) Share-based employee remuneration**

The fair value of options granted is recognised as an employee expense, with a corresponding increase in equity reserves. The fair value is recognised at the grant date and spread over the period the employees become unconditionally entitled to the options. The fair value of the options granted is measured using the binomial option pricing model, taking into account the terms and conditions on which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where variations are due only to share prices not achieving the threshold for vesting.

**(p) Pension costs**

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 consolidated income statement. The Company provides no other post-retirement benefits to its employees and directors.

**(q) Provisions**

Provisions are recognised when the group has a present obligation as a result of a past event, and it is probable that the group will be required to settle that obligation.

Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

**(r) Non-current assets held for sale and disposal groups**

Non-current assets and disposal groups are classified as held for sale when:

- they are available for immediate sale
- management is committed to a plan to sell
- it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn
- an active programme to locate a buyer has been initiated
- the asset or disposal group is being marketed at a reasonable price in relation to its fair value
- a sale is expected to complete within 12 months from the date of classification

Non-current assets and disposal groups classified as held for sale are measured at the lower of:

- their carrying amount immediately prior to being classified as held for sale in accordance with the Group's accounting policy
- fair value less costs to sell

Following their classification as held for sale, non-current assets (including those in a disposal group) are not depreciated.

Results of operations disposed during the period are included in the consolidated income statement up to the date of disposal.

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations or its subsidiary acquired exclusively with a view to resale, that has been disposed of, has been abandoned or that meets the criteria to be classified as held for sale.

Discontinued operations are presented in the income statement (including the comparative period) as a single line which comprises the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognised on the re-measurement to fair value less costs to sell or on disposal of the assets/disposal groups constituting discontinued operations.

**(s) Foreign currency translation**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or cost'. All other foreign exchange gains and losses are presented in the income statement within 'other (losses)/gains' – net.

**(t) Transactions with minority interests**

The Group follows the economic entity model for transactions with minority interests. A transaction with a minority is treated as a transaction between equity participants. For a disposal to a minority the difference between the proceeds and the share of net assets including goodwill disposed of is accounted for in equity. For the purchase of a minority any excess over the group's share of net assets is recorded in equity.

**(u) Critical accounting estimates and judgments**

The group makes certain estimates and assumptions regarding the future. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances in the future. Actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below.

*Estimates and assumptions*

(i) Going concern basis of preparation

The Group has prepared these financial statements on a going concern basis. The Group was refinanced on the 15 July 2009 (see note 1a and 29) which reduced Group indebtedness by £3.3m. Going forwards the Group expects to function as an investment holding company with a minimal overhead base which will be funded through small fund-raising exercises, the first of which was completed in November 2009, and the further realisation of the Group's investments. However given the Group's continuing losses, management's judgement on its ability to continue as a going concern is a key assumption.

(ii) Impairment of goodwill

The group is required to test, on an annual basis, whether goodwill has suffered any impairment. The recoverable amount is determined based on fair value less costs to sell. Fair value has been estimated by prices achieved in transactions post year end. Actual outcomes may vary, more information including carrying values is included in note 12.

**2. Financial instruments – Risk management**

The Group is exposed through its operations to the following financial risks:

- Credit risk
- Foreign exchange risk
- Other market price risk
- Liquidity risk

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies or processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

### **Principal financial instruments**

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- Trade receivables
- Cash at bank
- Investments in quoted and unquoted securities (UK and overseas)
- Trade and other payables
- Fixed rate loan notes
- Other fixed rate loans

### **General objectives, policies and processes**

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Board receives regular monthly reports from the Group finance function through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

#### *Credit Risk*

Credit risk is the risk of financial loss to the Group if a customer, or a counterparty to a financial instrument fails to meet its contractual obligations. The Group is mainly exposed to credit risk from credit sales. It is Group policy to assess the credit risk of new customers before entering contracts.

The finance function has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available. Purchase limits are established for each customer, which represents the maximum open amount without requiring approval from the Finance Director. These limits are reviewed regularly. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group on a prepayment basis.

Credit risk also arises from cash and deposits with banks and financial institutions. Only large, stable banks that are not considered to be at significant risk of failure are accepted.

The Group does not enter into derivatives to manage credit risk.

Quantitative disclosures of the credit risk exposure in relation to Trade and other receivables which are neither past due nor impaired, are disclosed in note 17. The continuing business of the Group has not suffered significant levels of bad debt. The finance function monitors the utilisation of credit limits regularly and at the reporting date does not expect any losses from non-performance by the counterparties.

#### *Foreign exchange risk*

Foreign exchange risk arises because the Group has operations located in various parts of the world whose functional currency is not the same as the functional currency in which the Group companies are operating. However, the risk of gains or losses from these operations is not considered significant because of their relatively small size compared to the Group's UK based operations.

Foreign exchange risk also arises when individual Group entities enter into transactions denominated in a currency other than their functional currency. No decision to hedge foreign currency transactions has been taken.

#### *Other market price risk*

The Group is exposed to market price risk as the Group holds some equity investments in other companies, see note 14. The Directors believe that exposure to market risk from these activities is acceptable in the Group's circumstances.

#### *Liquidity risk*

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. Given the early stage of some of the Group's investments and their expected associated cash requirements this area represents a concentration of risk for the Group's operations.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain cash balances (or agreed facilities) to meet expected requirements for a period of at least 30 days, however given the current economic climate it is difficult to ensure an adequate flow of funding.

The Group monitors its cash balances on a daily basis. The Group has also chosen fixed interest sources of long term borrowings which helps to ensure predictability of cashflows (see note 19 for the maturity profile of these borrowings). The liquidity risk is closely monitored by the finance function, with estimated cash usage being based on locally prepared cash flow forecasts for individual businesses. A month-by-month cash flow is prepared as part of the annual budget and thereafter on a 'as needs' basis as part of re-forecasting. This recognises overall levels of funding required by the business and is used in negotiations with funders with regard to changes in the level of facilities required. Where facilities of Group entities need to be increased, approval must be sought from the Finance Director.

In July 2009 the Group completed a refinancing (see note 29) whereby £3,268,110 of indebtedness owed by the company was deemed to have been satisfied by: the issue of 2,635,728 Healthcare Enterprise Group new ordinary shares, the transfer of 738,360 Ebiox Limited ordinary shares, the transfer of 16,240 Reproductive Sciences Limited ordinary shares and the transfer of 303,688 First Aid Holdings Limited ordinary shares.

Going forwards the Group expects to function as an investment holding company with a minimal overhead base which will be funded through small fund-raising exercises, the first of which was completed in November 2009, and the further realisation of the Group's investments. If investment disposals are required to fund the Group's activities the Directors will market the assets involved to realise the maximum value for shareholders.

### Capital disclosures

Capital is considered by management to be the results of historic shareholder funding and the results of the business, that is the share capital, share premium, retained earnings and other reserves.

The Group's objectives when maintaining capital are:

- To safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders
- To provide an adequate return to shareholders by pricing products commensurately with the level of risk

The Group sets the amount of capital it requires in proportion to risk. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may return capital to shareholders, pay dividends, issue share capital or sell assets to reduce debt.

The Group monitors capital on the basis of net debt to capital. The debt to capital ratio for 30 June 2008 and 2009 is set out below.

		<b>Group</b>	<b>Group</b>
		<b>2009</b>	<b>2008</b>
		£'000	£'000
Total debt	(see note 19)	2,805	2,449
Less: cash	(see note 25)	(375)	(47)
Net debt		<u>2,430</u>	<u>2,402</u>
Total equity		<u>(77)</u>	<u>2,310</u>
<b>Debt to capital ratio</b>		<b><u>-31.56</u></b>	<b><u>1.04</u></b>

The increase in debt to capital ratio for the year resulted from the sale and write down of some significant assets within the Group. After the completion of a refinancing in July 2009 (see note 29) all of the £2.8m debt was redeemed, resulting in an improved capital position.

### 3. Segmental reporting

#### Primary reporting format – business segments

C ontinuing o perations	E bio x		F ertiligent		O ther and corporat e		T otal	
	2009	2008	2009	2008	2009	2008	2009	2008
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Segment revenue</b>	524	793	-	-	-	-	524	793
Operating loss before exceptional items	(230)	(479)	(139)	(32)	(960)	(1,553)	(1,328)	(2,064)
Exceptional operating costs	-	(36)	-	-	(693)	(10,930)	(693)	(10,966)
<b>Segment result</b>	<b>(230)</b>	<b>(515)</b>	<b>(139)</b>	<b>(32)</b>	<b>(1,653)</b>	<b>(12,483)</b>	<b>(2,021)</b>	<b>(13,030)</b>
Interest payable							(256)	(233)
<b>Loss before taxation</b>							<b>(2,277)</b>	<b>(13,263)</b>
Taxation							-	-
<b>Loss for the year from continuing operations</b>							<b>(2,277)</b>	<b>(13,263)</b>
<b>Assets and liabilities</b>								
Segment intangible assets:								
Goodwill	2,084	3,300	-	-	-	-	2,084	3,300
Intangible assets with finite useful lives	414	508	-	-	26	26	440	534
Property, plant and equipment	2	11	-	-	12	30	14	41
Other investments	-	-	364	214	652	1,950	1,016	2,164
Other segment assets	686	130	-	-	131	310	817	440
<b>Total assets</b>	<b>3,186</b>	<b>3,949</b>	<b>364</b>	<b>214</b>	<b>821</b>	<b>2,316</b>	<b>4,371</b>	<b>6,479</b>
<b>Total liabilities</b>	<b>(293)</b>	<b>(177)</b>	<b>(100)</b>	<b>(1)</b>	<b>(4,176)</b>	<b>(3,991)</b>	<b>(4,569)</b>	<b>(4,169)</b>
<b>Net assets</b>							<b>(198)</b>	<b>2,310</b>
<b>Other segment items - continuing operations</b>								
Capital expenditure	2	11	160	112	-	3	162	126
Depreciation and amortisation	73	31	-	-	4	23	77	54
Impairment losses	-	-	-	-	693	1,092	693	1,092

At 30 June 2009, the Group's operations are organised on a worldwide basis into three main business segments. These segments are:

Ebiox – worldwide sale and distribution of disinfectant products

Fertiligent – development of an early stage fertility medical device

Other and corporate – Portfolio investment, head office and other costs

There are immaterial sales between the business segments.

Segment assets include property, plant and equipment, intangible assets, inventories, receivables and operating cash. Segment liabilities comprise trade and other payables. Taxation, borrowings, provisions and non-current liabilities are managed centrally and are included in the Other and corporate segment.

### 3. Segmental reporting continued...

Capital expenditure comprises additions to property plant and equipment, intangible assets and other investments.

All revenue for the period comes from the sale of disinfectant products, originating in the United Kingdom.

#### Secondary reporting format – geographical segments

The Group manages its business segments on a global basis. The operations are based in three main geographical areas. The UK is the home country of the parent. The main operations in the principal territories are as follows – UK, Europe, and Rest of World.

##### Year ended 30 June 2009

	UK £'000	Europe £'000	Rest of World £'000	Total £'000
<b>Segment revenue from continuing operations</b>	<b>275</b>	<b>194</b>	<b>55</b>	<b>524</b>
<b>Total assets (including cash)</b>	<b>4,007</b>	<b>-</b>	<b>364</b>	<b>4,371</b>
<b>Capital expenditure relating to continuing operations</b>	<b>2</b>	<b>-</b>	<b>160</b>	<b>162</b>

##### 16 month period ended 30 June 2008

	UK £'000	Europe £'000	Rest of World £'000	Total £'000
<b>Segment revenue</b>	7,036	602	223	7,861
Less attributable to discontinued operations	(6,574)	(403)	(91)	(7,068)
<b>Segment revenue from continuing operations</b>	<b>462</b>	<b>199</b>	<b>132</b>	<b>793</b>
<b>Segment assets (including cash)</b>	<b>6,265</b>	<b>-</b>	<b>214</b>	<b>6,479</b>
<b>Total assets</b>				<b>6,479</b>
<b>Capital expenditure relating to continuing operations</b>	<b>14</b>	<b>-</b>	<b>112</b>	<b>126</b>

## 4. Loss from operations

Operating loss is stated after charging/(crediting):

	<b>Year to 30 June 2009</b>	<b>16 months to 30 June 2008</b>
	£'000	£'000
Depreciation of plant and equipment	9	16
Amortisation of intangible fixed assets	68	38
Sub-lease rental income	5	24
Exchange gains	(2)	(1)
Write down of inventory to net realisable value	2	15
Loss on disposal of property, plant and equipment	6	32
Auditors' remuneration for UK		
- audit services for Healthcare Enterprise Group plc	21	32
- audit services for subsidiary undertakings	7	7

All amounts above relate to continuing operations

## 5. Exceptional items

	<b>Year to 30 June 2009</b>	<b>16 months to 30 June 2008</b>
	£'000	£'000
<b>Exceptional items relating to continuing operations</b>		
Reorganisation costs	-	392
Impairment of other assets	693	1,092
Disposals of investments	-	(170)
Impairment of goodwill	-	9,652
	<u>693</u>	<u>10,966</u>
<b>Exceptional items relating to discontinued operations</b>		
Reorganisation costs	-	637
Impairment of Goodwill	-	3,918
Loss on disposal of Crest Medical Limited	-	249
	<u>-</u>	<u>4,804</u>

### 2009 Exceptional items

In December 2008 the directors reviewed the carrying value of its available for sale investments for impairment. In light of this review the Group's investments in First Aid Holdings Limited ("FAH"), Medilator Limited ("Medilator") and Cancer Therapeutics Incorporated ("CTI") were impaired by £0.7m (see note 14). Both the investments in Medilator and CTI were written down to £nil. The remaining holding in FAH is valued at £1.25 per share (30 June 2008: £2.00 per share).

### 2008 Exceptional items

In October 2007 the Group's bankers requested early repayment of their loan. After a strategic review and refinancing, management decided to restructure the Group and to realise some of its value by selected asset sales. As part of this financial and operational restructuring the group incurred reorganisation costs of £1.0m, £0.4m of which related to the continuing operations of the Group.

## 5. Exceptional items continued...

During the period the continuing Group impaired available for sale investments of £0.8m (see note 14), goodwill of £9.7m and other intangible assets of £0.3m (see note 12) in respect of continuing operations. There was also a prior year adjustment of £1.5m to write down goodwill that has been recognised in 2007.

Disposals of investments comprises the sales of Alpha Trading (Asia) Limited, the assets of Cross Infection Control Systems and shares in First Aid Holdings Limited. The Group holds shares in First Aid Holdings Limited as consideration for the sale of Crest Medical (see below).

The Crest Medical business incurred reorganisation costs of £0.6m to enable its sale in April 2008. At the time of the reorganisation the carrying value of the goodwill held by the Group was reviewed and was written down by £3.9m.

The Crest Medical business was sold for 980,000 shares worth £2.45m in First Aid Holdings Limited the Company that now owns Crest Medical Limited. An exceptional loss of £249,000 has been incurred in respect of the sale. During the period 90,000 shares in First Aid Holdings Limited were disposed of at £2 each.

## 6. Employees and directors

The disclosures below include discontinued operations in the prior period.

	<b>Year to 30 June 2009</b>	<b>16 months to 30 June 2008</b>
<b>Average monthly number of employees - Group</b>	No	No
Sales	1	23
Distribution	-	29
Administration	5	23
	<u>6</u>	<u>75</u>
<b>Employee benefit expense for the Group during the period</b>	£'000	£'000
Wages and salaries	616	2,457
Social security costs	37	227
Other pension costs	6	77
Redundancy costs	5	294
	<u>664</u>	<u>3,055</u>
	<b>Year to 30 June 2009</b>	<b>16 months to 30 June 2008</b>
<b>Key management compensation</b>	£'000	£'000
Salaries and short term employment benefits	389	845
	<u>389</u>	<u>845</u>

The key management figures given above include Directors and other employees who are (or were) considered key to the operational performance of the Group and include amounts paid to related parties controlled by directors (see note 11). Details of all amounts paid to related parties are given in note 11.

## 6. Employees and directors continued...

### Directors' interests

The Directors' interests in shares of the Company, including options to purchase Ordinary shares under the terms of the Group's Share Option Schemes, are detailed in the Remuneration Report. Details of options to subscribe for Ordinary shares of the company exercised by Directors in the year ended 30 June 2009 are also detailed in the Remuneration Report.

	<b>Year to 30 June 2009</b>	<b>16 months to 30 June 2008</b>
	£'000	£'000
<b>Total remuneration of Directors of Healthcare Enterprise Group plc</b>	<b>2009</b>	<b>2008</b>
	£'000	£'000
Salaries and fees	389	845
	<u>389</u>	<u>845</u>

The highest paid director during the period including amounts paid to and accrued to related parties for his services received £180,000 (2008: £497,000). There were no directors' pension contributions made, no directors were members of a money purchase pension scheme (2008: nil).

The Company had two salaried employees in the year. Total employee benefit expense of the Company including directors fees and amounts paid to companies controlled by directors was £388,500 (2008: £845,176).

## 7. Finance expense

	<b>Year to 30 June 2009</b>	<b>16 months to 30 June 2008</b>
	£'000	£'000
<b>Finance expense</b>	<b>2009</b>	<b>2008</b>
	£'000	£'000
- bank loans and overdrafts	18	66
- hire purchase contracts		1
- invoice discounting	2	-
- cost of convertible debt	174	140
- amortisation of equity component	58	21
- loan fee amortisation	4	5
	<u>256</u>	<u>233</u>

## 8. Taxation on loss

	<b>2009</b>	<b>2008</b>
	£'000	£'000
Tax charge comprises:		
United Kingdom corporation tax at 28%	-	-
The reconciliation of the current period tax charge is as follows		
Group loss before taxation	(2,277)	(13,263)
Standard UK corporation tax at 28%	(638)	(3,714)
Effects of:		
Expenses not deductible for tax purposes	205	3,270
Capital allowances for the period (higher)/lower than depreciation	1	11
Chargeable gains	-	11
Change in tax rate	-	161
Net creation of UK taxation losses	432	261
Other	-	-
Tax charge	<u>-</u>	<u>-</u>

UK taxation losses as at 30 June 2009 which are available for offset against future trading profits and management expenses are estimated to be in the region of £11.1 million (2008: £9.5 million).

	<b>2009</b>	<b>2008</b>
	£'000	£'000
Deferred tax assets not provided:		
Accelerated capital allowances	10	9
Tax losses carried forward	<u>3,102</u>	<u>2,667</u>
	<u>3,112</u>	<u>2,676</u>

## 9. Loss attributable to Healthcare Enterprise Group plc

No separate income statement is presented for the Company as permitted by section 408 of the Companies Act 2006. The loss after taxation of the Company for the year to 30 June 2009 is £3,205,000 (2008: £29,551,000).

## 10. Loss per share

### (a) Basic loss per share

	<b>Year to</b>	<b>16 months</b>
	<b>30 June</b>	<b>to 30 June</b>
	<b>2009</b>	<b>2008</b>
	£'000	£'000
Loss attributable to equity holders of the Company	(2,277)	(19,886)
Discontinued operations	-	6,690
Loss attributable to equity holders of the Company from continuing operations	<u>(2,277)</u>	<u>(13,196)</u>

The weighted average number of ordinary shares of 0.1p each in issue during the period was 426,405,558 (2008: 310,862,862).

### (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.

## 11. Related party transactions

HJM Tompkins is the Managing Director of Thurloe Capital Partners Limited and controls this related company. The Company purchased management services from Thurloe Capital Partners Limited totalling £7,500 (2008: £25,500) in the year. As at 30 June 2009 the Company owed Thurloe Capital Partners Limited £6,463 (2008: £12,338). HJM Tompkins was a member of key management during the period, see note 6.

LJ Gaborit is the Executive Chairman of Industrial Management and Equity Limited ('IME') and controls this company. The company purchased strategic consultancy services from IME totalling £180,000 (2008: £497,000) in the year. As at 30 June 2009 the Company owed IME for services invoiced £nil (2008: £nil) and total accruals for services provided but not invoiced under the terms of the contract of £222,000 (2008: £244,000). LJ Gaborit is a member of key management, see note 6.

JH Gunn is a Director of Wengen Limited and controls this company. The company purchased advisory services, including directors fees, from Wengen Limited totalling £25,000 (2008: £20,833). As at 30 June 2009 the Company owed Wengen Limited £30,000 (2008: £3,646). JH Gunn is also the Executive Deputy Chairman of Ludgate Investments Limited ('Ludgate') an early stage venture capital provider for high growth companies. Ludgate have performed occasional corporate finance advisory project related work for the Company, services purchased from Ludgate totalled £75 (2008: £70,250). JH Gunn is a member of key management, see note 6.

## 12. Intangible assets

Group	Patents acquired £'000	Distribution Agreement £'000	Development costs £'000	Goodwill £'000	Total £'000
Cost at 1 March 2007	6	100	925	34,044	<b>35,075</b>
Disposal	-	-	-	(27,557)	<b>(27,557)</b>
Cost at 30 June 2008	6	100	925	6,487	<b>7,518</b>
Disposal	-	-	-	(1,216)	<b>(1,216)</b>
Cost at 30 June 2009	6	100	925	5,271	<b>6,302</b>
Amortisation at 1 March 2007	(6)	(6)	(176)	(14,555)	<b>(14,743)</b>
Charge for period	-	(8)	(30)	-	<b>(38)</b>
Impairment	-	(86)	(185)	(13,570)	<b>(13,841)</b>
Disposal	-	-	(26)	24,938	<b>24,912</b>
Amortisation at 30 June 2008	(6)	(100)	(417)	(3,187)	<b>(3,710)</b>
Charge for period	-	-	(68)	-	<b>(68)</b>
Impairment	-	-	-	-	<b>0</b>
Disposal	-	-	-	-	<b>0</b>
Amortisation at 30 June 2009	(6)	(100)	(485)	(3,187)	<b>(3,778)</b>
<b>Net book value at 30 June 2008</b>	-	-	<b>508</b>	<b>3,300</b>	<b>3,808</b>
<b>Net book value at 30 June 2009</b>	-	-	<b>440</b>	<b>2,084</b>	<b>2,524</b>

Development costs are internally generated and relate to Ebiox products, they are being amortised over their estimated useful life of 10 years.

## 12. Intangible assets continued...

### Distribution agreement

On 26<sup>th</sup> July 2006 the Company entered into an exclusive distribution agreement involving products related to the Crest Medical business. As the Crest Medical business was sold in 2008 it was considered unlikely that further economic benefit will flow from this contract and it was fully amortised in 2008.

### Impairment review of intangible assets with indefinite lives

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. The Group classifies goodwill as an indefinite life asset.

### Ebiox

The Group has goodwill with a carrying value of £2.1m in respect of the acquisition of Ebiox (2008: £3.3m). As at 30 June 2009 management does not believe that the carrying value of Ebiox goodwill has been impaired, based upon its fair value less costs to sell. The value received for Ebiox after the year end in the July 2009 refinancing (see note 29) supports the carrying value.

<b>Company</b>	Distribution Agreement £'000
Cost at 30 June 2008 and 2009	<u>100</u>
Amortisation at 1 March 2007	(6)
Charge for period	(8)
Impairment	<u>(86)</u>
Amortisation at 30 June 2008 and 2009	<u>(100)</u>
<b>Net book value at 30 June 2008</b>	<u>-</u>
<b>Net book value at 30 June 2009</b>	<u>-</u>

### 13. Property, plant and equipment

Group	Leasehold	Plant & Machinery,	Motor vehicles	Total
	Land & Buildings	Fixtures & fittings		
	£'000	£'000	£'000	£'000
Cost at 1 March 2007	89	693	51	<b>833</b>
Additions	9	60	-	<b>69</b>
Disposals	(98)	(682)	(51)	<b>(831)</b>
Cost at 30 June 2008	-	71	-	<b>71</b>
Additions	-	2	-	<b>2</b>
Disposals	-	(20)	-	<b>(20)</b>
Cost at 30 June 2009	-	53	-	<b>53</b>
Depreciation at 1 March 2007	(19)	(346)	(40)	<b>(405)</b>
Charge for period	(8)	(160)	(3)	<b>(171)</b>
Disposals	27	476	43	<b>546</b>
Depreciation at 30 June 2008	-	(30)	-	<b>(30)</b>
Charge for period	-	(9)	-	<b>(9)</b>
Disposals	-	-	-	<b>-</b>
Depreciation at 30 June 2009	-	(39)	-	<b>(39)</b>
<b>Net book value at 30 June 2008</b>	-	<b>41</b>	-	<b>41</b>
<b>Net book value at 30 June 2009</b>	-	<b>14</b>	-	<b>14</b>

Company	Leasehold	Plant & Machinery,	Total
	Land & Buildings	Fixtures & Fittings	
	£'000	£'000	£'000
Cost at 1 March 2007	6	87	93
Additions	-	3	3
Disposals	(6)	(47)	(53)
Cost at 30 June 2008	-	43	43
Additions	-	1	1
Disposals	-	-	-
Cost at 30 June 2009	-	44	44
Depreciation at 1 March 2007	(2)	(39)	(41)
Charge for period	-	(15)	(15)
Disposals	2	27	29
Depreciation at 30 June 2008	-	(27)	(27)
Charge for period	-	(4)	(4)
Depreciation at 30 June 2009	-	(31)	(31)
<b>Net book value at 30 June 2008</b>	-	<b>16</b>	<b>16</b>
<b>Net book value at 30 June 2009</b>	-	<b>13</b>	<b>13</b>

## 14. Non-current assets – investments

### (a) Investments in subsidiary undertakings

	<b>Company</b>
	£'000
At 30 June 2008	4,325
Additions	997
Provision for impairment	<u>(1,032)</u>
At 30 June 2009	<u>4,290</u>

Investments in subsidiary undertakings are recorded at cost, which is the fair value of the consideration paid. Additions in the year related mainly to the capitalisation of intercompany loans to Ebiox Limited (£0.8m) and Reproductive Sciences Limited (£0.2m). At 30 June 2009 after considering the value achieved for the sale of Ebiox Limited in the July 2009 refinancing the value of the company's investment in Ebiox Limited (£4.0m) was impaired by £0.6m.

### (b) Available for sale investments

<b>Other Investments</b>	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	£'000	£'000	£'000	£'000
Beginning of the period	2,164	682	1,780	-
Additions	160	2,561	-	2,225
Disposed	(615)	(258)	(567)	-
Impairment	(693)	(821)	(572)	(445)
End of the period	<u>1,016</u>	<u>2,164</u>	<u>641</u>	<u>1,780</u>

#### **Other Investments**

	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	£'000	£'000	£'000	£'000
Quoted:				
- Equity securities - UK	-	50	-	-
- Equity securities - US	-	50	-	-
Unquoted:				
- Equity securities - UK	641	1,780	641	1,780
- Equity securities - Israel	375	284	-	-
	<u>1,016</u>	<u>2,164</u>	<u>641</u>	<u>1,780</u>

	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	£'000	£'000	£'000	£'000
Pound Sterling	641	1,830	641	1,780
US Dollar	-	50	-	-
Israeli Shekel	375	284	-	-
	<u>1,016</u>	<u>2,164</u>	<u>641</u>	<u>1,780</u>

Available for sale investments comprise:

209,161 shares in First Aid Holdings ("FAH") Limited. In December 2009 the Group's shares in FAH were written down from £2 a share to £1.25 each the amount achieved for sales of FAH shares in the first half of 2009, a total permanent impairment of £0.6m (see note 5). During the year proceeds of £0.6m were generated from the sale of FAH shares at an average price per share of £1.51.

## 14. Non-current assets – investments continued...

A £100,000 investment in shares and warrants in two entities ValiRX plc and Cancer Therapeutics Incorporated received as proceeds for the sale of Ridgecrest Healthcare Group Incorporated. The shares in ValiRX were sold for £48,000 in the period and the remaining investment was fully written down.

A £69,000 investment in Medilator Limited (2008: £69,000) representing a 3% interest in the share capital of an Israeli company developing reproductive health products which has been fully written down in the year.

A £375,000 investment in Fertiligent Limited (2008: £215,000) representing a 35% interest in the ordinary share capital of a company incorporated in Israel developing reproductive health medical devices. Despite its 35% interest, Healthcare Enterprise Group plc does not consider it has a significant interest in Fertiligent Limited, as the company is independently run by a strong local management team from a separate legal jurisdiction, in which the Group has no representation.

The relatively early stage of development of the product of Fertiligent Limited means that it is difficult to determine the fair value of the investment, which is currently held at cost, being the directors' best estimate of fair value as at 30 June 2009 and 30 June 2008.

The write down of available for sale investments in the period was shown in the income statement as a permanent impairment in the value of the investment rather than a change in fair value that would be recognised in equity.

## 15. 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
Ebiox Limited	Developer and manufacturer of surface decontamination products	England & Wales	63%
Reproductive Sciences Limited	Holding company	England & Wales	100%
Healthcare Enterprise Limited	Holding company	England & Wales	100%
SAFAtec (UK) Limited	Holding company	England & Wales	100%

All Group companies have accounting reference dates of 30 June except Optiscope Technologies Limited (incorporated in Israel) and Ebiox Limited which prepare their financial statements to the 31 December and HEG (Number 5) Limited, HEG (Number 8) Limited, Fertiloscopy Limited, CICS Holdings Limited, Cross Infection Control Systems (CICS) Limited and Reproductive Sciences Limited which prepare their financial statements to 28 February.

For the purposes of consolidation, the results of these entities have been included using interim accounts prepared for this period.

## 16. Inventories

	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	£'000	£'000	£'000	£'000
Finished goods and goods for resale	19	36	-	-

Included within finished goods and goods for resale are £34,000 (2008: £34,000) of fully provided inventories that are held at fair value less costs to sell.

## 17. Trade and other receivables

	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	£'000	£'000	£'000	£'000
<b>Current</b>				
Trade receivables	113	111	-	28
Loans	-	196	-	196
Amounts due from group undertakings	-	-	217	1,534
Prepayments	45	16	40	11
Other debtors	265	34	9	38
	<u>423</u>	<u>357</u>	<u>266</u>	<u>1,807</u>

All trade and other receivables are financial assets classified as loans and receivables. There is no significant difference between the book values of trade and other receivables recorded above and their fair values.

At 30 June 2009 trade receivables of £42,000 (2008: £70,000) were past due but not impaired. The aging analysis of these receivables is as follows:

	<b>2009</b>	<b>2008</b>
	£'000	£'000
Up to 3 months	42	65
3 to 6 months	-	5
6 to 12 months	-	-
	<u>42</u>	<u>70</u>

The carrying value of the Groups' trade and other receivables are denominated in the following currencies:

	<b>2009</b>	<b>2008</b>
	£'000	£'000
Pound Sterling	391	322
Thai Baht	16	-
Euro	16	35
	<u>423</u>	<u>357</u>

There was a provision against trade debtors of £nil at 30 June 2009 (2008: £nil). No other classes of financial assets included within trade and other receivables are impaired.

The maximum exposure to credit risk at the reporting date is the fair value (no significant difference from book value) of each class of receivable set out above.

## 18. Trade and other payables

	Group 2009	Group 2008	Company 2009	Company 2008
	£'000	£'000	£'000	£'000
Trade payables	761	588	548	427
Taxation and social security	171	249	116	249
Amounts owed to group undertakings	-	-	1,934	1907
Other creditors	8	213	1	2
Accruals	824	656	506	606
	<u>1,764</u>	<u>1,706</u>	<u>3,105</u>	<u>3191</u>
Within one month	1,764	1,438	3,105	3123
One to three months	-	-	-	-
Three months to one year	-	268	-	68
	<u>1,764</u>	<u>1,706</u>	<u>3,105</u>	<u>3191</u>

All trade and other payables are classified as financial liabilities measured at amortised cost. There is no significant difference between the book values of trade and other payables recorded above and their fair value.

## 19. Financial liabilities – loans and borrowings

Financial liabilities, measured at amortised cost, comprise the following:

	Group 2009	Group 2008	Company 2009	Company 2008
	£'000	£'000	£'000	£'000
£0.5m 8% secured loan notes 2008	500	490	500	490
£1.75m 8% convertible unsecured loan notes 2012	1,654	1,600	1,654	1,600
£0.4m other unsecured loans	400	300	400	300
Other (including accrued interest)	251	59	251	59
Obligations under finance leases	-	-	-	-
Invoice discounting	-	-	-	-
<b>Total</b>	<u><b>2,805</b></u>	<u><b>2,449</b></u>	<u><b>2,805</b></u>	<u><b>2,449</b></u>
Borrowings repayable:				
Within one year or on demand	751	549	751	549
Between one and two years	-	-	-	-
Between two and five years	2,054	1,900	2,054	1,900
<b>Total</b>	<u><b>2,805</b></u>	<u><b>2,449</b></u>	<u><b>2,805</b></u>	<u><b>2,449</b></u>
Current	751	549	751	549
Non-current	2,054	1,900	2,054	1,900
<b>Total</b>	<u><b>2,805</b></u>	<u><b>2,449</b></u>	<u><b>2,805</b></u>	<u><b>2,449</b></u>
Unsecured convertible loan notes	1,654	1,600	1,654	1,600
Secured loan notes	500	500	500	500
Other unsecured borrowings	651	349	651	349
Obligations under finance leases	-	-	-	-
	<u><b>2,805</b></u>	<u><b>2,449</b></u>	<u><b>2,805</b></u>	<u><b>2,449</b></u>

## 19. Financial liabilities – loans and borrowings continued...

	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	£'000	£'000	£'000	£'000
Gross borrowings repayable (including interest):				
Within one year or on demand	927	755	927	755
Between one and two years	176	176	176	176
Between two and five years	2,414	2,490	2,414	2,490
	<b>3,517</b>	<b>3,421</b>	<b>3,517</b>	<b>3,421</b>

Facilities and loan notes above are shown net of their associated fees and equity components. An equity component of £89,000 has been recognised in respect of the £1.75m 2012 convertible loan notes which has been classified as other reserves in accordance with IAS 32 and will be amortised to the consolidated income statement over the respective lives of the loan notes. Fair value at inception is calculated discounting estimated future cashflows using a market rate of interest (10%). The holders of the convertible debt have the option at any point before maturity to exchange debt with a face value of £1 for 80 0.1p ordinary shares in the company.

There were no defaults during the period on the £1.75m convertible loan notes or the £0.3m other loans or on the interest payable from these loans. The £0.5m loan notes became due at the end of 2008, however these were not immediately redeemed. Management entered negotiations with the holders of these notes as part of the wider refinancing of the Group which was completed in July 2009 (see note 29) and led to all the loan debt of the Group being converted into equity shares in Healthcare Enterprise Group plc, First Aid Holdings Limited, Ebiox Limited and Reproductive Sciences Limited.

## 20. Non-current liabilities

	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	£'000	£'000	£'000	£'000
Accruals and deferred income	-	14	-	-

## 21. Called up share capital

<b>Group and Company</b>	<b>2009</b>	<b>2008</b>
	£'000	£'000
Authorised		
800,000,000 ordinary shares of 2.5p each	-	-
800,000,000 ordinary shares of 0.1p each	800	800
186,502,731 deferred shares of 0.4p each	746	746
317,706,532 deferred shares of 2.4p each	7,625	7,625
	<b>9,171</b>	<b>9,171</b>

## 21. Called up share capital continued...

<b>Group and Company</b>	<b>2009</b>	<b>2008</b>
Allotted, called up and fully paid	£'000	£'000
Ordinary shares		
439,099,622 ordinary shares of 0.1p each (2008: 339,099,622 ordinary shares of 2.5p each)	<u>439</u>	<u>339</u>
Deferred shares		
186,502,731 deferred shares of 0.4p each	746	746
317,706,532 deferred shares of 2.4p each	<u>7,625</u>	<u>7625</u>
	<u>8,371</u>	<u>8371</u>

The rights of the holders of the 0.4p 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 0.4p deferred shares are presented as shareholders' equity.

The rights of the holders of the 2.4p 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 only after the amount paid to holders of ordinary shares has exceeded £10,000;
- The 2.4p deferred shares may not be transferred.

The 2.4p deferred shares are presented as shareholders' equity.

<b>Group and Company</b>	Ordinary shares of 0.1p '000
At 1 July 2008	339,100
Share issues	<u>100,000</u>
At 30 June 2009	<u>439,100</u>

In a placing completed during September 2008, 100,000,000 0.1p ordinary shares were issued for £300,000.

## 22. 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. No new options were granted in the period.

Approved	No of				As at	Exercise	First exercise	Expiry date
	shares as at	Issued	Exercised	Lapsed				
Date of grant	01-Jul	during			30-Jun	price	date	
	2008	period			2009			
28-Feb-06	29,000	-	-	-	29,000	14.75p	28-Feb-06	28-Feb-16
	<u>29,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>29,000</u>			

Unapproved	No of				As at	Exercise	First exercise	Expiry date
	shares as at	Issued	Exercised	Lapsed				
Date of grant	01-Jul	during			30-Jun	price	date	
	2008	period			2009			
01-Jan-03	476,121	-	-	(476,121)	-	2.5p	01-Jan-03	31-Dec-08
10-Dec-03	2,619,845	-	-	(1,094,884)	1,524,961	25p	10-Dec-03	09-Dec-13
01-Dec-04	146,439	-	-	-	146,439	54.63p	01-Dec-04	30-Dec-14
03-Feb-06	2,500,000	-	-	(1,500,000)	1,000,000	14p	03-Feb-06	02-Feb-16
28-Nov-06	10,150,430	-	-	(3,478,871)	6,671,559	3p	28-Nov-06	27-Nov-16
13-Dec-06	500,000	-	-	-	500,000	3p	13-Dec-06	12-Dec-16
	<u>16,392,835</u>	<u>-</u>	<u>-</u>	<u>(6,549,876)</u>	<u>9,842,959</u>			

EMI scheme	No of				As at	Exercise	First exercise	Expiry date
	shares as at	Issued	Exercised	Lapsed				
Date of grant	01-Jul	during			30-Jun	price	date	
	2008	period			2009			
13-Dec-06	3,000,000	-	-	-	3,000,000	3p	13-Dec-06	12-Dec-16

## 23. Warrants issued

On 27 November 2007, warrants were issued to Barclays Bank plc in settlement of fees relating to the £1.5m bank facility. These warrants grant the right to subscribe for 2.5p Ordinary shares comprising 3% of the fully diluted share capital of the Company for an unlimited term at an exercise price of 2.5p. A charge of £75,000 was recognised in 2008 respect of this transaction.

On 12 December 2007 the Company raised £500,000 through a placing of 8% Fixed Rate Secured Loan notes. Noteholders received warrants to subscribe for 100 2.5p Ordinary shares in the Company at 1p per share for every £1 of Loan notes held subject to subsequently granted shareholder approval. These warrants were exercisable up to 31 December 2008 and have lapsed this year.

## 24. Share based payments

	<b>2009</b>	<b>2008</b>
	£'000	£'000
Share based payments provided in equity	<u>737</u>	<u>737</u>
	Number of options	Weighted average exercise price
As at 1 July 2008	19,421,835	7.78p
Lapsed during period	<u>(6,549,876)</u>	9.16p
As at 30 June 2009	<u>12,871,959</u>	7.07p

The details of exercise prices and remaining contractual lives of the 12,871,959 options outstanding are described in note 22.

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. For each relevant grant that had not vested by the effective date, certain assumptions were used for the calculation of fair values under IFRS 2 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:
  - 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, exercise period 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. Where the options had already vested then no adjustment has been made to the previously calculated charge even if the relevant assumptions have now changed.

## 25. Cash

	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	£'000	£'000	£'000	£'000
Cash at bank and in hand	<u>375</u>	<u>47</u>	<u>80</u>	<u>22</u>

## 26. Financial instruments

### (a) Financial assets

	Non-interest bearing <b>2009</b> £'000	Non-interest bearing <b>2008</b> £'000
Sterling	766	350
Euro	16	35
Other	16	19
	<u>798</u>	<u>404</u>

The financial assets consist of cash at bank and in hand, trade and other receivables.

### (b) Financial liabilities

	Non-interest			Non-interest		
	Fixed rate	bearing	Total	Fixed rate	bearing	Total
	<b>2009</b>	<b>2009</b>	<b>2009</b>	<b>2008</b>	<b>2008</b>	<b>2008</b>
	£'000	£'000	£'000	£'000	£'000	£'000
Sterling	<u>2,805</u>	<u>1,764</u>	<u>4,569</u>	<u>2,449</u>	<u>1,720</u>	<u>4,169</u>

The weighted average interest rate on fixed rate liabilities of £2,805,000 was 8.3%. For details of the instruments and their maturity profile see note 19.

### (c) Currency exposure

Group companies operate in their functional currency and the impact of any currency exposure is not expected to be significant. No assets, liabilities or transactions were hedged in the period.

### (d) Borrowing Facilities

In August 2008 Ebiox Limited entered into an invoice discounting facility of £125,000, however none of this facility was utilised at the 30 June 2009. The Group had no other undrawn finance facilities as at the balance sheet date.

### (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.

## 27. Financial commitments

In the prior year the Group had sublet an unused property relating to discontinued operations. During the year the property became vacant and the Group reassumed responsibility for the lease. The commitments under the lease were settled after the year end for £200,000 of cash and shares in Healthcare Enterprise Group plc and its subsidiaries (see note 29), this liability was accrued at the year end.

## 28. Reserves

Reserve	Description and purpose
Issued capital	Amount subscribed for share capital at nominal value (see note 21)
Shares to be issued	Amount of share capital to be subscribed at nominal value under contractual arrangements
Share premium	Amount subscribed for share capital in excess of nominal value
Deferred shares	Amount subscribed for deferred share capital at nominal value (see note 21)
Other reserves	Include a merger relief reserve for the amounts in excess of the nominal value on issue of shares in relation to business combinations, a share option reserve relating to share based payments and other compulsory legal reserves
Translation reserve	Cumulative net foreign exchange gains/losses on re-translating the net assets of group undertakings
Retained earnings	Cumulative net gains and losses recognised in the consolidated income Statement and foreign exchange gains/losses on re-translating the net assets of group undertakings

## 29. Post balance sheet events

In July 2009 the Group completed a refinancing whereby £3,268,110 of indebtedness owed by the company was deemed to have been satisfied by: the issue of 2,635,728 Healthcare Enterprise Group plc ("HCEG") new ordinary shares, the transfer of controlling interests in Ebiox Limited ("Ebiox") and Reproductive Sciences Limited ("RSL") being 738,360 Ebiox ordinary shares and 16,240 RSL ordinary shares, and the transfer of 303,688 First Aid Holdings Limited ordinary shares. As part of this refinancing the share capital of the Company was consolidated with one new ordinary share of 25p being issued for 250 old ordinary shares of 0.1p.

Going forwards the Group expects to function as an investment holding company with a minimal overhead base. However, given the Group's continuing losses, further funding will be required to meet the Group's continuing operating costs and liabilities. These will be funded through small fund-raising exercises, the first of which was completed in November 2009, and the further realisation of the Group's investments. The directors believe that the Group's plans are achievable given the continued support of significant shareholders and the ability to achieve piecemeal investment sales already evidenced. However these conditions constitute a material uncertainty that may cast significant doubt about the group's and company's ability to continue as a going concern. After making enquiries, and considering the uncertainties surrounding funding and future operations described above, the directors have a reasonable expectation that the Group and the Company have adequate resources, or the expectation of access to adequate resources, to continue trading for the foreseeable future.

By way of settlement of certain debts and assignment of two property leases which originally formed part of the acquisition of Crest Medical Limited in 2004, HCEG has agreed to pay to Alliance Unichem £50,000 of the funds raised pursuant to the November 2009 Placing and shall also issue secured redeemable loan notes 2011 ("Loan Notes") up to a value of £150,000 which are secured on 50,000 Ebiox ordinary shares of £0.25 owned by HCEG. The loan notes shall bear interest at 4% above LIBOR, are redeemable in 5 tranches between 15 December 2009 and 15 March 2011 or are

redeemable in full by HCEG on an earlier date out of any future fund raising conducted by HCEG. The debts relate to a reverse premium arising on the assignment of two leases on properties (the "Properties") occupied by Crest Medical Limited (formerly a subsidiary of HCEG) to Alliance Unichem. Alliance Unichem has agreed to, up to and including 15 March 2011, and in its sole discretion, release HCEG from any amount still outstanding under the Loan Notes by setting off against such amounts 50% of any amount recouped over and above the sum of £256,000 through successfully renting the Properties. The repayment of loan notes is also guaranteed by John Gunn (a director of HCEG) for which he is receiving a fee, to be settled by the issue of 100,000 HCEG shares, amounting to £25,000. The settlement reduces HCEG's obligations in respect of the two property leases by approximately £100,000 per annum, which would otherwise continue until the leases expire in 2015.

HCEG has also agreed settlement of a dispute arising in 2006 relating to an investment in its subsidiary, Healthcare Endoscopy Limited. The amount received for the investment was fully provided for in the accounts of the company and HCEG has now agreed to settle the amount in the following manner: £25,000 in cash; 127,451 new ordinary shares of 25p in HCEG (the "Settlement Shares"); the transfer of 4,500 ordinary shares in Reproductive Sciences Limited ("RSL"), currently owned by HCEG (the "RSL Shares"); and the transfer of 50,000 ordinary shares in Ebiox Limited ("Ebiox"), currently owned by HCEG (the "Ebiox Shares").

## Company information

Chairman	JH Gunn
Executive Deputy Chairman	LJ Gaborit
Non-executive Director	JC Honey
Chief Financial Officer and Secretary	GP Ffoulkes-Davies
Company Number	3627383
Registered Office	Healthcare Enterprise House 17 Chesford Grange Woolston Warrington WA1 4RQ
Auditors	BDO LLP 3 Hardman Street Spinningfields Manchester M3 3AT
Nominated Advisers and joint broker	Daniel Stewart & Company plc Becket House 36 Old Jewry London EC2R 8DD
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