

Friday 1 February 2008

Healthcare Enterprise Group PLC

("the Company" or "HCEG")

Update on the proposed future strategy and term sheet signed for the proposed merger of Crest Medical group with First Aid Warehouse group ("the Proposed Merger")

Healthcare Enterprise Group PLC (AIM: HCEG), the international healthcare products group, is publishing a statement to update the market on its proposed strategy and to announce the proposed merger of its Crest Medical business with the First Aid Warehouse group of companies. In addition, the Company will post a circular to shareholders shortly to convene a general meeting to approve the implementation of several recently announced steps and a proposed capital reorganisation of the Company.

Since HCEG announced its interim results on 30 October 2007, the Directors have completed a number of important initiatives with a view to maximising potential value for shareholders. An aggregate £2 million was raised in October and December 2007 which has facilitated the repayment in full of the term loan from Barclays Bank plc and provided further working capital.

On 18 December 2007, HCEG announced that it had disposed of its interest in Ridgecrest Healthcare Group Inc in exchange for 1,125,000 shares in ValiRx plc (an AIM listed therapeutic research and development company) with a contingent further issue of shares and warrants, as well as shares and warrants in Cancer Therapeutics Inc, a US shell company.

On 21 December 2007, HCEG announced that it had sold the business and assets of CICS, its dental business, for a cash sum of £550,000, subject to a final adjustment for the net tangible assets transferred to the purchaser.

Proposed strategy

The Company currently has three principal businesses:

- (i) Crest Medical Ltd, which provides a comprehensive range of first aid, medical and pharmaceutical products for occupational health and first aid professionals, to the retail first aid market and to distributors;
- (ii) Ebiox Ltd, which has developed a unique range of patented cleaning and decontamination products; and
- (iii) Reproductive Sciences Ltd, which owns 19.8% of Fertiligent Limited, an Israeli company which has developed a slow release insemination device to improve the chance of conception.

The plans for Crest Medical Ltd are set out below. Ebiox Ltd has, in the view of the Board, an excellent product, but has been restricted by a lack of human and financial resources. HCEG is working on plans to resolve both of these restrictions. Similarly, the directors believe that the realisation of value in Reproductive Sciences Ltd would be best achieved if that company was resourced separately.

The Directors believe that these three companies should be capable of greater future value with independent dedicated management and access to third party funding. HCEG will look to retain a part ownership in each company.

In order to complete the proposed corporate actions, the Board has decided to change the financial year end of the Company and its subsidiaries to 30 June 2008. The Company expects to publish a second interim results statement for the six months ended 29 February 2008 in May 2008.

Further fund raising by HCEG

HCEG is today effecting a further fundraising of £250,000 through the issue of unsecured loan stock. Closing is subject to receipt of funds from the investors. One of the investors who is subscribing for £125,000 of the unsecured

loan stock is Ludgate Investments Limited ("Ludgate"), a related party by virtue of the fact that John Gunn is deputy chairman of Ludgate and a Director of HCEG. This issue will facilitate the payment of the loan to First Aid Holdings Limited referred to below and provide additional working capital for the Company. The unsecured loan stock will initially be unconvertible, although HCEG and the investors intend to negotiate in good faith with a view to agreeing mutually acceptable terms that would, subject to shareholder approval of certain of the resolutions to be proposed at the general meeting referred to below, entitle the investors to convert the unsecured loan stock into equity shares of the Company. The £250,000 fundraising comprises the balance of the £1.75 million issue of unsecured loan stock announced on 26 October 2007, and is otherwise being issued on substantially similar terms to the initial £1.5 million tranche. As such, options are being granted to the investors whereby (a) in exchange for the subscription for an aggregate exercise price of £214,285 in cash, the investors would acquire 6.43% of the ordinary share capital of Ebiox Ltd (a wholly owned subsidiary of the Company), and (b) in exchange for the subscription for an aggregate exercise price of £107,143 in cash, the investors would acquire 7.29% of the ordinary share capital of Reproductive Sciences Ltd (which is also a wholly owned subsidiary of the Company).

The Directors, with the exception of John Gunn who is involved in the transaction as a related party, consider, having consulted with Numis Securities Limited its Nominated Adviser, that the terms of the unsecured loan stock are fair and reasonable insofar as its shareholders are concerned.

Proposed merger of Crest Medical Group with First Aid Warehouse Group

HCEG is pleased to announce that it has agreed indicative non-binding terms ("the Proposed Terms") with First Aid Warehouse Group for the proposed sale of its loss making Crest Medical business to a new holding company ("First Aid Holdings Limited") in which HCEG would retain a 49% holding. HCEG plans that it would retain its shares in First Aid Holdings Limited for the foreseeable future.

As part of the Proposed Terms, First Aid Holdings Limited will simultaneously acquire First Aid Supplies Ltd, 44 First Aid Ltd, First Aid Warehouse Limited and Surgicon Healthcare Limited (trading as First Aid Warehouse) ("First Aid Warehouse Group") and issue to existing shareholders in First Aid Warehouse Group 51% of the issued share capital of First Aid Holdings Limited as consideration.

First Aid Warehouse Group is controlled and managed by Alastair Maxwell, who is a well known participant in the first aid supplies market. Previously he was the Managing Director of Crest Medical when it was owned by Alliance Unichem PLC. Since the acquisition of Crest Medical by HCEG in 2004, Mr Maxwell founded and developed the First Aid Warehouse Group in partnership with Peter Mason and Matthew Courtney. It is proposed that both would be joining the expanded business in executive roles. Alastair Maxwell has been appointed as consulting Managing Director of Crest Medical Limited and is controlling the day to day operations of that company, which made a loss of £0.8m in the six month period to 31 August 2007. It is proposed that Alastair Maxwell would join the board of Crest Medical after the merger.

The combined business, which is proposed to be primarily located at the current Crest Medical facilities in Warrington, is expected to benefit from the new management team's on-line retailing skills combined with Crest Medical's large customer base and warehouse facility.

The Board believes that the potential for growth in the merged entity, should completion occur, would provide greater long term value for shareholders of HCEG. The HCEG Directors believe that the merger would convert the present business into a profitable entity capable of future growth. The ownership structure agreed reflects the fact that the First Aid Warehouse Group will provide the management of the merged entity.

The Proposed Merger will be conditional upon the approval of the HCEG shareholders pursuant to AIM Rule 15 for Companies. It is currently expected that the definitive sale and purchase agreement will be signed in late February or early March 2008 and that a further circular will then be posted to shareholders to, *inter alia*, convene a general meeting to approve the transaction at that point.

Under the Proposed Terms, First Aid Holdings Limited would receive a one year loan of £250,000 from HCEG for additional working capital. First Aid Holdings Limited is considering a separate fund raising exercise of circa £500,000 from new investors to provide additional working capital and to fund identified growth opportunities. It is proposed that this fund raising will be undertaken when the business plan of the combined First Aid Holdings Limited group has been finalised.

It is important to point out that whilst the Board is confident that the Proposed Merger will progress, there is no certainty that it will complete or that the terms of the Proposed Terms may not change from those detailed above.

Further details of the Proposed Merger will be announced in due course.

Convening of General Meeting

A circular will be posted shortly to convene a general meeting at which resolutions will be proposed, inter alia, to reorganise the share capital of the Company (necessary to facilitate future equity issues), to give authority to the Directors to allot equity securities, to disapply the statutory pre-emption rights, and to approve the ability of Nicholas Brigstocke to exercise the options granted to him pro rata to his participation in the October placing.

Mark Tompkins, Chairman of HCEG, said:

"The Board believes that the proposed strategy of the Group is the best way to realise value for HCEG shareholders. The introduction of sufficiently incentivised management teams supported by funds from investors interested in specific sectors on a business by business basis is, we feel, most likely to achieve optimal values for the Company's three principal businesses.

"In particular, I am very pleased that Alastair Maxwell and his team are joining our Crest business. This new talent will give Crest added industry experience and an expanding on-line sales capability which in the Board's view will, over time, allow Crest again to become a leading industry player in the first aid supplies market."

Alastair Maxwell, Managing Director of Crest Medical and First Aid Warehouse, said:

"The Crest Medical brand is still well respected in the industry in spite of the difficulties experienced in the past few years, and we are looking forward to re-establishing the business, once combined with our own growing on-line business, as a major force in the industry."

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