

Tuesday 18 March 2008

Healthcare Enterprise Group PLC (the “Company” or “HCEG”)

Proposed merger of Crest Medical Limited (“Crest Medical”) with First Aid Warehouse Group and Notice of EGM

HCEG (AIM: HCEG) has now entered into a conditional contract with First Aid Holdings Limited (“FAH”) through its wholly owned subsidiary Healthcare Enterprise Limited (“HEL”) for the proposed merger of its Crest Medical business with the First Aid Warehouse group of companies (the “Proposed Merger”). On the basis set out below, this is equivalent to a consideration of approximately £2.5 million. On 1 February 2008, the Company announced the Directors’ proposed strategy for HCEG and gave outline details of the Proposed Merger.

HEL has entered into a share purchase agreement (the “Share Purchase Agreement”) with FAH to dispose of, subject to, inter alia, shareholder approval, 100 per cent. of Crest Medical to FAH in exchange for which HEL will, on completion, be allotted shares in FAH (“FAH Shares”) equal to approximately 44.55 per cent. of the issued share capital of FAH. Following completion of the Proposed Merger, HCEG, through HEL, intends to retain its interest in FAH.

Prior to completion of the Share Purchase Agreement (“Completion”) FAH will complete a separate financing (the “FAH Financing”) whereby it will issue a minimum of 220,000 FAH Shares up to a maximum of 320,000 FAH Shares at a price of £2.50 per FAH Share, raising a minimum of £550,000 (before expenses) or a maximum of £800,000 (before expenses).

Details of the Proposed Merger

Under the terms of the Share Purchase Agreement, HEL will dispose of 100 per cent. of the entire issued share capital of Crest Medical for a consideration payable on Completion to be satisfied by the allotment of 980,000 FAH Shares, representing (assuming the minimum FAH Financing) approximately 44.55 per cent. of the entire issued share capital of FAH. Crest Medical has a book value of £2.5 million in HCEG’s accounts at 31 August 2007 and made an operating loss of £0.8 million in the six month period to 31 August 2007.

As part of the Proposed Merger, FAH will acquire First Aid Supplies Ltd, 44 First Aid Ltd, First Aid Warehouse Limited and Surgicon Healthcare Limited (together, trading as First Aid Warehouse) and will issue 1,000,000 FAH Shares to the vendors of First Aid Warehouse Group (the “First Aid Warehouse Group Vendors”), representing (assuming the minimum FAH Financing) approximately 45.45 per cent. of the issued share capital of FAH, as consideration. The respective allocation of the share capital of FAH (assuming the minimum FAH Financing, 45.45 per cent. to the First Aid Warehouse Group Vendors and 44.55 per cent to HEL) reflects the fact that the First Aid Warehouse Group Vendors will provide the future management of FAH. However, none of the directors of First Aid Warehouse Group

will be joining the board of HCEG.

Before Completion, FAH will raise a minimum of £550,000 (before expenses) by placing a minimum of 220,000 FAH Shares at a price of £2.50 per FAH Share with investors (the “FAH Financing Investors”), representing (assuming the minimum FAH Financing) 10 per cent. of the enlarged share capital of FAH. The FAH Financing is intended to fund future growth opportunities and provide additional working capital and implies that at Completion, FAH is valued at £5.5 million and that Crest Medical is valued at £2.5 million. The directors of FAH reserve the right to place up to a total of 320,000 FAH Shares at Completion to satisfy excess FAH Financing Investor demand.

Crest Medical will enter into a loan agreement with HCEG under which it will borrow up to £250,000 from HCEG for one year for additional working capital (the “Loan Agreement”).

The Proposed Merger is deemed to be a related party transaction for the purpose of Rule 13 of the AIM Rules, principally by virtue of Alastair Maxwell acting as a director of Crest Medical and being a director of FAH and First Aid Warehouse. The Directors consider, having consulted with Numis Securities Limited as Nominated Adviser, that the terms of the Proposed Merger are fair and reasonable insofar as the Shareholders are concerned.

Completion is conditional upon the following:

- the approval of the shareholders of HCEG pursuant to Rule 15 of the AIM Rules for Companies;
- completion of the FAH Financing;
- the agreement of the terms of a shareholders’ agreement to be made between HEL, FAH and any other shareholders of FAH;
- the entering into by HCEG and Crest Medical of the Loan Agreement; and
- completion of the First Aid Warehouse Group Share Purchase Agreement in its agreed form.

The Board believes that the Proposed Merger provides a platform for profitable growth in the Crest Medical business as enlarged by the Proposed Merger and should create greater long term value for shareholders in HCEG than the business in its current form.

As at the date of this Circular, the shareholders in FAH are, and immediately following Completion are expected to be, as follows:

Name	Number of FAH Shares as at the date of this Circular	Number of FAH Shares at Completion assuming the minimum FAH Financing	Percentage¹ of issued FAH Shares at Completion assuming the minimum FAH Financing	Number of FAH Shares at Completion assuming the maximum FAH Financing	Percentage¹ of issued FAH Shares at Completion assuming the maximum FAH Financing
HCEG*	0	980,000	44.55	980,000	42.61

Alastair Maxwell	100	300,000	13.64	300,000	13.04
Peter Mason	0	300,000	13.64	300,000	13.04
Matthew Courtney	0	300,000	13.64	300,000	13.04
Summit Records Limited	0	100,000	4.55	100,000	4.35
FAH Financing Investors	0	220,000	10.00	320,000	13.91

*Shareholding held through its wholly owned subsidiary, Healthcare Enterprise Limited.

¹ All percentages are approximate

Information on and background of FAH

FAH was incorporated on 25 January 2008 solely for the purpose of the Proposed Merger and, pursuant to the First Aid Warehouse Group Share Purchase Agreement, will hold 100 per cent. of the entire issued share capital of First Aid Supplies Ltd, 44 First Aid Ltd, First Aid Warehouse Limited and Surgical Healthcare Limited (trading as First Aid Warehouse). The shareholders of FAH are currently as set out in the table above.

Alastair Maxwell, who leads the management team in running the First Aid Warehouse Group, 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 all three will be joining the expanded business in executive roles. Alastair Maxwell was appointed as consulting Managing Director of Crest Medical on 2 January 2008 and has been controlling the day to day operations of that company since such date. It is proposed that Alastair Maxwell will join the board of Crest Medical after the Proposed Merger.

HEL, FAH and all other shareholders of FAH will enter into a shareholders' agreement on Completion which will provide that the board of FAH shall consist of five directors, two being appointed by HEL, two by the First Aid Group Vendors and one being appointed by the investors under the FAH Financing Investors. HEL shall be entitled to appoint the Chairman of the board of FAH.

Reasons for the Proposed Merger and future strategy

The Proposed Merger announced today is in line with HCEG's strategy of creating a portfolio of interests in a number of healthcare related businesses which offer substantial growth potential. This strategy requires the disposal of majority stakes in HCEG's principal subsidiaries and the introduction of new management and finance to those businesses. The Directors believe that Crest Medical, and in due

course Ebiox Limited and Reproductive Sciences Limited (the other principal subsidiaries within HCEG), will achieve greater value as independent but partly owned entities, rather than as wholly owned subsidiaries of HCEG.

Shareholders should note that whilst the Directors believe the Proposed Merger will benefit HCEG by relieving it of the burden of the losses and cash outflow from Crest Medical, HCEG will still be dependent upon, inter alia, the exercise of options to subscribe for shares in Ebiox Limited or Reproductive Sciences Limited or other corporate actions as a means of raising further capital to address its near and medium term working capital requirements. The combined First Aid Warehouse Group / Crest Medical business is expected to achieve a positive EBITDA result within the first 12 months following the Proposed Merger. FAH will then have the ability to grow through the better servicing of existing and potential new customers, regaining lost customers, through new product offerings and through the expansion of its channels to market, including on-line sales. The combined business will be primarily located at the current Crest Medical facilities in Warrington and will utilise its large warehouse facility.

HCEG through HEL intends to retain its interest in FAH. Once the intended further disposal of interests in Ebiox Limited and Reproductive Sciences Limited have taken place by merging them with other companies in which HCEG plans to retain a substantial minority interest, HCEG intends to continue as an investment company with greatly reduced operating expenses. HCEG will aim to manage its investments for long term capital gain.

Notice of EGM

Under Rule 15 of the AIM Rules, the Proposed Merger is deemed to constitute a disposal resulting in a fundamental change of business of the Company and consequently requires the prior approval of shareholders of the Company of the resolution to be proposed at an extraordinary general meeting of the Company. A Circular is being posted to shareholders of the Company today for the purposes of convening an extraordinary general meeting of the Company to be held at the offices of Norton Rose LLP at 3 More Riverside, London SE1 2AQ at 10.30 a.m. on 3 April 2008, for the purpose of considering and if thought fit, passing an ordinary resolution to approve the Proposed Merger, as required by Rule 15 of the AIM Rules.

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