

Hartest Holdings Plc
(‘the Group’ or ‘the Company’)

Preliminary Results for the year ended 31 March 2005

Hartest Holdings plc, the specialist supplier of instrumentation and medical equipment, announces its Preliminary Results for the year ended 31 March 2005.

CHAIRMAN’S STATEMENT

The year ended 31 March 2005 has seen significant changes in many of the operational aspects of the Group. The reported results, therefore, do not represent the potential of our companies, rather the financial effects and consequences of these changes, and the restructuring and investment carried out during the year. With the structural and management improvements complete, and the Group placed on a secure financial base, we are confident of progress in performance in the coming year.

Results

An acute shortage of liquidity for a major part of the year undoubtedly impaired the Group’s ability to take commercial advantage of the opportunities available to us. Turnover for the year was £18.3 million compared with £20.1 million for the previous period of thirteen months. Operating profit before goodwill amortisation and exceptional items was £541,000, down from £710,000 for the previous period of thirteen months. This reflects a combination of the financial pressures referred to above, and the result of continuing investment by the Group within the operating companies.

Board and management changes

In May 2004, we welcomed Geoff Spink to the Board as Chief Executive, and in October of the same year, Alasdair Culshaw joined the Board as Group Finance Director. Both of them have extensive experience of similar companies in our industry and have already made a significant contribution to the way the Group is managed.

As a result of these appointments, we have separated the roles of Chairman and Chief Executive in accordance with best practice in corporate governance, and I have reduced my own role to non-executive level with effect from 1 April 2005.

In March 2005, Alan Routs announced his retirement from the Board, and my colleagues and I would like to thank him for his contribution to the development of the Group.

Share issue

As the financial year progressed, it became increasingly clear that the Group was severely undercapitalised and that continued cash constraints would seriously restrict the Group’s ability to trade profitably in the short term or develop further in the longer term. Consequently, in March 2005 we launched a Share Placing and Open Offer, which was successfully completed on 18 April 2005 and raised some £3.1 million net of costs. The funds, received shortly after the year end, have allowed the Group to

reduce reliance on banking facilities, settle pressing liabilities, provide for final consideration due on previous acquisitions, and optimise ongoing operations.

Dividend

Shareholders will be aware that the Group suspended dividend payments at the end of the previous financial period. Although the recent share issue has substantially improved the strength of the Group balance sheet after the year end, the Board does not consider that it is appropriate to resume dividend payments until the Company has demonstrated a period of sustainable positive cash generation and therefore no final dividend is proposed for the year. The Board will reconsider future dividend policy within the next twelve months.

Employees

I would like to extend my personal thanks to our employees upon whose hard work and dedication the Group relies. We are grateful for the support and commitment that they have provided over a particularly challenging year.

Prospects

The Group has undergone a period of fundamental change. In 2003 we sold the Laboratory Furnishings Division, in 2004 we put in place the structural changes throughout the Group, and in the most recent year we have seen the change of executive management and successful refinancing.

We are continuing to invest in the Group's management and reporting systems and to strengthen key management teams. Demand for Group products is encouraging and, with improved financial stability, we look forward to realising some of the true potential of our Group companies.

David Leeming
Chairman

23 June 2005

CHIEF EXECUTIVE'S REVIEW

This has been a challenging year, but one in which we have made significant progress in the stabilisation and consolidation of the Group, required to allow the operating companies to realise their full potential.

INSTRUMENTATION DIVISION

The Instrumentation Division manufactures, sells and distributes a range of specialist instruments and supplies for use in testing, measurement, performance improvement, and research around the world. This includes surface coatings (Sheen), rubber testing (Wallace), temperature measurement (ASL), ophthalmic testing (Tinsley), electronic switching and control systems (Carnation), and equipment for use with electron microscopes (Agar).

During the previous financial period Sheen, Wallace, ASL and Tinsley were combined into one company under the Hartest Precision Instruments (HPI) banner, based on two sites, in Kingston and Croydon. This was to reduce ongoing costs and create operational efficiencies. Exceptional costs of £125,000 were incurred in the year to March 2004 in respect of the implementation of these structural changes, with a further £88,000 incurred in the year to March 2005. The amalgamation of the businesses proved more complex than anticipated, particularly the integration of the manufacturing systems. The resulting need for increased commitment, and the requirement to invest in new management reporting systems, is reflected by the reduced divisional operating profit in the year. A significant part of this work has been completed, but there will be some further time and expense before performance can be optimised.

We have also made provision in the accounts for exceptional costs of £333,000 arising from a revision to the terms of agreement for the payment for royalties and purchase of inventory on the acquisition of ASL in 2003.

HPI exports more than 70% of its output, and has faced tough competition from US dollar based manufacturers. Sales and margins of Sheen and Wallace equipment have been affected by this. Whilst demand for Tinsley underwater cable testing equipment remained low during the year, there are early signs of renewed activity in this market. Furthermore, interest in ophthalmic equipment has been strong and new products are under development to support advances in this field. Agar continues to perform well, and interest in the Carnation power management systems has increased steadily.

Investment has continued in product development across all of our companies, and a number of new instruments and products have been launched successfully during the year.

MEDICAL SERVICES DIVISION

The Medical Services Division operates under the trading names of Qados and Cross Technologies and acts as a distributor of specialist healthcare and medical equipment in both the public and private sectors throughout the United Kingdom. This is a vibrant and growing market and there exists significant potential for us to develop the Division to take advantage of the opportunities. At the end of the previous financial period, we undertook a fundamental review of this Division, its operations, management, costs, assets and liabilities. This resulted in a material exceptional write-down of assets in the previous year (£2.2 million - primarily goodwill and tangible fixed assets) and some management re-structuring, some of which took

place in the early part of this financial year, and the costs of which, amounting to £144,000, are shown in the Profit and Loss Account.

During much of the year, I have acted as Chief Executive of the Medical Services Division, and personally supervised the changes that have been instigated. The resulting Division is reinvigorated and much improved. We have concentrated on rebuilding relationships with our most important suppliers and, where necessary, signed new term distribution agreements.

Throughout the year, the Medical Services Division has continued to benefit from the sustained weakness of the US Dollar, allowing us to price products competitively in the UK market. We have seen growing demand for the supply by Cross Technologies of laser equipment for the private cosmetic and healthcare market and see this as an important opportunity for the Division. Lasers, in particular, represent a growing proportion of our sales.

Continued spending by the UK government on cancer treatment has helped to boost demand for Qados dosimetry and radiotherapy equipment. Regulatory requirements on radiation detection generally have also helped to boost sales of Qados equipment.

FINANCIAL

The cash effects of meeting the costs of prior year reorganisation initiatives, outstanding liabilities, and deferred acquisition costs, placed severe pressure on Group finances towards the end of the year. This constrained our ability to take commercial decisions in the short term and restricted our ability to meet payment terms agreed with suppliers. This can be seen in the Balance Sheet at 31 March 2005 where Group borrowing totalled £4.3 million. We successfully launched a Placing and Open Offer in mid March 2005, which raised £3.1 million net of costs, increasing shareholders' funds and reducing pro-forma gearing by the same amount. This welcome cash injection will allow us to focus on the operational aspects of the business, and facilitate continued investment in products and market development.

Geoff Spink
Chief Executive

23 June 2005

Hartest Holdings plc

Group Profit and Loss Account

Year ended 31 March 2005

	2005	2005	2005	13 Months ended 31 March		
				2004	2004	2004
	£'000	Exceptional £'000	Total £'000	£'000	Exceptional £'000	Total £'000
Turnover						
Continuing operations	18,308	–	18,308	20,084	–	20,084
Cost of sales	(11,925)	(200)	(12,125)	(13,021)	–	(13,021)
Gross profit	6,383	(200)	6,183	7,063	–	7,063
Net operating expenses – overheads – goodwill	(5,842) (261)	(365) –	(6,207) (261)	(6,353) (268)	(1,183) (1,173)	(7,536) (1,441)
	(6,103)	(365)	(6,468)	(6,621)	(2,356)	(8,977)
Operating profit / (loss)	280	(565)	(285)	442	(2,356)	(1,914)
Net interest payable			(224)			(171)
(Loss) on ordinary activities before taxation			(509)			(2,085)
Taxation			(21)			178
(Loss) for the year			(530)			(1,907)
Dividends			–			(181)
Retained (loss) for the year			(530)			(2,088)
Loss per share – basic			(0.39p)			(1.55p)
Earnings per share before goodwill amortisation & exceptional loss			0.22p			0.58p
Loss per share – fully diluted			(0.37p)			(1.55)p
Dividends per share			–			0.125p

There are no recognised gains or losses for either financial year other than the results shown above, which arose from continuing operations.

Hartest Holdings plc

Group Balance Sheet

as at 31 March 2005

	2005 £'000	2004 £'000
Fixed assets		
Intangible - goodwill	4,144	4,405
Tangible	2,343	2,371
	<u>6,487</u>	<u>6,776</u>
Current assets		
Stock	3,233	3,159
Debtors due within one year	4,915	4,194
Debtors due after one year	400	500
Cash at bank and in hand	59	205
	<u>8,607</u>	<u>8,058</u>
Creditors		
Creditors falling due within one year	<u>(8,442)</u>	<u>(6,402)</u>
Net current assets	<u>165</u>	<u>1,656</u>
Total assets less current liabilities	<u>6,652</u>	<u>8,432</u>
Creditors		
Creditors falling due after more than one year including convertibles	<u>(987)</u>	<u>(1,937)</u>
Provision for liabilities and charges	–	(300)
Net assets	<u>5,665</u>	<u>6,195</u>
Capital and reserves		
Called up share capital	1,374	1,374
Share premium	475	475
Revaluation reserve	81	81
Profit & loss account	3,735	4,265
Shareholders' funds	<u>5,665</u>	<u>6,195</u>

The financial statements were approved by the Board of Directors and signed on their behalf on 23 June 2005.

Hartest Holdings plc

Company Balance Sheet

as at 31 March 2005

	2005 £'000	2004 £'000
Fixed assets		
Investments	4,249	4,249
Current assets		
Debtors – amounts falling due within one year	261	1,722
Debtors – amounts falling due after one year	5,048	3,457
	5,309	5,179
Current liabilities		
Creditors – amounts falling due within one year	(3,198)	(1,563)
Net current assets	2,111	3,616
Total assets less current liabilities	6,360	7,865
Creditors		
Creditors – amounts falling due after one year	–	(800)
Provision for liabilities and charges	–	(300)
Net assets	6,360	6,765
Capital and reserves		
Called up share capital	1,374	1,374
Share premium account	475	475
Profit and loss account	4,511	4,916
Shareholders' funds	6,360	6,765

The financial statements were approved by the Board of Directors and signed on their behalf on 23 June 2005.

Hartest Holdings plc

Group Cash Flow Statement

year ended 31 March 2005

	13 Months ended 31 March	
	2005	2004
	£'000	£'000
Net cash (outflow)/inflow from operating activities	(115)	1,032
Returns on investments and servicing of finance		
Interest received	50	55
Interest paid	(229)	(215)
Finance lease interest paid	(20)	(38)
Net cash outflow from returns on investment and servicing of finance	(199)	(198)
Taxation	(149)	(16)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(219)	(283)
Sale of tangible fixed assets	81	76
Purchase of intangible fixed assets	–	(229)
Net cash outflow from capital expenditure and financial investment	(138)	(436)
Equity dividends paid	(172)	(298)
Net cash (outflow)/inflow before financing	(773)	84
Financing		
Issue of shares	–	705
New loans (less repaid)	(741)	26
Capital element of finance lease rentals	(154)	(170)
New finance leases undertaken	–	(101)
Other	–	–
Expenses in connection with share issue	–	(50)
Net cash (outflow)/inflow from financing	(895)	410
(Decrease)/Increase in cash	(1,668)	494

Hartest Holdings plc

Notes to the Financial Statements

1. Trading Analysis

	£'000	2005 Exceptional £'000	Total £'000
Sales	18,308	–	18,308
Cost of sales	(11,925)	(200)	(12,125)
Gross margin	6,383	(200)	6,183
Overheads – administration – distribution	(5,248) (594)	(365) –	(5,613) (594)
Goodwill	(5,842) (261)	(365) –	(6,207) (261)
Operating profit/(loss)	280	(565)	(285)
	13 Months ended 31 March 2004		
	£'000	Exceptional £'000	Total £'000
Sales	20,084	–	20,084
Cost of sales	(13,021)	–	(13,021)
Gross margin	7,063	–	7,063
Overheads – administration – distribution	(6,128) (225)	(1,183) –	(7,311) (225)
Goodwill	(6,353) (268)	(1,183) (1,173)	(7,536) (1,441)
Operating profit	442	(2,356)	(1,914)

2. Turnover, net operating expenses and operating profit

Turnover is attributed to the following activities	2005 £'000	2004 £'000
Instrumentation	11,492	12,555
Medical services	6,816	7,529
	18,308	20,084

Analysis of turnover by geographical market	2005	2004
	£'000	£'000
United Kingdom	11,082	12,558
Rest of the world	7,226	7,526
	18,308	20,084

All turnover is supplied from the United Kingdom. Included in 'Medical Services' turnover is an amount of £170,000 (2004: £229,000) in respect of rentals receivable from assets leased to third parties under operating leases and similar agreements.

3. Analysis of operating profit by division

	2005			13 months ended 31 March 2004		
	£'000	Exceptional £'000	Total £'000	£'000	Exceptional £'000	Total £'000
Instrumentation	408	(421)	(13)	664	(200)	464
Medical Services	413	(144)	269	169	(2,156)	(1,987)
Central costs	(541)	–	(541)	(391)	–	(391)
	280	(565)	(285)	442	(2,356)	(1,914)

Analysis of operating net assets by division	2005	2004
	£'000	£'000
Instrumentation	3,252	3,720
Medical Services	994	1,635
Parent company	(419)	(1,183)
	3,827	4,171

4. Exceptional operating expenses

Operating expenses	2005	2004
	£'000	£'000
Instrumentation	421	200
Medical Services	144	2,156
	565	2,356

The exceptional operating expenses in the year ended 31 March 2005 include employment termination costs of £232,000 arising from the reorganisation and restructuring carried out in the thirteen months to 31 March 2004 but incurred in the year. The balance of £333,000 arose from a revision to the terms of agreement for the payment of royalties and the purchase of inventory on the acquisition of ASL in 2003. In the prior period, the Medical Services exceptional item consisted of provisions against intangible fixed assets, assets held for use in operating leases, debtors, legal costs and redundancy and relocation expenses. The Instrumentation exceptional item resulted from provisions against intangible fixed assets and redundancy and relocation expenses.

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For Further Information:

Geoff Spink
Chief Executive Officer
Andrew Tan
Account Director

Hartest Holdings Plc

Hansard Communications

07831 844451

020 7245 1100