



Preliminary Results for the 13 Months ended 31st March 2004

Highlights

- Revenue from continuing operations up 12% to £20.1 million
- Finalisation of Group restructure
- Appointment of Geoff Spink as Chief Executive Officer
- Goodwill write-off and non-recurring exceptional charges of £2.356 million

CHAIRMAN'S STATEMENT

The year under review has been one during which we have continued the restructuring and consolidation of the Group. The first stage of this restructuring was completed in April 2003 with the sale of the Laboratory Furniture Division for £3.3 million, prompting a change of year-end to 31st March. This was followed later in the year by the consolidation of four of the businesses within our Instrumentation Division into a single company, and the rationalisation of our Medical Division. After the year-end we announced the appointment of a Group Chief Executive Officer – Geoff Spink - who is now based at the Medical Services Division premises in Sandhurst.

Results

The Group results for the thirteen months to 31st March 2004 showed sales on continuing operations increasing from £16.5 million to £20.1 million and operating profit before goodwill amortisation and exceptional items from £593,000 to £710,000. Adjusted for the thirteen-month period the growth in turnover represented a 12% annualised increase. Within the Instrumentation Division sales increased by 11% to £12.5 million and operating profit before goodwill amortisation and exceptional items by 34% to £779,000. This progress was marred by a significant shortfall in anticipated sales of high capital value items in the Medical Services Division. These were even lower than expected in my interim statement and although divisional sales of £7.5 million showed an increase of 14% on the previous year, operating profit before goodwill amortisation and exceptional items fell by 47% to £322,000, due to the impact of lower trading margins on the business done during the year.

Group Operating Profits after goodwill amortisation amounted to £442,000 (2003 £362,000) before exceptional charges totalling £2.356 million.

Rationalisation of Medical Services Division

The business of Cross Medical has not performed as expected during the time since it joined the Group, and following the settlement of a long-running legal dispute with previous advisers in respect of the Cross acquisition, the Board considered it necessary to perform a thorough review of both the assets and liabilities acquired with Cross, and of our entire medical business. This has led the Directors to conclude that, in the process of merging the business of Cross Medical with that of Qados to create a single unit, it would be prudent to provide fully for the goodwill created on the acquisition of Cross together with all associated costs of acquisition and legal proceedings. At the same time the assets transferred to the new merged operating company have been reviewed, revalued and rationalised. These adjustments total £2.156 million and will be reflected in a single non-recurring reduction in the balance sheet – a significant part of which is the write-off of goodwill.

Write Off of Research & Development Expenditure

As a part of the general review of the Group's intangible asset base, referred to above, and now that the Group has repaid all loans outstanding to Yorkshire Enterprise in respect of the Carnation Designs business, the Board has also decided to write-off all previously capitalised research and development expenditure. This will bring the accounting policies of Carnation into line with those of the Group as a whole. The cost of this adjustment does not give rise to any cash outflow and amounts to £225,000, included within exceptional items in the accounts.

Banking Facilities

Towards the end of the period we successfully negotiated new and increased banking facilities with HSBC, which became fully operational last month.

Capital Reorganisation & Change of Year End

In July 2003 we successfully applied to the Courts to reconstruct the Company's balance sheet, converting the substantial share premium account into distributable reserves. The non-recurring costs of this (£50,000) have been charged to reserves. We also extended the year by one month to conform to the March year-end more common for companies doing substantial business with governmental and associated bodies.

Employees

I would like to extend my personal thanks to all of our employees, who have made a valuable contribution to our performance in an eventful year.

Dividend

Although the Group achieved an Operating Profit before Exceptional Items, there is nonetheless a significant adverse balance on the Profit & Loss Account for the year, and the Board does not believe that it would be prudent to declare a final dividend, which would increase this adverse balance still further. However, we continue to have confidence in our prospects for the future, our dividend policy remains unchanged, and the Board therefore intends to resume dividend payments within the next twelve months.

Future Prospects

We have continued to invest in both product and market development across the Group, and we are particularly optimistic about the prospects for mid market capital items in our Medical Services Division, for which there is material demand both within and outside the National Health Service.

Our restructuring this year has completed the transition of the Group, producing a much sounder and simpler business for Geoff Spink to drive forward. I now have every confidence that under his effective leadership Hartest can look forward to a prosperous future.

David Leeming
Chairman

OPERATING REVIEW

Instrumentation

The Division comprises a group of businesses that each focus on a distinct area of specialist instrumentation. We believe that the attention that dedicated teams can devote to their specialist niche markets provides a powerful and competitive formula for trading, which will allow us to maximise the return that we can make from each activity.

During the year, the Instrumentation Division was rationalised by the amalgamation of the former businesses of Sheen Instruments, Wallace Instruments, Automatic Systems Laboratories (ASL), and H Tinsley & Co into one single company operating out of two principal locations on the outskirts of London, in Kingston and Croydon respectively. Agar Scientific and Carnation Designs continue to operate independently. In September, we completed the acquisition of Carnation and repaid all outstanding loans to Yorkshire Enterprise. At the same time, the company moved to new and larger modern premises in Heckmondwike, Yorkshire, a base from which the continued rapid expansion of the operation can be more suitably accommodated.

Medical Services

The Division acts as a distributor of specialist equipment for use in medical and cosmetic markets

During the year, Qados and Cross Medical were combined onto one site at Sandhurst, Berkshire, and progress has been made towards the integration of the operations into a single unit. Since the year-end, Derek Whelan has retired from the Group as Chief Executive of the Medical Services Division and Geoff Spink has currently taken on Derek's duties in addition to his role as Group CEO. Geoff is now concentrating upon the creation and motivation of a single Medical Services team, which can exploit the potential of this division to the full.

Group

Following the significant restructuring of all parts of the Group and the negotiation of adequate financing, we are now well positioned to concentrate on those aspects of the business that show the greatest potential growth.

Group Profit and Loss Account

13 months ended 31 March 2004

	Notes	2004 Normal £'000	2004 Exceptional (Note 4) £'000	2004 Total £'000	2003 £'000
Turnover					
Continuing operations	1	20,084		20,084	16,509
Discontinued operations		-		-	9,136
		<u>20,084</u>	<u>-</u>	<u>20,084</u>	<u>25,645</u>
Cost of sales	2	(13,021)	-	(13,021)	(16,305)
Gross Profit		7,063	-	7,063	9,340
Net operating expenses					
-normal		(6,353)	(1,183)	(7,536)	(8,386)
-goodwill		(268)	(1,173)	(1,441)	(294)
	1	<u>(6,621)</u>	<u>(2,356)</u>	<u>(8,977)</u>	<u>(8,680)</u>
Operating profit/(loss)					
Continuing operations	1	442	(2,356)	(1,914)	362
Discontinued operations	3	-	-	-	298
		<u>442</u>	<u>(2,356)</u>	<u>(1,914)</u>	<u>660</u>
Exceptional loss on sale of discontinued operations				-	(824)
(Loss) before finance charges				(1,914)	(164)
Net interest payable				(171)	(271)
(Loss) before taxation				(2,085)	(435)
Taxation				178	(94)
(Loss) for the period				<u>(1,907)</u>	<u>(529)</u>
Dividends				(181)	(288)
Retained(loss) for the period				<u>(2,088)</u>	<u>(817)</u>
Earnings per share – basic and fully diluted				(1.55p)	(0.46p)
Earnings per share before goodwill amortisation & exceptional loss				0.58p	0.52p
Dividends per share				0.125p	0.250p

Group Statement of Total Recognised Gains and Losses

13 months ended 31 March 2004

	2004 £'000	2003 £'000
(Loss) on ordinary activities after taxation	(1,907)	(529)
Surplus arising on the revaluation of fixed assets	-	81
Total recognised losses since last financial statements	<u>(1,907)</u>	<u>(448)</u>

Group Balance Sheet

As at 31 March 2004

	2004 £'000	28 February 2003 £'000
Fixed assets		
Development costs, patents & trademarks	-	122
Goodwill	4,405	5,789
Negative Goodwill		(44)
	<hr/>	<hr/>
Intangible	4,405	5,867
Tangible	2,371	2,643
	<hr/>	<hr/>
	6,776	8,510
Current assets		
Stock	3,159	2,870
Debtors due within one year	4,194	5,023
Debtors due after one year	500	700
Cash at bank and in hand	205	20
	<hr/>	<hr/>
	8,058	8,613
Creditors		
Creditors falling due within one year	(6,402)	(7,281)
Net current assets	<hr/>	<hr/>
	1,656	1,332
Total assets less current liabilities	<hr/>	<hr/>
	8,432	9,842
Creditors		
Creditors falling due after more than 1 year including convertibles	(1,937)	(1,914)
Provision for liabilities and charges	(300)	(300)
	<hr/>	<hr/>
Net assets	6,195	7,628
Capital and reserves		
Called up share capital	1,374	1,194
Share premium	475	7,895
Revaluation reserve	81	81
Profit & loss account	4,265	(1,542)
	<hr/>	<hr/>
Shareholders' fund	6,195	7,628
	<hr/>	<hr/>

Company Balance Sheet

As at 31 March 2004

	2004 £'000	28 February 2003 £'000
Fixed assets		
Investments	4,249	4,258
Current assets		
Debtors-amounts falling due within one year	1,722	1,765
Debtors-amounts falling due after one year	3,457	5,190
	5,179	6,955
Current Liabilities		
Creditors-amounts falling due within one year	(1,563)	(3,084)
Net current assets	3,616	3,871
Total assets less current liabilities	7,865	8,129
Creditors		
Creditors-amounts falling due after one year	(800)	(200)
Provision for liabilities and charges	(300)	(300)
Net assets	6,765	7,629
Capital and reserves		
Called up share capital	1,374	1,194
Share premium account	475	7,895
Profit and loss account	4,916	(1,460)
Shareholders' funds	6,765	7,629

Group Cash Flow Statement

13 months ended 31 March 2004

	2004 £'000	2003 £'000
Net cash inflow from operating activities	1,032	2,267
Returns on investments and servicing of finance		
Interest received	55	2
Interest paid	(215)	(183)
Finance lease interest paid	(38)	(74)
Net cash outflow from returns on investment & servicing of finance	(198)	(255)
Taxation	(16)	(190)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(283)	(134)
Sale of tangible fixed assets	76	90
Purchase of intangible fixed assets	(229)	(186)
Net cash outflow from capital expenditure and financial investment	(436)	(230)
Acquisitions and disposals		
Purchase of subsidiary undertakings	-	(2,073)
Purchase of trade	-	(232)
Disposal of subsidiary undertakings	-	270
Net cash outflow from acquisitions and disposals		(2,035)
Equity dividends paid	(298)	(489)
Net cash outflow before financing	84	(932)
Financing		
Issue of shares	705	360
New loans	26	648
Capital element of finance lease rentals	(170)	(382)
New finance leases undertaken	(101)	(126)
Finance leases transferred	-	30
Other	-	(1)
Expenses in connection with share issue	(50)	-
Net cash inflow from financing	410	529
(Decrease)/increase in cash	<u>494</u>	<u>(403)</u>

Notes

1. Trading Analysis

	2004	2004	2004
	Total	Normal	Exceptional
	£'000	£'000	£'000
Sales	20,084	20,084	-
Cost of sales	(13,021)	(13,021)	-
Gross Margin	<u>7,063</u>	<u>7,063</u>	<u>-</u>
Overheads			
-administration	(7311)	(6128)	(1183)
-distribution	(225)	(225)	-
	<u>(7,536)</u>	<u>(6,353)</u>	<u>(1,183)</u>
Goodwill	(1,441)	(268)	(1,173)
Operating profit/(loss)	<u>(1,914)</u>	<u>442</u>	<u>(2,356)</u>
	2003	2003	2003
	Total	Existing	Disposals
	£'000	£'000	£'000
Sales	25,645	16,509	9,136
Cost of sales	(16,305)	(10,239)	(6,066)
Gross Margin	<u>9,340</u>	<u>6,270</u>	<u>3,070</u>
Overheads			
-administration	(7,622)	(5,518)	(2,104)
-distribution	(764)	(159)	(605)
	<u>(8,386)</u>	<u>(5,677)</u>	<u>(2,709)</u>
Goodwill	(294)	(231)	(63)
Operating profit	<u>660</u>	<u>362</u>	<u>298</u>

2. Turnover, net operating expenses and operating profit

Turnover is attributed to the following activities	2004	2003
	£'000	£'000
Instrumentation	12,558	10,425
Medical Services	7,526	6,084
Design, manufacture and installation of laboratories	-	9,136
	<u>20,084</u>	<u>25,645</u>

Analysis of turnover by geographical market	2004	2003
	£'000	£'000
United Kingdom	12,555	17,862
Rest of the World	7,529	7,783
	<u>20,084</u>	<u>25,645</u>

All turnover is supplied from the United Kingdom.

Included in 'Medical Services' turnover is an amount of £229,000 (2003:£348,000) in respect of rentals receivable from assets leased to third parties under operating leases and similar agreements.

3. Analysis of operating profit by division

	2004 Normal £'000	2004 Exceptional £'000	2004 Total £'000	2003 £'000
Instrumentation	664	(200)	464	446
Medical Services	169	(2,156)	(1,987)	424
Laboratory Furniture	-	-	-	298
Head Office	(391)	-	(391)	(508)
	<u>442</u>	<u>(2,356)</u>	<u>(1,914)</u>	<u>660</u>

Analysis of operating net assets
by division

Instrumentation	3,720	3,255
Medical Services	1,635	2,928
Head Office	(1,184)	(778)
	<u>4,171</u>	<u>5,405</u>

Operating profit is stated after
charging

Auditors' remuneration-audit services	94	93
-non audit services	127	75
Depreciation -owned assets	351	333
-financed assets	271	200
Amortisation	1,664	302
Hire of plant and machinery		6
Operating lease rentals-land & buildings	280	199
Operating lease rentals	21	79
Research and development	75	103

Non audit services charged to operating profit consist of £18,000 for taxation services and £109,000 for advice and consulting services

4. Exceptional Operating Expenses

	£'000	£'000
Medical Division	2,156	-
Instrumentation Division	200	-
	<u>2,356</u>	<u>-</u>

The Medical Division exceptional item results from a review of that division's assets and liabilities, and consists of provisions against intangible fixed assets, assets held for use in operating leases, debtors, legal costs and redundancy and relocation expenses.

The Instrumentation Division exceptional item results from provisions against intangible fixed assets and redundancy costs.