



HARTEST

Proposed Placing, Open Offer and Capital Reorganisation

The Company is pleased to announce proposals to raise £3 million (before expenses) by way of a placing of 600,000,000 new ordinary shares of 0.1p each (the "Placing") and up to approximately an additional £1 million (before expenses) by way of a non-underwritten open offer of 206,039,314 new ordinary shares of 0.1p each (the "Open Offer") in each case at 0.5p per new ordinary share. The net proceeds of the Placing and Open Offer, estimated to be a minimum of £2.55 million, will be used to provide working capital and to strengthen the balance sheet of Hartest and its subsidiaries (the "Group").

In order to implement the Placing and Open Offer, the Company is proposing a reorganisation of its share capital to reduce the nominal value of its ordinary shares from 1p ("Ordinary Shares") to 0.1p ("New Ordinary Shares"). Finally, it is also proposed that a new share option scheme be introduced to provide an appropriate incentive for management and key staff following admission of the New Ordinary Shares to trading on AIM

Application will be made for the New Ordinary Shares to be admitted to trading on AIM and dealings are expected to commence on 18 April 2005.

The Placing and Open Offer are conditional, *inter alia*, on the approval of the resolutions to be put to the shareholders of the Company (the "Shareholders") at an extraordinary general meeting ("EGM") to be held at the offices of CMS Cameron McKenna, Mitre House, 160 Aldersgate Street, London EC1A 4DD at 10.00am on 15 April 2005.

Background to and reasons for the Proposals

In the Chairman's statement accompanying the Group's report and accounts for the 13 months ending 31 March 2004, it was announced that significant restructuring and consolidation had occurred within the Group with a view to producing a much sounder and simpler business structure to take forward. The first stage of this restructuring was completed in April 2003 with the sale of the laboratory furniture division, the Group's original principal subsidiary, for up to £3.3 million. This was followed later in 2003 by the consolidation of four of the businesses within the Group's Instrumentation division into a single company, and the rationalisation of the Medical division, leading to the merger of Cross Medical Limited and Qados Limited into one operating company (Cross Technologies plc). At the same time that the assets of those companies were transferred to Cross Technologies plc, they were reviewed, revalued and rationalised. This formed part of the £2.2 million adjustment occurring to the Group's balance sheet at 31 March 2004.

The Company now has two operating divisions, Instrumentation and Medical, a structure which enables the directors of the Company (the "Directors") to manage the day to day affairs of the Company more efficiently.

Strategy

Now the restructuring programme is substantially complete, the Directors have concluded that the Group is undercapitalised and, in order to ensure its future, significant new funds are needed to allow the following strategic steps to be taken:

- (i) reduce reliance on invoice discounting facilities;
- (ii) repay overdue current trade creditors;
- (iii) provide for deferred consideration payable within the next 12 months;
- (iv) reduce the Group's ongoing operating costs; and

(v) continue investment in both product and market development.

Current trading and prospects

The Directors believe that completion of the proposals to be proposed at the EGM and implementation of the strategy outlined above will enable the Group to enhance underlying profitability and plan for growth from a sound financial base. For this reason the Directors consider that the prospects for the Group following completion of the Proposals are good.

The Placing

The Company is proposing to raise £3 million through the issue of 600,000,000 New Ordinary Shares ("Placing Shares") at 0.5p per share to institutional and other investors, representing between 64.0 per cent. and 81.4 per cent. (depending on the take up under the Open Offer) of the enlarged share capital of the Company following the Placing and Open Offer ("Enlarged Share Capital"). The Directors are subscribing, in aggregate, for 37,000,000 Placing Shares pursuant to the Placing, representing a maximum of 5.0 per cent. of the Enlarged Share Capital.

The Open Offer

In order to reduce the level of dilution experienced by existing Shareholders (other than Overseas Shareholders) as a result of the Placing, the Company is also proposing to raise up to approximately £1 million, before expenses, by the issue of up to 206,039,314 New Ordinary Shares pursuant to the Open Offer ("Open Offer Shares"). Shareholders may apply for any number of Open Offer Shares, up to 206,039,314, under the Open Offer, at 0.5p per share. Applications will be satisfied in full up to each Qualifying Shareholder's *pro rata* basic entitlement being:

3 Open Offer Shares for every 2 Ordinary Shares

registered in their name at close of business on 21 March 2005 and so in proportion for any greater number of Ordinary Shares then held. Applications for in excess of a Qualifying Shareholder's *pro rata* entitlement will be satisfied at the absolute discretion of the Directors and if valid applications are received for in excess of 206,039,314 Open Offer Shares in aggregate, excess applications will need to be scaled back. The Open Offer has not been underwritten.

The Open Offer Shares will rank *pari passu* in all respects with the New Ordinary Shares arising from the capital reorganisation, including the right to receive all dividends and other distributions hereafter declared, made or paid. The Open Offer is conditional, *inter alia*, upon:

- the passing of the resolutions at the EGM;
- the placing agreement between the Company, the Directors and Corporate Synergy becoming unconditional in all respects (save for the condition relating to Admission); and
- Admission.

The latest time and date for application and payment in full for Open Offer Shares under the Open Offer is 3.00 pm on 14 April 2005.

Application will be made to London Stock Exchange for the New Ordinary Shares to be admitted to trading on AIM. It is expected that Admission will become effective and that dealings will commence in the New Ordinary Shares on 18 April 2005. Definitive share certificates for the New Ordinary Shares are expected to be despatched no later than 25 April 2005.

Issue Price

The Placing and Open Offer are being made at a price of 0.5p per New Ordinary Share, which represents a discount of 60 per cent. to the mid market closing price of an Ordinary Share of 1.25p on 21 March 2005.

Adoption of New EMI Scheme

As at the date of this document the Directors and other employees hold options to subscribe for an aggregate of 8,197,474 Ordinary Shares (representing 5.97 per cent. of the issued share capital of the Company at the date of this document) at an exercise price of between 3.25p and 13.75p pursuant to either the existing approved or unapproved Company share option schemes (the "Existing Schemes").

The options are expected to be significantly out of the money (that is, the exercise price will be greater than the current market price) following implementation of the Placing and Open Offer and thus provide no meaningful incentive. Accordingly, in recognition of the importance of certain individuals considered to be key to the future development of the business and to provide an appropriate incentive to them, shareholder consent is sought for the adoption of a new Company share option scheme (the "New EMI Scheme").

Under the rules of the New EMI Scheme, 10 per cent. of the issued ordinary share capital of the Company from time to time in a rolling ten year period can be used for the purposes of granting options under the New EMI Scheme. It is proposed that, immediately following Admission:

- options over New Ordinary Shares equal to 5 per cent. of the Enlarged Share Capital will be granted to Geoff Spink under the New EMI Scheme (or, in part, under the existing Inland Revenue approved scheme (the "Approved Scheme")) at an exercise price equal to the issue price of 0.5p or, in the context of the Approved Scheme, at such other price as the Inland Revenue agree to be the market value of a New Ordinary Share at the date of grant.; and
- options over New Ordinary Shares equal to 2.5 per cent. of the Enlarged Share Capital will be granted to Alasdair Culshaw under the New EMI Scheme at an exercise price per New Ordinary Share equal to the Issue Price (or at such other price as the Inland Revenue agree to be the market value of a New Ordinary Share at the date of grant). It is proposed that the options granted above will be subject to and will generally be exercisable in accordance with the following conditions:
 - one fifth of the options will be exercisable immediately following grant;
 - one tenth will be exercisable if the option holder remains in employment with the Group at 1 April 2006;
 - one tenth will be exercisable if the option holder remains in employment with the Group at 1 April 2007;
 - one fifth will be exercisable if the Company's average share price is in excess of one penny per New Ordinary Share over a period of at least 20 consecutive working days;
 - one fifth will be exercisable if the Company's average share price is in excess of one and a half pence per New Ordinary Share over a period of at least 20 consecutive working days; and
 - one fifth will be exercisable if, between 1 April 2008 and 31 March 2009, the Company's average share price is in excess of two pence per New Ordinary Share over a period of at least 20 consecutive working days.

It is proposed that, in addition, following the publication of the Company's next financial results, options over New Ordinary Shares equal to 2.5 per cent. of the Enlarged Share Capital will be granted to management and key staff (approximately 20 individuals) under the New EMI Scheme at an exercise price per New Ordinary Share that is equal to market value of a New Ordinary Share at the date of grant.

Capital Reorganisation

Company law prevents a company from issuing shares at a discount to the nominal value of its shares. Since the Issue Price of 0.5 pence per share is below the current nominal value of the Ordinary Shares, the capital reorganisation needs to be implemented to enable the Placing and the Open Offer to proceed. It is proposed that:

- each issued Ordinary Share will be subdivided into one New Ordinary Share of 0.1 pence and one deferred share of 0.9 pence ("Deferred Shares");
- each unissued Ordinary Share will be subdivided into 10 New Ordinary Shares of 0.1 pence each; and

- the Deferred Shares may be transferred to the Company for an aggregate sum of £1.00.

Following the capital reorganisation, **each Shareholder will hold the same number of New Ordinary Shares as they did Ordinary Shares** (without taking into account any Open Offer Shares subscribed for).

New share certificates will be issued in respect of the New Ordinary Shares issued pursuant to the Open Offer and Placing following Admission. The existing share certificates representing Ordinary Shares will continue to be valid immediately following the passing of the Resolutions at the EGM. No share certificates will be issued in respect of the Deferred Shares.

Extraordinary General Meeting

The proposals outlined above are conditional on, *inter alia*, the approval of Shareholders which is to be sought at the EGM convened for 10.00 am on 15 April 2005, at which the following resolutions will be proposed:

- sub-divide each issued Ordinary Share into one New Ordinary Share and one Deferred Share;
- sub-divide each authorised but unissued Ordinary Share into ten New Ordinary Shares;
- amend the Articles of Association of the Company to set out the rights attaching to the Deferred Shares;
- increase the authorised share capital of the Company;
- authorise the Directors to allot New Ordinary Shares;
- disapply Section 89(1) of the Act to authorise the Directors to allot New Ordinary Shares for cash non pre-emptively; and
- approve the adoption of the New EMI Scheme.

The Company's authorised share capital is proposed to be increased to facilitate the Placing and Open Offer and to grant the Directors authority to allot the relevant shares pursuant to the Placing and Open Offer and, additionally, to provide sufficient headroom to cater for the potential exercise of share options and also to provide further headroom over 10 per cent. of the Enlarged Share Capital in accordance with normal market practice.

A prospectus detailing the above proposals and setting out procedure for application for Open Offer Shares was sent to shareholders on 22 March 2005 and is available from the offices of Corporate Synergy Plc, 12 Nicholas Lane, London EC4N 7BN..

For further information contact:

Geoff Spink, Chief Executive – Hartest Holdings PLC: 01252 749 530

David Leeming, Chairman – Hartest Holdings PLC: 07798 935 260

Alasdair Culshaw, Finance Director – Hartest Holdings PLC: 01252 749 530

William Vandyk, John Prior – Corporate Synergy Plc: 0207 626 2244