PLANT HEALTH CARE plc

Annual Report and Accounts

for the year ended 31 December 2004

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Directors and advisors

Directors	Dr Albert E M J Fischer	*Non-Executive Chairman*
	John A Brady	*Chief Executive Officer*
	Steven M Whitcomb	*Chief Financial Officer*
	Dr Donald H Marx	*Executive Director and Chief Scientist*
	Dr Robert H Chanson	*Non-Executive Director*
	Thomas P Isler	*Non-Executive Director*
	Samuel A Wauchope	*Non-Executive Director*

Company Secretary

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Chairman's statement

This is Plant Health Care's first annual statement as a listed company, and I would like to take this opportunity to thank all of those shareholders who have shown us support to bring us to where we are today.

2004 has been a year of significant development for the Plant Health Care Group. In July Plant Health Care plc ("PHC" or "the Company") floated on the AIM market of the London Stock Exchange and raised $10.4 million net of expenses in new equity. This new capital will be used to fund the development of both our product range and our target markets. We have already completed the acquisition of VAMTech LLC at a cost of $2.7 million and strengthened our sales and distribution channels.

Results for the year

Turnover for the year increased by 6.5% to $8.6 million. This growth was achieved despite several setbacks, particularly from the very adverse weather conditions in the US at the end of 2004 and the loss of a major distributor who left the market. An increased net loss of $2.9 million reflected significant investment in the development of our sales and marketing capacity, as well as one-off costs on the flotation and the transfer of our manufacturing operation to a more efficient facility; we also incurred increased costs arising from our new status as a listed company. A fuller analysis of the year is provided in the Chief Executive's report on pages 5 to 8.

No dividend is proposed.

Development of the Company

The directors of PHC believe that it has the opportunity to become a leading player in the fast developing global market for natural plant health products. Consumers are rapidly recognising the benefits of farming and gardening naturally; this increasing level of consciousness combined with government legislation to remove potentially harmful synthetic products from the market is creating a significant opportunity for PHC. A paradigm shift is taking place as our natural products perform at not only equal but higher standards than conventional chemical products and at economically attractive prices. We have a unique product portfolio, and the Company is unaware of any other provider of natural products that has such a wide range of high-quality products in response to this demand.

We have well established sales channels to our current markets and in 2004 have increased the number of sales staff in the North American, Mexican and European markets and opened a sales office in Spain. These investments will allow us to secure further growth from our current markets.

In October 2004 we acquired VAMTech LLC ("VAMTech"), a company which owns a powerful compound called *Formononetin* that significantly increases the yield of row crops such as corn, wheat, soybeans and cotton. *Formononetin* is now being sold by PHC under the trade name Myconate®. This is PHC's first move into the row crop market and early trials and market interest indicate this product will be one of our key sellers in the future. Myconate® complements PHC's existing natural product line and the expansion into row crops presents a significant opportunity to increase sales.

The Company also entered into an exclusive long-term agreement for consumer product development and full commercialisation of PHC's natural products with The Scotts Company ("Scotts"), which is the world's leading supplier and marketer of branded consumer products for lawn and garden care. The impact of this distribution arrangement is expected to be significant from 2006 onwards.

Chairman's statement

continued

The Company's distribution channels combined with internal development capability will allow us to acquire similar technologies which can easily be absorbed into the Company's existing infrastructure. We will also continue to seek to acquire distribution rights to similar natural and biological products and to develop sustained new relationships with distribution partners.

Social responsibility

The Company has a strong socially responsible culture. In 2005 the Company will launch a community involvement initiative whereby PHC, partnered with key customers, will undertake select community beautification projects. This initiative utilises the time and talent of PHC employees and its products to carry out our mission of enhancing the environment.

Outlook

The investments made into our sales and distribution channels provide the Company with an opportunity for steady growth from the markets where it is already established. In 2004 PHC sold products to 10 countries worldwide and we are confident that during 2005 we will achieve a wider distribution. Also, the introduction of new and unique products which we develop, acquire or source under licence will ensure a wide spectrum of offerings to satisfy customer needs. I am pleased to report that the Company has four new products under development which we expect to be ready for distribution in late 2005.

The acquisition of VAMTech and the relationship with Scotts both open doors to substantial growth in markets where we are not currently represented. However it should be noted that significant revenues from these opportunities are likely to begin only from 2006 onwards with 2005 seeing only modest revenue as we develop these ventures.

The Company is now on a sound financial footing and is committed to growing the business both organically and through acquisitions. PHC is dedicated to providing a triple bottom line: profits for our investors, a rewarding work atmosphere for our employees and an ecologically sustainable product for the environment. I would like to thank all our shareholders for their continued trust and support and our employees for their efforts in building this Company. I look forward to reporting on our progress at the half year.

Albert Fischer
Chairman

27 April 2005

Chief Executive's report

Financial report

Divisional sales

PHC US sells to the arbour, landscaping, horticulture and sports turf markets in the United States. 2004 sales of $5.2 million represented an increase of 8% over 2003. This growth was fuelled by continued increasing demand for natural products across these markets and, in the second half, by the development of our sales capacity. The increase was also achieved in spite of several setbacks. The first half of the year saw record rainfalls in the eastern part of the country. Later a total of five hurricanes struck Florida and the south eastern states. In addition, one of the Company's largest distributors in the turf market, Simplot, unexpectedly announced the disposal of its operations east of the Rocky Mountains.

PHC Reclamation uses mycorrhizal fungi technology for reforestation and the reclamation of lands disturbed by mining, construction, fire, erosion and other activities. Although sales in 2004 were at the same level as 2003, 2005 has started well with a major contract win from the Wyoming Department of Environmental Quality to provide professional engineering and design services for the reclamation of over 200 abandoned coal mine sites. This project has an initial value of up to $510,000. PHC Reclamation was the 2004 recipient of the coveted People's Choice Award for best national reclamation project presented by the United States Department of the Interior, Office of Surface Mining.

PHC Mexico focuses on the very significant commercial agriculture market in that country. This division's 2004 sales were also at the same level as 2003. One disappointment related to a major contract which was postponed until 2005. During the year this operation restructured its sales channels and several underperforming distributors were eliminated. We are already seeing the benefits of this improved sales channel.

Sales in Europe increased 19% over 2003, surpassing the $1 million mark. PHC's European operations had previously focused on the UK and Dutch markets; in 2004, due to increasing demand and the potential for PHC's products in agriculture, an operating subsidiary was established in Spain and new distributors were set up in Greece in 2004 and Italy in 2005. All three of these will begin to contribute in 2005.

Gross profit

The gross profit of $3.7 million (2003: $3.7 million) represented a gross margin percentage on sales of 42.5% (2003: 45.3%). The gross margin in the US was impacted by our newly introduced early order programme, which brought PHC into line with standard industry practice and accelerated sales from February and March 2005 back into 2004. In addition there were more sales of soil nutrient products than in 2003, and they carry a lower margin than some other product lines. A major marketing focus for 2005 is on promoting our higher margin products to ensure that growth in sales is converted to growth in profitability. Following the transfer of our manufacturing to a newer more efficient facility in April 2005, we anticipate improved margins on our sales.

Operating costs

Operating costs increased from $4.5 million to $6.3 million, reflecting the investments made to build future revenues and the additional costs of becoming and operating as a public company, as well as certain significant one-off costs.

During 2004 we made a number of additions to our sales force in the US, Mexico and Spain. A general manager was hired for the US operation. Additional advertising costs were incurred for the production of a Golf Guide, a Landscape Guide and a specifier CD

Chief Executive's report
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for landscape architects as well as for supporting the additional sales personnel. We invested considerable time and cost in securing and developing our relationship with Scotts and invested in product trials and on the recruitment process for a new general manager for the newly acquired VAMTech operation.

The Company also experienced increases in expenses such as audit, legal, directors' fees and public relations fees related to being a quoted public company. Such expenses will be a constant in our existence as a listed company but should not need to grow in line with our projected sales growth.

Approximately $0.3 million of non-recurring costs related to our IPO were expensed. In addition a provision of $0.2 million was made to cover the costs of transferring to our new manufacturing facility.

Cash position

PHC entered the year with net debt of $2.2 million and borrowed $0.8 million more in the first half of 2004. The flotation allowed the conversion of $2.1 million of debt and related interest to equity, and raised a further $10.4 million in new cash for investment, debt repayment and working capital. At the close of the year, the Group had cash in hand of $4.8 million.

Acquisitions

In October 2004 PHC acquired VAMTech LLC for a consideration of $1.95 million plus interest free debt with a face value of $0.8 million, payable over five years. VAMTech's key product, Myconate®, specialises in the synthesis of *Formononetin*, a compound that stimulates the growth of mycorrhizal fungi already existing in the soil. The acquisition included all technology and patents surrounding VAMTech's production of *Formononetin*.

A series of independent trials in six locations with differing soil and climatic characteristics were carried out in the US on soybean and corn seeds by two professional research groups, Beck Hybrid and AgriBusiness Group. Yield increases of corn and soybean crops from seed treated with Myconate® were remarkable. Corn yields improved by up to 25%, and soybean yields improved by up to 42%. The benefits were most apparent in those areas where soil quality was low and the weather was poor.

We believe that the acquisition opens the door to the row crop market which, due to the relatively high cost of previous biological based products, has hitherto been closed to the Company. Some fifty further trials are now being conducted across the globe and the results of these in late 2005 will help establish our initial marketing priorities for this exciting new product.

We also believe that there will be other opportunities to acquire companies or businesses which can bring additional products into the Group to promote through our developing distribution capability. Other products will also be available to us through licensing arrangements. This expanded product portfolio will help accelerate the Group toward becoming the world's leading player in the natural product market.

Chief Executive's report

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Research and development

During 2004, the Group continued its programme of development to create new formulations and applications from its core technology base. Amongst the more significant activities were:

- Decomposing soil bacteria were isolated from several golf courses in the US to be used to develop a new PHC® Dethatch™ product. The bacteria were tested for cellulose/lignin decomposition, and six functional species were identified. These have been mass produced and sufficient inoculant is available for field testing this spring.
- Studies are currently underway in Florida testing the effectiveness of Palm Saver® and new formulations of natural based palm fertilizers.
- Over 50 field tests in nine countries are currently underway with Myconate®. Treatments involve different amounts on seed, drench applications and storage effectiveness. These studies include important crops such as corn, cotton, soybean, tomato, sunflower, beans and various grasses.

Relationship with Scotts

In October 2004 PHC entered into an exclusive long-term agreement for consumer product development and commercialisation with Scotts, who are the world's leading supplier and marketer of branded consumer products for lawn and garden care. The focus of the agreement combines PHC's expertise in mycorrhizal fungi and bacterial ingredient products with Scotts' expertise in consumer retail product development. The alliance gives Scotts exclusive consumer market rights to use PHC's proprietary technology and plant products. We expect the benefits of this arrangement to begin to have a material impact on revenues in 2006. The interim will be devoted to market research, refining product specifications and working with Scotts to ensure a successful product launch. The partnership has the potential to create a major new market outlet for PHC in this important and growing segment of the natural products market.

Staff

It is with great sadness that we note the passing in November 2004 of Len Marrs, who had been President of PHC Reclamation from the founding of the Company. Christopher Walla, our lead engineer, has been appointed to take Len's place as President of PHC Reclamation.

The Company continues to build its staff in two main areas: increasing our sales and marketing staff to allow expansion into new markets and territories and improving the overall leadership capabilities of the Company.

In the second half of the year, the Company added eight field sales people in the US, Mexico and Spain.

In December Martin Baumann was hired as General Manager of PHC US. In this capacity, he is responsible for the manufacturing operations in the US as well as sales and marketing activities in the arbour, horticulture, landscaping and sports turf markets.

I would like to take this opportunity to thank all of our staff for their efforts and enthusiasm during 2004.

Chief Executive's report

continued

Outlook

We believe that the PHC Group is poised to become a dominant player in the green industry. The proceeds from the equity placing have given the Group the resources to invest and grow into new markets and the investment in sales and marketing is now beginning to increase the level of enquiries that we are receiving.

Our traditional markets are providing steady growth in the US, Mexico and Europe. The Scotts agreement allows us access to the retail market from 2006 onwards in a way that would not otherwise be possible. The VAMTech acquisition gives us an exciting new product line with an avenue into the worldwide row crop market, currently estimated at 1.1 billion acres. The early trials of the VAMTech product Myconate® have been very encouraging and we will be pushing this product strongly into the agriculture market in the future. Finally, our reclamation business is pursuing various proposals which we hope will lead to new contracts in 2005.

We also continue to evaluate opportunities for further acquisitions or licences to increase our penetration of our target markets.

As a result of all of the above, we are extremely encouraged about the future of your Company.

John Brady
Chief Executive Officer

27 April 2005

Directors and Board Committees

Upon the formation of Plant Health Care plc, membership of the Board of directors was the same as that of the Board of Plant Health Care, Inc. The initial members were Albert Fischer (Non-Executive Chairman), John Brady (CEO), Donald Marx (Chief Scientist), Robert Chanson (Non-Executive) and Thomas Isler (Non-Executive). To constitute the Board of Plant Health Care plc, Steven Whitcomb (CFO) and Samuel Wauchope (Non-Executive) were added. The Board has maintained this membership since the Company's admission to AIM on 6 July 2004.

Dr Albert E M J Fischer (Non-executive Chairman) (47)

Dr Fischer is a citizen of the Netherlands and joined the board of Plant Health Care, Inc. as a non-executive director in 2001. He is currently Managing Partner for Planet Capital, a venture capital firm that he co-founded in 2002 that focuses on sustainable energy. Previously, he was a partner with Green Partners and PYMWYMIC, an investment firm that focused on businesses that integrate the values of a socially and environmentally sustainable society into their day-to-day business practices. Dr Fischer provides consulting and advisory services to early-stage companies with respect to corporate finance, fundraising, business planning and strategy, and entrepreneurship.

Dr Fischer is a director of Social Venture Network Europe, a network of European enterprises and organisations dedicated to working according to sustainable business practices.

Between 1988 and 1997 Dr Fischer worked for an international publishing firm in development, publishing and product management capacities. His educational background includes a PhD in Physics from the University of Leyden.

John A Brady (Chief Executive Officer) (50)

Mr Brady is a US national and has been an executive director of Plant Health Care, Inc. since 2001. He is responsible for implementing the Group's strategy and management of the Group's operations. Prior to joining PHC, Mr Brady was President and CEO of Alaska Seafood International, a start-up seafood product manufacturing company. Prior to his position at Alaska Seafood, he served as Executive Vice President, Operations, for Anderson Clayton Corp. of Fresno, CA, one of the world's largest vertically integrated cotton companies. Mr Brady served at Anderson Clayton for 19 years.

Mr Brady holds an MBA degree with an emphasis in Finance from Arizona State University and a BA degree in Political Science from the University of Connecticut.

Steven M Whitcomb (Chief Financial Officer) (53)

Mr Whitcomb is a US national and has been with Plant Health Care, Inc. since 2001. He brings over 25 years of broad-based financial and operational experience to the Company. Mr Whitcomb's experience extends to both start-up and established companies. Between 1993 and 2000 as Vice President at Keystone Industries he was responsible for acquiring or establishing multiple US and foreign companies.

Mr Whitcomb has an MBA from the University of Pennsylvania and a BA from Cornell University. He is also a Certified Public Accountant.

Directors and Board Committees

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Dr Donald H Marx (Chief Scientist) (68)

Dr Marx is a US national and has been an executive director of Plant Health Care, Inc. since 1995, following 37 years with the USDA Forest Service. He spends the majority of his time working with PHC's customers to explain and demonstrate to them the benefits of PHC's approach to plant management, and to support their first applications of this approach. He also manages the university and field-testing of PHC products. Dr Marx lectures extensively throughout the US and abroad on soil ecology, plant physiology, mycorrhizal fungi and bacteria. He is a leading authority on mycorrhizal fungi and their practical application to plants.

Dr Marx has authored more than 250 scientific papers in forest microbiology and has presented more than 400 invitational lectures in 28 countries, as well as at most major universities in the US and has carried out research in 25 countries. As a result of his accomplishments, Dr Marx has received numerous awards, including the Marcus Wallenberg Prize (awarded by the King of Sweden), the Barrington Moore Award from the Society of American Foresters, the USDA Distinguished Science Award, the Superior Achievement Award from the US Department of Energy and the Congress Medal for Outstanding Achievement in Plant Protection from the International Congress of Plant Protection.

Dr Robert H Chanson (Non-executive director) (55)

Dr Chanson is a Swiss national and joined the board of Plant Health Care, Inc. in 1995. He is a lawyer, politician and ecoinvestment consultant. In 1991 he founded Eco-Rating International Limited in Switzerland and since its inception has been the Executive Chairman. He is also currently the Chairman and Chief Executive Officer of Ambiocare Holdings Limited in Switzerland.

Dr Chanson currently acts as a member of various advisory boards and committees in academic research, commerce, industry and environmental conservation in Europe and the US. He is also a well-known lecturer and publisher in environmental law, ecology, green investment and politics.

He received his Doctorate in Law from Zurich University.

Thomas P Isler (Non-executive director) (60)

Mr Isler is a Swiss national and joined the board of Plant Health Care, Inc. in 2001. He has extensive experience in industry, international marketing and private and international banking. Mr Isler is currently the CEO of two privately owned Swiss-based companies operating textile mills, Gessner AG and Textildruckerei Mitlödi AG. He is a director of several other Swiss companies, including Desco von Schulthess AG, an international trading house and Bank Hofmann AG, a private bank.

In 1999 Mr Isler became president of the Swiss Textile Federation. Since 1987, he has served as a Member of Parliament of the Canton of Zurich and was also Mayor of Rüschlikon in Switzerland from 1978 to 1995.

Mr Isler received an MBA from the University of St. Gall.

Directors and Board Committees

continued

Samuel A Wauchope (Non-executive director) (53)

Mr Wauchope is a UK citizen and joined the Company as a non-executive director in June 2004.

He is a chartered accountant by professional training. His executive career has involved CEO and Executive Chairman positions in a number of UK listed companies, most notably Acorn Computer Group plc, Oceonics Group plc and Ultrasis plc, seeking to exploit their potential in the international marketplace. While CEO of Acorn Computer Group he established the spin-out of what is now ARM Holdings plc and represented Acorn's interests in that company as a non-executive director for five years. He has also served as a non-executive director on the boards of other growing UK listed companies, including Waste Recycling Group plc and Gall Thomson Environmental plc. Mr Wauchope is currently a non-executive director of Progressive European Markets Limited and Progressive Developing Markets Limited, fund managers specialising in the extraction of value from undervalued investment trusts and funds.

Board Committees

The principal standing committees appointed by the Board are as follows:

Audit Committee

The Audit Committee is chaired by Sam Wauchope. Robert Chanson is also a member. The Committee provides a forum for reporting by the Group's auditors and reviews the Group's budget and interim and final financial statements before their submission to the Board. The Committee also monitors the Company's internal control and risk management practices and reports to the Board on these. The Committee advises the Board on the appointment of external auditors and on their remuneration both for audit and non audit work. It also discusses the nature and scope of the audit with the auditors.

Remuneration Committee

The Remuneration Committee is chaired by Thomas Isler and includes Albert Fischer, Robert Chanson and Sam Wauchope as members. The Committee is responsible for determining the contract terms, remuneration and other benefits for executive directors. Its policy is to ensure the Group's remuneration arrangements are in line with best practice, through a process of regular review. The Committee may take independent specialist advice to assist it in its work. It takes account of comparative responsibilities and ranking, established through a job evaluation process, and levels of remuneration in the market, which are closely monitored. When required the Committee is also involved in the selection process for executive directors and approves remuneration before a final offer is made. The remuneration report is set out on pages 15 to 19.

Corporate governance statement

There is commitment to high standards of corporate governance throughout the Group. Although compliance with the Combined Code is not required for AIM companies, the Board confirms that since admission to AIM the Company has complied with all of the principal provisions set out in Section 1 of the 2003 FRC Combined Code, except as noted below.

The Board is accountable to the Company's shareholders for good governance and the statement set out below describes how the principles identified in the Combined Code are applied.

Board composition

The Board consists of a non-executive chairman, Albert Fischer, three other non-executive directors and three executive directors. John Brady is the Chief Executive Officer. The Board considers all of the non-executive directors to be independent as none hold a material interest in the shares of the Company. While serving as non-executive directors of Plant Health Care, Inc. Albert Fischer, Robert Chanson and Thomas Isler were issued with options for their services to that company. At the flotation these options were exchanged for options in Plant Health Care plc. The Company will not make any further award of options to non-executive directors.

Biographies of the Board members appear on pages 9 to 11 of this report. These indicate the high levels and range of business experience which is essential to manage effectively a business of the size, complexity and geographical spread of the Group. Concerns relating to the executive management of the Company or the performance of the non-executive directors can be raised in confidence by contacting the independent directors through the Company Secretary.

Workings of the Board

The Board meets at least eight times each year and more frequently where business needs require. The Board has a schedule of matters reserved to it for decision and the requirement for Board approval on these matters is communicated widely throughout the senior management of the Group. This includes matters such as approval of the Group's strategic plan; extension of the Group's activities into new business or geographic areas; any decision to cease to operate all or any material part of the Group's business; changes relating to the Group's capital structure; major (over $1 million) bids by PHC Reclamation; contracts that are material strategically or by reason of size; investments including the acquisition or disposal of interests in the voting shares of any company or the making of any takeover offer; and the prosecution, defence, or settlement of litigation material to the Group.

There is an agreed procedure for directors to take independent professional advice if necessary and at the Company's expense. This is in addition to the access which every director has to the Company Secretary who is also charged by the Board with ensuring that Board procedures are followed.

The differing roles of Chairman and Chief Executive are acknowledged and defined in separate statements approved by the Board. The key functions of the Chairman are to conduct Board meetings and meetings of shareholders and to ensure that all directors are properly briefed in order to take a full and constructive part in Board discussions. The Chief Executive is required to develop and lead business strategies and processes to enable the Group's business to meet the requirements of its shareholders.

Corporate governance statement

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To enable the Board to function effectively and allow directors to discharge their responsibilities, full and timely access is given to all relevant information. In the case of Board meetings, this consists of a comprehensive set of papers, including regular business progress reports and discussion documents regarding specific matters.

Re-election of directors

Any director appointed during the year is required, by statute and under the provisions of the Company's articles of association, to retire and seek election by shareholders at the next annual general meeting. The articles also require that one third of the directors retire by rotation each year and seek re-election at the annual general meeting. The directors required to retire will be those in office longest since their previous re-election and this will usually mean that each director retires at least every three years, although there is no absolute requirement to this effect. In order to comply with the Combined Code, but avoid the expense of amending the Company's articles to deal with this single point, the Board has resolved that each director will retire at least every three years, even if this is not strictly required by application of the provisions of the articles.

Remuneration of directors

A statement of the Company's remuneration policy and full details of directors' remuneration are set out in the Remuneration Report on pages 15 to 18. The Chairman is a member of the Remuneration Committee and attends meetings of the Committee to discuss the performance of the executive directors and make proposals as necessary. Executive directors abstain from any discussion or voting at full Board meetings on Remuneration Committee recommendations where the recommendations have a direct bearing on their own remuneration package. The details of each executive director's package are fixed by the Committee in line with the policy adopted by the full Board.

Communication

The Company places a great deal of importance on communication with its shareholders. The Company publishes an interim statement as well as its full report and accounts. Both are mailed to all shareholders and upon request to other parties who have an interest in the Group's performance. Regular communication with shareholders also takes place via the Company website www.planthealthcare.com.

There is regular dialogue with major shareholders as well as general presentations after the interim and preliminary results. All shareholders have the opportunity to put questions at the Company's annual general meeting and the Board makes a presentation at the meeting to highlight the key business developments during the financial year.

Internal controls and risk management

The directors are responsible for the Group's system of internal control and for reviewing its effectiveness. However, such a system can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The directors believe that the Group has internal control systems in place appropriate to its size and nature. However they also recognise that the Group is ambitious and seeking significant growth. There is an on-going process in place to review the control systems across the Group to ensure that they develop in anticipation of this growth.

The Board is also developing a formal ongoing process for identifying, evaluating and managing the significant risks faced by the Group, which complies with the guidance provided by the document: *Internal Control: Guidance for Directors on the Combined Code*.

Corporate governance statement

continued

Compliance with the Combined Code

The Board has reviewed the Combined Code and is satisfied that it adheres to its main and supporting principles. The relevant provisions in the Combined Code with which the Company did not comply during the year ended 31 December 2004 are as follows:

A.2.2 – As explained above, the Chairman, Albert Fischer, owns share options arising from share option plans in existence before admission to AIM. However the Board considers that he is able to exercise independent judgement and that the benefits he brings to the Company far outweigh any potential threats to the Company that may arise from his appearing not to be independent.

B.2.2 – The Remuneration Committee has established the compensation structure for the Executive Board members, as required by the Combined Code. However, it has not extended its definition of "Senior Management" to include the first layer of management below the Board level. The Board has, however, reviewed and approved a summary of compensation arrangements for the direct reports of Executive Board members.

C.3.5 – Because of the limited size and scope of its operations, the Company does not maintain an internal audit function.

External audit matters

Independence

The Audit Committee has sole responsibility for assessing the independence of the external auditors, BDO Stoy Hayward LLP. The Committee has had due regard to the document published in May 2003 by the Institute of Chartered Accountants in England and Wales *Reviewing Auditor Independence: Guidance for Audit Committees*. Each year the Committee undertakes to:

- Seek reassurance that the external auditors and their staff have no family, financial, employment, investment or business relationship with the Company. To this end the Committee requires the external auditor and their associates to confirm this in writing, and detail the procedures which the auditor has carried out in order to make this confirmation.
- Check that all partners engaged in the audit process are rotated at least every 5 years.
- Assess the likely impact on the auditors' independence and objectivity before awarding them any contract for additional services. It is Company policy to require Audit Committee approval for all non-audit services provided by the independent auditors.
- Having as a standing agenda item auditor independence issues at each Audit Committee meeting.

Other matters

There has been no material variation in services provided by the external auditor after the year-end.

Remuneration Committee report

The Remuneration Committee is chaired by Thomas Isler and includes Albert Fischer, Robert Chanson and Sam Wauchope as members. All are non-executive directors. The Committee is responsible for determining the contract terms, remuneration and other benefits of the executive directors and of the Chairman. The Committee may also call on outside compensation experts as required.

Remuneration policy

It is Group policy to set directors' remuneration levels to attract the quality of individual that the Group will require to succeed in its chosen objectives.

It is also Group policy to ensure that there is a strong link between the level of executive directors' remuneration and the performance of the Group in achieving its goals.

Elements of remuneration

The following comprise the principal elements of executive directors' remuneration:

- Basic salaries and benefits
- Annual bonus
- Share options
- Pension contributions

Only basic salaries and benefits are fixed. In comparison to other comparable companies, these fixed elements of remuneration are recognised as being low. Each director can significantly augment his total remuneration through annual bonuses and the share option scheme. The pension entitlement is based on a US 401(k) Plan to which the Company made no contribution during the year 2004. A Company contribution equal to 3% of total compensation has been approved for all US based employees eligible to participate beginning in 2005.

The remuneration for non-executive directors consists solely of fees for their services in connection with the Board and Board Committees. Robert Chanson and Sam Wauchope receive 100% of their fees in cash. Thomas Isler receives 100% of his fees in the form of the Company's ordinary shares. Albert Fischer receives 50% of his fees in cash and 50% in the form of the Company's ordinary shares.

At the forthcoming annual general meeting, shareholders will be given the opportunity to ask the Chairman of the Remuneration Committee, Thomas Isler, questions on any aspect of the Group's remuneration policy.

Basic salary and benefits

In March 2004, it was agreed that basic salaries for the executive directors would be adjusted to recognise the additional responsibilities consequent upon the Company's admission to AIM. Although to accrue from 1 January 2004, the first stage of the increase was conditional upon and deferred until admission to AIM. The second stage of the increase was implemented on 1 January 2005.

Thereafter salaries will be reviewed (but not necessarily increased) annually by the Committee. As the level of each individual director's remuneration can be significantly augmented through performance related bonuses, only in exceptional circumstances will the Committee consider an increase in excess of the general rate of wage inflation for the US. Where such an increase has been awarded the Committee will publish the reasons behind their decision in the Remuneration Report.

Remuneration Committee report

continued

In addition to basic salary, each executive director is entitled to the following main benefits:

- 15 days holiday per annum;
- coverage under the Company's health insurance plans or a cash payment to cover the director's cost of acquiring medical insurance; and
- coverage under the Company's long term and short term disability and Group term life insurance plans.

Annual bonus

An annual bonus is paid to executive directors based on achievement of financial, strategic and sustainability objectives. For 2004 through 2006 the directors have a bonus potential of between 15% and 50% of their basic salaries. This ensures that there is a significant element of "at risk" pay, which is only available when good results are achieved. In addition, 25% of the annual bonus is retained in a special account as a long-term incentive and is released after six months if the director is still employed by the Company.

Share option schemes

Prior to the creation of Plant Health Care plc, the executive directors participated in the Plant Health Care, Inc. Incentive Stock Option plans. Under these plans, options were periodically awarded at the discretion of the board of directors of that company. These plans were effectively frozen at the time of admission to AIM. Any outstanding options in Plant Health Care, Inc. were converted into options in Plant Health Care plc bearing the same rights *mutatis mutandis* as under the Plant Health Care, Inc. scheme. No further awards will be made to directors under the Plant Health Care, Inc. plans.

In July 2004 the Board of directors adopted the Plant Health Care plc Unapproved Share Option Scheme. Under this scheme the Board may grant options for a period of up to 10 years from the date of adoption of the scheme. The exercise price shall not be less than the greater of the market value of a share on the date an award is granted or the nominal value of a share. Options may not be exercised later than the tenth anniversary of the date of the grant. The Company may issue up to the greater of 3% of its issued share capital or such number of options over its shares as, when aggregated with any outstanding options converted from the Plant Health Care, Inc. plans described above, amounts to no more than 10% of the issued share capital of the Company. To date the executive directors have been granted no options under this scheme.

Details of the directors' participation in the Company's share option schemes are provided on page 19.

Pension Plan

Each of the executive directors is entitled to participate in the Plant Health Care, Inc. 401(k) Plan. This is a defined contribution plan approved by the US Internal Revenue Service. The main features of the plan are:

- participation is open to all US based employees who have completed a probationary period after initial employment;

Remuneration Committee report

continued

- employees may contribute a percentage of salary to the plan through a payroll withholding scheme;
- for 2004 the Company made no contribution to the plan. Beginning in 2005, the Company will contribute an amount equal to 3% of compensation for all employees eligible to participate;
- vesting of Company contributions is 20% after two years of service, with further vesting in 20% annual increments until vesting is complete;
- the plan is subject to various statutory non-discrimination tests to ensure that it does not favour highly-compensated employees; and
- employee contributions and earnings on employee accounts are tax-deferred until withdrawn from the plan, presumably upon retirement. Participants must begin withdrawing funds from the plan no later than the year they reach age 70.5.

Service contracts

The Company has service contracts with all executive and non-executive directors. Provisions included in the service contracts for executive directors include:

- an initial term of 24 months, beginning upon admission to AIM;
- after twelve months from admission, termination may be initiated by either party with twelve months' notice;
- if the Company terminates, the individual is entitled to a payment equal to the greater of the basic salary that would have been paid during the balance of the notice period or until the second anniversary of the Company's admission to AIM plus a payment equal to salary to the effective date of termination, payment for accrued but unused vacation, any incentive compensation due, and *pro rata* cash bonus for the year to date; and
- in the event of termination for cause, the individual would receive only base salary through the date of termination, and accrued vacation pay. "For cause" includes fraud or felonious conduct; embezzlement or misappropriation of Company funds or property; refusal, misconduct in or disregard of the performance of the individual's duties and obligations; abandonment or voluntary resignation; death, retirement or permanent disability.

For non-executive directors:

- the terms for the current non-executive directors began with the Company's admission to AIM. All non-executive directors will stand for re-election at the Company's first annual general meeting following admission to AIM;
- termination is on not less than one month's written notice, to expire at any time; and
- directors' contracts may be terminated with immediate effect for serious breach or repeated or continued material breach of any obligations to the Company; any act of dishonest or serious misconduct or conduct which tends to bring the director or the Company into disrepute; or a declaration of bankruptcy.

In addition to the above, the Company's articles of association require that at least one third of the directors retire by rotation at each annual general meeting. Such retiring directors are eligible for re-election.

Remuneration Committee report

continued

Directors' remuneration

The remuneration of the individual directors was as follows:

	Base salary and fees 2004 $'000	Investor relations services 2004 $'000	Performance related bonus 2004 $'000	Other allowances 2004 $'000	Total 2004 $'000	Total 2003 $'000
J A Brady	187	—	56	3	246	160
D H Marx	128	—	29	5	162	110
S M Whitcomb	135	—	52	2	189	110
A E M J Fischer	36	—	—	—	36	10
R H Chanson	30	12	8	—	50	34
T P Isler	31	—	—	—	31	10
S A Wauchope	26	—	—	—	26	—
	573	12	145	10	740	434

Prior to the Company's admission to AIM, Robert Chanson received $2,000 per month for performing investor relations services. This arrangement was discontinued upon admission. The $8,000 performance bonus paid to Robert Chanson was for services in relation to the Company's admission to AIM.

Remuneration Committee report

continued

Directors' share options

The Company maintains an Unapproved Share Option Scheme that was adopted in July 2004. To date no options have been granted to directors under that scheme.

Individual directors have share options granted under the 1996 Qualified Stock Option Plan and the 2001 Incentive Stock Option Plan previously maintained by Plant Health Care, Inc. Upon admission to AIM, options outstanding under these plans were converted into options to acquire shares of Plant Health Care plc. Share options of directors under these plans are set out below.

	Options over PHC Inc. shares at 1 Jan 2004	*Awarded during year*	*At 5 July 2004*	*Converted to options over PHC plc shares and outstanding at 31 Dec 2004*	*Exercise price £*	*Plan*	*Date from which exercisable*	*Expiry Date*
A E M J Fischer	25,000		25,000	37,500	0.37	2001	19/11/2001	18/11/2011
	25,000		25,000	37,500	0.37	2001	19/11/2002	18/11/2012
		25,000	25,000	37,500	0.37	2001	02/03/2004	01/03/2014
		50,000	50,000	75,000	0.74	2001	24/03/2004	23/03/2014
		25,000	25,000	37,500	0.37	2001	15/06/2004	14/06/2014
J A Brady	50,000		50,000	75,000	0.37	2001	20/08/2001	20/08/2011
	50,000		50,000	75,000	0.37	2001	15/02/2002	20/08/2011
	50,000		50,000	75,000	0.37	2001	15/08/2002	20/08/2011
	100,000		100,000	150,000	0.37	2001	16/02/2004	20/08/2011
	100,000		100,000	150,000	0.37	2001	15/02/2003	20/08/2011
		612,650	612,650	918,975	0.37	2001	05/03/2004	04/03/2014
		37,350	37,350	56,025	0.71	2001	18/06/2004	04/03/2014
D H Marx	18,750		18,750	28,125	0.74	1996	01/01/2000	31/12/2005
	18,750		18,750	28,125	0.74	1996	01/01/2001	31/12/2005
	18,750		18,750	28,125	0.74	1996	01/01/2002	31/12/2005
	18,750		18,750	28,125	0.74	1996	01/02/2003	31/12/2005
	33,333		33,333	49,999	0.37	2001	17/12/2002	17/12/2012
	33,333		33,333	49,999	0.37	2001	22/04/2003	17/12/2012
	33,334		33,334	50,001	0.37	2001	22/10/2003	17/12/2012
		377,175	377,175	565,762	0.37	2001	05/03/2004	04/03/2014
		22,825	22,825	34,237	0.71	2001	18/06/2004	04/03/2014
S M Whitcomb	33,333		33,333	49,999	0.37	2001	22/10/2001	21/10/2011
	33,333		33,333	49,999	0.37	2001	22/04/2002	21/10/2011
	33,334		33,334	50,001	0.37	2001	22/10/2002	21/10/2011
		377,175	377,175	565,762	0.37	2001	05/03/2004	04/03/2014
		22,825	22,825	34,237	0.71	2001	18/06/2004	04/03/2014
R H Chanson	25,000		25,000	37,500	0.37	2001	19/11/2001	18/11/2011
	25,000		25,000	37,500	0.37	2001	19/11/2002	18/11/2012
		25,000	25,000	37,500	0.37	2001	02/03/2004	01/03/2014
		40,000	40,000	60,000	0.74	2001	24/03/2004	23/03/2014
		25,000	25,000	37,500	0.37	2001	15/06/2004	14/06/2014
T P Isler	25,000		25,000	37,500	0.37	2001	19/11/2001	18/11/2011
	25,000		25,000	37,500	0.37	2001	19/11/2002	18/11/2012
		25,000	25,000	37,500	0.37	2001	02/03/2004	01/03/2014
		35,000	35,000	52,500	0.74	2001	24/03/2004	23/03/2014
		25,000	25,000	37,500	0.37	2001	15/06/2004	14/06/2014
				3,749,996				

None of the above options lapsed or were exercised during the year or to the date of this report.

Report of the directors

for the year ended 31 December 2004

The directors present their report together with the audited financial statements for the year ended 31 December 2004.

Results and dividends

The results of the Group for the year are set out on page 26 and show a loss for the year of $2,946,000 (2003 – loss of $1,347,000).

The directors recommend that no dividend be paid at this time.

Principal activities, review of business and future developments

Details of the principal activities and a review of business and future developments are included in the Chief Executive's report on pages 5 to 8.

Research and development

The Group continues to invest in research and development activities with an emphasis on commercialisation of existing technologies and formulation of products to meet specific customer needs.

Post balance sheet events

These are detailed in note 25 of the financial statements.

Charitable and political contributions

During the year the Group made the following contributions:

	2004 *$*	*2003* *$*
Charitable	**1,000**	1,250
Political	—	—

Substantial shareholders

On 18 April 2005 the Company had been notified of the following holdings representing in excess of 3% of the Company's ordinary shares:

Name	*Shares held*	*Percent of issued share capital*
Gartmore	3,244,560	10.84
Henderson	2,594,569	8.67
Branco Weiss	2,287,168	7.64
Donald B. Stott	1,115,241	3.73
Norwich Union	1,060,000	3.54
Throgmorton Trust	1,000,000	3.34
3i	960,000	3.21
First State Investments	960,000	3.21
Progress Now! Overseas Ltd.	900,000	3.01
Framlington Smaller Cos	900,000	3.01

Payment of creditors

The Company will follow the practices customary in the various geographic areas in which it operates. Terms of payment are generally established with suppliers when agreeing the terms of each transaction. As of 31 December 2004, creditor days outstanding stood at 47.

Report of the directors continued

for the year ended 31 December 2004

Directors

The directors of the Company during the year and their beneficial interests in the ordinary share capital of the Group, redeemable loan stock and accrued interest convertible into ordinary shares, and warrants and options to purchase ordinary shares of the Group were as follows. Interests as of 31 December 2003 are for ordinary shares of Plant Health Care, Inc. Interests for 31 December 2004 are for ordinary shares of Plant Health Care plc:

	Interests in Plant Health Care, Inc. at 31 December 2003				***Interests in Plant Health Care plc at 31 December 2004***	
	Ordinary shares	*Convertible redeemable loan stock and interest ($'s)*	*Warrants over shares*	*Options over shares*	***Ordinary shares***	***Options over shares***
A E M J Fischer	—	39,611	12,500	50,000	**89,062**	**225,000**
R H Chanson	—	17,061	11,554	50,000	**35,166**	**210,000**
T P Isler	125,873	14,883	6,834	50,000	**235,103**	**202,500**
J A Brady	—	—	—	350,000	**—**	**1,500,000**
D H Marx	210,371	117,014	50,000	175,000	**578,815**	**862,500**
S M Whitcomb	—	29,059	12,500	100,000	**65,526**	**750,000**
S A Wauchope	—	—	—	—	**—**	**—**

Steven Whitcomb was appointed to the Board of the Company on 30 April 2004 and Sam Wauchope on 16 June 2004. All other directors had been directors of Plant Health Care, Inc. from the beginning of the year and were appointed to the Board of the Company on 30 April 2004.

On 17 January 2005 Robert Chanson exchanged 3,720 unexpired warrants in Plant Health Care, Inc. for warrants in Plant Heath Care plc. His holding now includes 5,580 warrants over Plant Health Care plc shares at a subscription price of £0.74 exercisable on or before 30 April 2005.

On 18 March 2005 the Company was notified that the holding for Thomas Isler had increased as a result of the transfer of 101,368 ordinary shares of 1p in the Company from a bequest. Following the transfer Thomas Isler's holding is now 336,471 ordinary shares.

Further details of the directors' share options are shown in the Remuneration Report on page 19.

None of the directors now has any holding in Plant Health Care, Inc. or any other subsidiary company.

No directors have any material interests in the transactions of the Group.

Report of the directors continued

for the year ended 31 December 2004

Board meetings

Following the flotation of the Company on 6 July the Board held five meetings. All of the directors attended the five meetings except for Sam Wauchope who attended four meetings. During the period from 6 July 2004 to 31 December 2004 the Audit Committee met twice and the Remuneration Committee met twice. All Committee members were in attendance.

By Order of the Board

Steven Whitcomb
Chief Financial Officer

27 April 2005

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors are also responsible for preparation of the Directors' Report and other information included in the annual report of the Company.

Financial statements are published on the Company's website in accordance with legislation in the UK governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Report of the independent auditors

To the shareholders of Plant Health Care plc

We have audited the financial statements of Plant Health Care plc for the year ended 31 December 2004 on pages 26 to 47 which have been prepared under the accounting policies set out on pages 31 to 33.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report, the Chairman's Statement, the Financial Review within the Chief Executive's Report and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Report of the independent auditors

continued

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Group and the Company at 31 December 2004 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

BDO Stoy Hayward LLP
Chartered Accountants
and Registered Auditors
London

29 April 2005

Consolidated profit and loss account

for the year ended 31 December 2004

	Note	2004 $'000	2003 $'000
Turnover	1,2	**8,611**	8,082
Cost of sales		**(4,952)**	(4,420)
Gross profit		**3,659**	3,662
Administrative expenses		**(6,284)**	(4,539)
Operating loss	3	**(2,625)**	(877)
Other interest receivable and similar income		**44**	—
Interest payable and similar charges	6	**(299)**	(366)
Loss on ordinary activities before taxation		**(2,880)**	(1,243)
Taxation	7	**(52)**	(70)
Loss on ordinary activities after taxation		**(2,932)**	(1,313)
Minority interest		**(14)**	(34)
Loss for the period		**(2,946)**	(1,347)
Basic loss per share	8	**14.0¢**	10.2¢
Diluted loss per share		**14.0¢**	10.2¢

All amounts relate to continuing activities.

Included within administrative expenses is an amount of $109,000 relating to the operating results of the business acquired during the year.

The notes on pages 31 to 47 form part of these financial statements.

Consolidated statement of total recognised gains and losses for the year ended 31 December 2004

	2004 $'000	2003 $'000
Loss for the financial year	**(2,946)**	(1,347)
Exchange translation differences on consolidation	**43**	(49)
Total recognised gains and losses for the year	**(2,903)**	(1,396)

The notes on pages 31 to 47 form part of these financial statements.

Consolidated balance sheet

at 31 December 2004

	Note	2004 $'000	2003 $'000
Fixed assets			
Intangible assets	10	**2,810**	260
Tangible fixed assets	11	**453**	386
		3,263	646
Current assets			
Stocks	14	**1,124**	790
Debtors	15	**2,192**	1,422
Cash at bank and in hand		**4,812**	335
		8,128	2,547
Creditors: amounts falling due within one year			
Convertible redeemable loan stock	16	—	(1,864)
Other creditors	16	**(1,771)**	(1,640)
		(1,771)	(3,504)
Net current assets/(liabilities)		**6,357**	(957)
Total assets less current liabilities		**9,620**	(311)
Creditors: amounts falling due after more than one year			
Convertible redeemable loan stock	16	—	(363)
Other creditors	16	**(615)**	(76)
		(615)	(439)
Net assets/(liabilities)		**9,005**	(750)
Capital and reserves			
Called up share capital	18	**538**	9
Share premium	19	**10,700**	11,639
Merger reserve	19	**11,913**	—
Profit and loss account	19	**(14,309)**	(12,547)
Shareholders' funds – equity	20	**8,842**	(899)
Minority interests – equity		**163**	149
		9,005	(750)

The financial statements were approved by the Board on 27 April 2005.

J A Brady
Director

The notes on pages 31 to 47 form part of these financial statements.

Company balance sheet

at 31 December 2004

	Note	2004 $'000
Fixed assets		
Fixed asset investments	12	20,959
Current assets		
Debtors	15	24
Cash at bank and in hand		4,217
		4,241
Creditors: amounts falling due within one year	16	(123)
Net current assets		4,118
Total assets less current liabilities		25,077
Net assets		25,077
Capital and reserves		
Called up share capital	18	538
Share premium	19	10,700
Merger reserve	19	14,453
Profit and loss account	19	(614)
Shareholders' funds – equity	20	25,077

The financial statements were approved by the Board on 27 April 2005.

J A Brady

Director

The notes on pages 31 to 47 form part of these financial statements.

Consolidated cash flow statement

for the year ended 31 December 2004

	Note	2004 $'000	2003 $'000
Net cash outflow from operating activities	26	(3,256)	(1,038)
Returns on investments and servicing of finance			
Interest paid		(205)	(211)
Interest received		44	—
Net cash outflow from returns on investments and servicing of finance		(161)	(211)
Taxation			
Current tax on foreign income for the year	7	(45)	(11)
Capital expenditure and financial investment			
Purchase of tangible fixed assets	11	(217)	(86)
Purchase of licences	10	(37)	—
Net cash outflow from capital expenditure and financial investment		(254)	(86)
Acquisition of subsidiary			
Purchase of subsidiary undertaking	21	(1,986)	—
Cash outflow before financing		(5,702)	(1,346)
Financing			
Issue of ordinary share capital for cash		10,386	—
Exercise of warrants		205	—
Increase of convertible redeemable loan stock		775	1,520
Issue of new finance leases		25	—
Redemption of convertible redeemable loan stock		(1,000)	(36)
Repayment of notes payable		(173)	—
Repayment of finance leases – capital		(39)	(10)
		10,179	1,474
Increase in cash	28	4,477	128

The notes on pages 31 to 47 form part of these financial statements.

Notes to the financial statements

for the year ended 31 December 2004

1. Accounting policies

The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards.

The principal accounting policies are:

Basis of preparation

The financial statements have been prepared under UK GAAP and are presented in US dollars. The directors believe that it is more appropriate to use US dollars as a currency for presentation, given that the majority of the Group's operations are denominated in that currency.

Basis of consolidation

On 6 July 2004 Plant Health Care plc became the legal parent company of Plant Health Care, Inc. in a share for share transaction. The former shareholders of Plant Health Care, Inc. became the majority shareholders of Plant Health Care plc. Further, the continuing operations and executive management of Plant Health Care plc were those of Plant Health Care, Inc. Accordingly, the substance of the combination was that Plant Health Care, Inc. acquired Plant Health Care plc in a reverse acquisition.

Under the requirements of the Companies Act 1985, it would normally be necessary for the consolidated accounts of Plant Health Care plc to follow the legal form of the business combination. In that case the pre-combination results would be those of Plant Health Care plc, which would exclude Plant Health Care, Inc. Plant Health Care, Inc. would then be brought into the Group from 6 July 2004. However, this would portray the combination as an acquisition of Plant Health Care, Inc., and would, in the opinion of the directors, fail to give a true and fair view of the substance of the business combination. Accordingly, the directors have adopted reverse acquisition accounting as the basis of consolidation in order to give a true and fair view.

In invoking the true and fair override the directors note that reverse acquisition accounting is endorsed under International Financial Reporting Standard 3 and that the Urgent Issues Task Force of the UK's Accounting Standards Board considered the subject and concluded that there are instances where it is right and proper to invoke the true and fair override in such a way.

As a consequence of applying reverse acquisition accounting, the results for the period ended 31 December 2004 comprise the results of Plant Health Care, Inc. for the period ended 31 December 2004 plus those of Plant Health Care plc from 6 July 2004, the acquisition date. The comparative figures are those of Plant Health Care, Inc., using the principles of reverse acquisition accounting.

Goodwill

Goodwill arising on an acquisition of a subsidiary undertaking is the difference between the fair value of the consideration paid and the fair value of the assets and liabilities acquired. It is capitalised and amortised through the profit and loss account over the directors' estimate of its useful economic life. Impairment tests on the carrying value of goodwill are undertaken:

- at the end of the first full financial year following acquisition; and
- in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Notes to the financial statements continued

for the year ended 31 December 2004

1. Accounting policies continued

Licences

Licences are recorded at cost or fair value and are amortised through the profit and loss account over the directors' estimate of their useful economic life.

Turnover

Turnover represents sales to external customers at invoiced amount less value added tax or local taxes on sales.

Depreciation

Depreciation is provided to write off the cost, less estimated residual values, of all tangible fixed assets over their expected useful lives. It is calculated at the following rates:

Leasehold improvements	—	over length of lease
Production machinery	—	10 – 20% per annum
Office equipment	—	20 – 33% per annum
Vehicles	—	20% per annum

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost is calculated as follows:

Raw materials	—	cost of purchase on a moving average basis
Work in progress and finished goods	—	cost of raw materials and direct labour

Net realisable value is based on estimated selling price less further costs to completion and disposal.

Long-term contracts are assessed on a contract by contract basis and are reflected in the profit and loss account by recording turnover and related costs as contract activity progresses. When the outcome of a long-term contract can be assessed with reasonable certainty before its conclusion, any attributable loss is recognised in the profit and loss account as the difference between the reported turnover and related costs for that contract.

Foreign currency

The results of non US operations are translated at the average rates of exchange during the year and their balance sheets translated into US dollars at the rates of exchange ruling on the balance sheet date. Translation differences are taken directly to reserves.

Non-interest bearing debt

Non-interest bearing notes payable to the former members of VAMTech LLC are accounted for using a market discount rate of 5.61% per annum. Amortisation of this discount is charged to interest expense over the life of the notes.

Notes to the financial statements continued

for the year ended 31 December 2004

1. Accounting policies continued

Financial instruments

In relation to the disclosures made in note 17:

- short term debtors and creditors are not treated as financial assets or financial liabilities except for the currency disclosures; and
- the Group does not hold or issue derivative financial instruments for trading purposes.

Research and development

All research and development costs are charged to the profit and loss account in the year in which they are incurred.

Deferred taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date. However, where there is uncertainty over the timing of their realisation, deferred tax assets are not recognised.

Leased assets

Where assets are financed by leasing agreements that give rights approximating to ownership (finance leases), the assets are treated as if they had been purchased outright. The amount capitalised is the lower of the present value of the minimum lease payments payable over the term of the lease or the fair market value of the leased asset. The corresponding lease commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the profit and loss account.

Lease payments are analysed between capital and interest components. The interest element of the payment is charged to the profit and loss account over the period of the lease and is calculated so that it represents a constant proportion of the balances of capital repayments outstanding. The capital element reduces the amounts payable to the lessor.

All other leases are treated as operating leases. Their annual rentals are charged to the profit and loss account.

2. Segmental analysis

	2004 Turnover $'000	2004 Pre-tax profit/(loss) $'000	2004 Net assets/(liabilities) $'000	2003 Turnover $'000	2003 Pre-tax profit/(loss) $'000	2003 Net assets/(liabilities) $'000
US	6,154	(1,471)	756	5,789	(751)	(420)
Mexico	1,365	123	628	1,375	136	476
Europe	1,092	(66)	(700)	918	115	(559)
Group	—	(1,466)	8,321	—	(743)	(247)
	8,611	(2,880)	9,005	8,082	(1,243)	(750)

Notes to the financial statements continued

for the year ended 31 December 2004

3. Operating loss

	2004 $'000	2003 $'000
This is arrived at after charging/(crediting):		
Research and development	**170**	220
Depreciation	**150**	138
Amortisation	**41**	22
Auditors' remuneration – audit services	**151**	114
– non audit services*	**3**	—
Bad debt release	**(6)**	(77)
IPO costs	**247**	—
Plant relocation	**189**	—

*$393,000 fees were also paid to the auditors in relation to the IPO, these fees were capitalised.

Plant relocation expenses comprise a provision for the relocation of the Pittsburgh, Pennsylvania manufacturing facility.

4. Employees

Staff costs for all employees, including executive directors, consist of:

	2004 $'000	2003 $'000
Wages and salaries	**3,034**	2,464
Social security and payroll taxes	**243**	194
Medical and other benefit plans	**217**	172
	3,494	2,830

The average number of employees of the Group during the year, including executive directors, was as follows:

	2004	2003
PHC US	**31**	27
PHC Reclamation	**7**	6
PHC Mexico	**14**	14
PHC Europe	**3**	2
Corporate	**4**	4
	59	53

5. Directors' remuneration

	2004 $'000	2003 $'000
Directors' emoluments	**740**	434

Further disclosures on the remuneration of each individual director are included in the Remuneration Report.

Total emoluments paid to the highest paid director were $246,000 (2003 – $160,000).

Notes to the financial statements continued

for the year ended 31 December 2004

6. Interest payable and similar charges

	2004 $'000	2003 $'000
On convertible redeemable loan stock	**154**	218
On finance leases	**33**	22
Other interest and finance charges	**112**	126
	299	366

7. Taxation on profit from ordinary activities

The taxation charge of $52,000 for the year (2003 – $70,000) relates exclusively to taxation of overseas profits.

	2004 $'000	2003 $'000
UK corporation tax	—	—
Foreign tax:		
Current tax on foreign income for the year	**52**	11
Deferred tax:		
Origination and reversal of timing differences	—	59
Taxation on profit on ordinary activities	**52**	70

The tax charge in future periods may be affected by the utilisation of a deferred tax asset of $5,423,000 (2003 – $5,763,000) not currently recognised in respect of timing differences relating to losses, as there is insufficient evidence related to the timing of the recoverability of the asset. Future utilisation of these losses is subject to suitable profits arising in the appropriate tax jurisdictions.

8. Loss per share

Loss per ordinary share has been calculated using the weighted average number of shares in issue during the relevant financial periods. The weighted average number of equity shares in issue is 21,014,576 (2003 – 13,223,373) and the loss after tax and minority interests is $2,946,000 (2003 – $1,347,000). The weighted average number of shares outstanding for 2003 and for 2004 prior to admission to AIM has been adjusted to reflect the exchange of shares of Plant Health Care, Inc. for those of Plant Health Care plc.

9. Loss for the financial year

The Company has taken advantage of the exemption allowed under Section 230 of the Companies Act 1985 and has not presented its own profit and loss account in these financial statements. The Group loss for the year includes a loss after tax of $614,000 which is dealt with in the financial statements of the parent company.

Notes to the financial statements continued

for the year ended 31 December 2004

10. Intangible assets

	Licences $'000	Group Goodwill on consolidation $'000	Total $'000
Cost			
At 1 January 2004	—	531	531
Additions via acquisition	2,549	—	2,549
Other additions	37	—	42
At 31 December 2004	**2,586**	**531**	**3,122**
Amortisation			
At 1 January 2004	—	271	271
Provision for the year	—	36	41
At 31 December 2004	—	**307**	**312**
Net book value			
At 31 December 2004	**2,586**	**224**	**2,810**
At 1 January 2004	—	**260**	**260**

11. Tangible assets

	Leasehold improvements $'000	Production machinery $'000	Group Office equipment $'000	Vehicles $'000	Total $'000
Cost					
At 1 January 2004	137	584	501	133	1,355
Additions	—	36	76	105	217
At 31 December 2004	**137**	**620**	**577**	**238**	**1,572**
Depreciation					
At 1 January 2004	134	392	374	69	969
Provision for the year	—	60	68	22	150
At 31 December 2004	**134**	**452**	**442**	**91**	**1,119**
Net book value					
At 31 December 2004	**3**	**168**	**135**	**147**	**453**
At 1 January 2004	**3**	**192**	**127**	**64**	**386**

The net book value of tangible fixed assets for the Group includes an amount of $80,000 (2003 – $72,000) in respect of assets held under finance leases.

Notes to the financial statements continued

for the year ended 31 December 2004

12. Investments

	Company		
	Shares in Group undertakings $'000	Loans to Group undertakings $'000	Total $'000
Cost			
At 1 January 2004	—	—	—
Additions	15,251	5,708	20,959
At 31 December 2004	**15,251**	**5,708**	**20,959**
Provisions			
At 1 January 2004	—	—	—
Additions	–	–	–
At 31 December 2004	—	—	—
Net book value			
At 31 December 2004	**15,251**	**5,708**	**20,959**
At 1 January 2004	—	—	—

13. Subsidiary undertakings

The following were subsidiary and associated undertakings at the end of the year and have all been included in the consolidated financial statements:

Name	*Country of incorporation or registration*	*Proportion of voting rights and ordinary share capital held*	*Nature of business*
Plant Health Care, Inc.	USA (Nevada)	92.2%	Holding company
Plant Health Care, Inc.	USA (Pennsylvania)	92.2%*	Manufacturing and sales
PHC Reclamation	USA (Nevada)	92.2%*	Contracting
PHC Mexico	Mexico	73.8%*	Sales
PHC (UK) Ltd	United Kingdom	92.2%*	Sales
PHC Netherlands B.V.	Netherlands	92.2%*	Sales
VAMTech LLC	USA (Delaware)	92.2%*	Manufacturing
PHC Royalty Corp	USA (Nevada)	92.2%*	Intellectual property

* Held indirectly

For all undertakings listed above, the country of operation is the same as its country of incorporation or registration.

In January 2005 Plant Health Care España was established. It is registered in Spain and is 100% owned by Plant Health Care, Inc.

In April 2005 a capital reorganisation was proposed within Plant Health Care, Inc. by which the Company will purchase for cash certain fractional entitlements to shares. This will increase the percentage of that company owned by the Group to 96.6%.

Notes to the financial statements continued

for the year ended 31 December 2004

14. Stocks

	Group 2004 $'000	Group 2003 $'000
Raw materials	**633**	429
Work in progress	**66**	55
Finished goods and goods held for resale	**425**	306
	1,124	790

15. Debtors

	Group 2004 $'000	Group 2003 $'000	Company 2004 $'000
Trade debtors	**2,016**	1,315	—
Prepayments	**176**	107	**24**
	2,192	1,422	**24**

All amounts fall due for payment within one year.

16. Creditors

(a) *Amounts falling due within one year*

	Group 2004 $'000	Group 2003 $'000	Company 2004 $'000
Convertible redeemable loan stock	—	1,864	—
Notes payable	**108**	173	—
Trade creditors	**670**	933	**11**
Corporation tax	**88**	82	—
Finance leases	**21**	22	—
Accruals	**884**	430	**112**
	1,771	3,504	**123**

(b) *Amounts falling due after more than one year*

	Group 2004 $'000	Group 2003 $'000
Convertible redeemable loan stock	—	363
Notes payable	**552**	—
Finance leases	**63**	76
	615	439

Notes to the financial statements continued

for the year ended 31 December 2004

16. Creditors continued

(c) *Convertible redeemable loan stock*

Convertible redeemable loan stock outstanding at 31 December 2003 was convertible at the holder's option into fully paid ordinary shares of Plant Health Care, Inc. at the rate of one ordinary share for every $1.00 of loan stock and accrued interest. The loan stock consisted of the following at 31 December 2003:

Maturity	*Interest rate*	*Principal $'000*
2004	12.0%	466
2004	15.0%	550
2004	17.5%	657
2005	8.0%	250
2005	12.0%	50
2005	17.5%	63
Total principal		2,036
Accrued interest		191
Total convertible redeemable loan stock		2,227

During 2004 an additional $775,000 of convertible redeemable loan stock was issued. This loan stock carried a maturity of one year and an interest rate of 10.0%. Convertible redeemable loan stock with a principal value of $2,810,618 was outstanding at 6 July 2004. Convertible redeemable loan stock with a principal value of $1,810,618 was converted into ordinary shares of Plant Health Care, Inc. and subsequently exchanged for ordinary shares in Plant Health Care plc. Convertible redeemable loan stock with a principal value of $1,000,000 was repaid.

(d) *Due date for payment:*

Financial liabilities are due:

	Convertible redeemable loan stock		*Notes payable*		*Finance leases*	
	2004 $'000	*2003 $'000*	***2004 $'000***	*2003 $'000*	***2004 $'000***	*2003 $'000*
In less than one year	**—**	1,864	**108**	173	**21**	22
In more than one year but less than two years	**—**	363	**126**	—	**26**	17
In more than two years but less than five years	**—**	—	**426**	—	**37**	59
	—	2,227	**660**	173	**84**	98

Notes to the financial statements continued

for the year ended 31 December 2004

17. Financial Instruments

(a) *Interest rate and currency of borrowings*

All of the Group's borrowings are in US dollars at fixed interest rates. The weighted average fixed rate is 7.8% and the weighted average period for which it is fixed is 57 months.

(b) *Interest rate and currency of cash balances*

Floating rate financial assets of $4,178,000 comprise US dollar cash deposits on money market deposit at call, seven-day and monthly floating rates. There are no fixed rate financial assets.

(c) *Currency exposure*

The monetary assets and liabilities of the Group are denominated in the operating or 'functional' currency of the operating unit involved.

(d) *Fair values of financial instruments*

At year end, the current values of all of the Group's financial instruments equalled the book values.

	Group		*Company*
	2004	*2003*	***2004***
	$'000	*$'000*	***$'000***
Cash	**4,812**	335	**4,217**
Current portion of long term debt	**129**	2,059	—
Long term debt	**615**	439	—

(e) *Undrawn bank facilities*

The Group had no undrawn committed bank borrowing facilities available to it at 31 December 2004 or 31 December 2003.

18. Share capital

(a) *Authorised and issued share capital*

	2004	*2003*
Authorised share capital		
2004: 500,000,000 ordinary shares of Plant Health Care plc at £0.01 each;	**$8,984,250**	—
2003: 30,000,000 ordinary shares of Plant Health Care, Inc. at $0.001 each	—	$30,000
Allotted, called up and fully paid		
2004: 29,927,849 ordinary shares of Plant Health Care plc at £0.01 each;	**$537,757**	—
2003: 8,975,680 ordinary shares of Plant Health Care, Inc. at $0.001 each	—	$8,976

Notes to the financial statements continued

for the year ended 31 December 2004

18. Share capital continued

(b) *Movement in share capital*

	Ordinary shares of Plant Health Care, Inc. Number	*$'000*	*Ordinary shares of Plant Health Care plc* Number	*$'000*
In issue at 1 January 2004	**8,975,680**	**9**		
Exercise of warrants	772,469	1		
Conversion of notes and accrued interest	2,094,912	2		
Shares repurchased	(67,000)	—		
In issue at 6 July 2004	**11,776,061**	**12**		
Shares exchanged			16,322,941	294
Shares issued for cash upon flotation			13,461,538	242
Other shares issued			143,370	2
In issue at 31 December 2004			**29,927,849**	**538**

During the period the following fully paid 1p ordinary shares in the Company were issued:

(i) On 29 June 2004 120,002 shares were issued as detailed in the circular dated 30 June 2004.

(ii) On 6 July 2004 16,293,841 shares were issued in exchange for Plant Health Care, Inc. shares in accordance with the circular dated 30 June 2004.

(iii) On the same date 13,461,538 shares were issued in respect of the placing as detailed in the circular dated 30 June 2004.

(iv) On 20 October 2004 23,368 shares were issued to the non-executive directors and the Company Secretary in payment of fees.

(v) On 30 November 2004 29,100 shares were issued in exchange for Plant Health Care, Inc. shares in accordance with the circular dated 30 June 2004.

(c) *Post balance sheet events*

On 9 March 2005 5,907 1p ordinary shares and on 25 April 2005 22,500 1p ordinary shares were issued in exchange for Plant Health Care, Inc. shares in accordance with the circular dated 30 June 2004.

The total 1p ordinary shares in issue at the date of this report were 29,956,256.

(d) *Warrants*

The following warrants have been granted over the ordinary shares of the Company:

(i) On 6 July 2004 176,704 warrants were issued in accordance with the circular dated 30 June 2004 exercisable at 52p on or before 5 July 2014.

(ii) On 17 January 2005 40,394 warrants were issued in exchange for Plant Health Care, Inc. warrants in accordance with the circular dated 30 June 2004: 33,576 warrants are exercisable on or before 30 April 2005 at 74p and 6,818 warrants are exercisable on or before 30 September 2005 at £1.47.

Notes to the financial statements continued

for the year ended 31 December 2004

18. Share capital continued

Exchange warrants not taken up by Plant Health Care, Inc. shareholders at the date of this report would convert to 64,191 warrants over the 1p ordinary shares of the Company.

The total warrants in issue at the date of this report are 217,098.

(e) *Options*

At 31 December 2004 the following options are granted over the ordinary shares of the Company to Group employees.

Grant date	*Exercise period From*	*Until*	*Exercise price £*	*Number of options*
01/01/1998	01/01/2000	31/12/2005	0.74	13,125
01/01/1998	01/01/2001	31/12/2005	0.74	13,125
01/01/1998	01/01/2002	31/12/2005	0.74	13,125
01/01/1998	02/01/2003	31/12/2005	0.74	13,125
15/01/2000	15/01/2002	14/01/2010	1.10	7,500
15/01/2000	15/01/2003	14/01/2010	1.10	7,500
15/01/2000	15/01/2004	14/01/2010	1.10	7,500
15/01/2000	15/01/2005	14/01/2010	1.10	7,500
08/02/2002	08/02/2002	07/02/2012	0.37	75,000
31/07/2002	31/07/2002	31/07/2012	0.37	84,375
31/07/2002	31/12/2002	31/07/2012	0.37	46,875
31/07/2002	30/06/2003	31/07/2012	0.37	46,875
31/07/2002	31/12/2003	31/07/2012	0.37	46,875
11/03/2003	11/03/2003	10/03/2013	0.37	22,500
11/03/2003	11/03/2004	10/03/2013	0.37	22,500
11/03/2003	11/03/2005	10/03/2013	0.37	22,500
11/03/2003	11/03/2006	10/03/2013	0.37	22,500
29/01/2004	29/01/2004	29/01/2014	0.46	24,375
29/01/2004	29/01/2005	29/01/2014	0.46	24,375
29/01/2004	29/01/2006	29/01/2014	0.46	24,375
29/01/2004	29/01/2007	29/01/2014	0.46	24,375
30/09/2004	30/09/2007	29/09/2014	0.58	187,500
				757,500
Options for directors (page 19)				3,749,996
Total options in issue at 31 December 2004				**4,507,496**

There were no options issued, exercised or lapsed from 1 January 2005 to the date of this report.

Notes to the financial statements continued
for the year ended 31 December 2004

19. Reserves

	Group		
	Share premium $'000	Merger reserve $'000	Profit and loss $'000
Balance at 1 January 2004	**11,639**	**—**	**(12,547)**
Exercise of warrants	205	—	—
Conversion of debt	2,098	—	—
Repurchase of shares	(96)	—	—
Reverse acquisition	(13,846)	12,215	1,141
Share issue	12,838	—	—
IPO costs	(2,138)	(302)	—
Movement in exchange rates	—	—	43
Loss in the year	—	—	(2,946)
Balance at 31 December 2004	**10,700**	**11,913**	**(14,309)**

	Company		
	Share premium $'000	Merger reserve $'000	Profit and loss $'000
Balance at date of incorporation	—	—	—
Share issue	12,838	14,755	—
IPO costs	(2,138)	(302)	—
Loss in the year	—	—	(614)
Balance at 31 December 2004	**10,700**	**14,453**	**(614)**

20. Reconciliation of movements in shareholders' funds

	Group		Company
	2004 $'000	2003 $'000	2004 $'000
Loss for the year	**(2,946)**	(1,347)	**(614)**
Other net recognised gains and losses relating to the year	**43**	(49)	**—**
Exercise of warrants	**205**	—	**—**
Conversion of debt to shares	**2,098**	203	**—**
Repurchase of shares	**(96)**	—	**—**
Reverse acquisition	**(202)**	—	**—**
Share issue	**13,080**	—	**28,132**
IPO costs	**(2,441)**	—	**(2,441)**
Net additions to shareholders' funds	**9,741**	(1,193)	**25,077**
Opening shareholders' funds	**(899)**	294	**—**
Closing shareholders' funds	**8,842**	(899)	**25,077**

Notes to the financial statements continued

for the year ended 31 December 2004

21. Acquisitions

On 12 October 2004 the Group acquired all of the membership interests of VAMTech LLC for a total of $1,950,000 paid by cash plus $775,000 of non-interest-bearing notes. These notes have been recorded at a discounted present value of $660,000.

In accounting for the acquisition, the fair value of the net assets has been assessed and adjustments from book value have been made where necessary. Because the fair value of the net assets acquired has been determined to equal the consideration paid for the acquisition, no goodwill has arisen. These adjustments are summarised in the following table:

	Book value $'000	*Fair value adjustments $'000*	*Fair value to the Group $'000*
Fixed assets			
Intangible assets	2,000	549	2,549
Tangible assets	1	(1)	—
	2,001	548	2,549
Current assets			
Stocks	81	(3)	78
Debtors	20	(1)	19
	101	(4)	97
Creditors: amount falling due within one year	(226)	226	—
Net current assets/(liabilities)	(125)	222	97
Net assets	1,876	770	2,646

	$'000
Cash consideration (including expenses of $36,000)	1,986
Present value of non-interest bearing notes	660
Total consideration	2,646
Net assets acquired	(2,646)
Goodwill arising on acquisition	—

Notes to the financial statements continued
for the year ended 31 December 2004

21. Acquisitions continued

The results of VAMTech LLC prior to its acquisition were as follows:

	1 January to 12 October 2004 $'000	*Year ended 31 December 2003 $'000*
Profit and loss account		
Turnover	**56**	89
Operating loss	**(43)**	(83)
Net interest	**(27)**	—
Loss on ordinary activities before taxation	**(70)**	(83)
Taxation	**—**	—
Loss for the period	**(70)**	(83)

The net outflow of cash arising from the acquisition was as follows:

	$'000
Purchase price	1,950
Acquisition costs	36
Cash consideration and net cash outflow	1,986

22. Pensions

The Group does not maintain any defined benefit pension plans. The Group does maintain a retirement plan qualified under Section 401(k) of the United States Internal Revenue Code. During the year, this plan covered salaried US employees. The Company made no contributions to the plan. After year-end, the plan was amended to cover substantially all US employees.

23. Commitments under operating leases

As at 31 December 2004, the Group had annual commitments under non-cancellable operating leases as set out below:

Year	*$'000*
2005	423
2006	419
2007	408
2008	325
2009	211

24. Related party transactions

During 2004 the Company's subsidiary Plant Health Care (UK) Ltd made an interest-free advance of £12,500 to Jason Holohan, the General Manager and a director of Plant Health Care (UK) Ltd. This amount was the highest balance for the advance during the year and was still outstanding at 31 December 2004. The advance was approved by the Board of Plant Health Care, Inc., the immediate parent company of Plant Health Care (UK) Ltd.

Notes to the financial statements continued

for the year ended 31 December 2004

25. Post balance sheet event

On 15 April 2005 Plant Health Care, Inc. announced a proposal to effect a reverse stock split of each outstanding share of its common stock by which each 10,001 shares of its common stock would become one share. The reverse split was approved and became effective on 25 April 2005. For some stockholders of Plant Health Care, Inc., the reverse split results in an entitlement to fractional shares. As part of the proposal the Company has determined that it will exercise its legal right to compulsory purchase and make cash payments for such fractional shares at the IPO price for Plant Health Care plc (£0.52 per share), adjusted for the 3 for 2 exchange ratio offered by Plant Health Care plc in the share exchange transactions executed during the year.

26. Reconciliation of operating profit to net cash outflow from operating activities

	2004 *$'000*	*2003* *$'000*
Operating loss	**(2,625)**	(877)
Depreciation	**150**	138
Amortisation of intangibles	**36**	40
Gain on sale of fixed assets	**—**	4
Increase in stocks	**(257)**	(10)
Increase in debtors	**(751)**	(498)
Increase in creditors	**191**	150
Exchange differences	**—**	15
Net cash outflow from operating activities	**(3,256)**	(1,038)

27. Reconciliation of net cash inflow to movement in net debt

	2004 *$'000*	*2003* *$'000*
Increase in cash	**4,477**	128
Cash inflow from changes in debt	**318**	(1,776)
Movement in net debt resulting from cash flows	**4,795**	(1,648)
Conversion of loan stock and accrued interest	**2,096**	266
Issue of loan note	**(660)**	—
Interest accrued	**—**	(156)
Movement in net debt	**6,231**	(1,538)
Opening net debt	**(2,163)**	(625)
Closing net debt	**4,068**	(2,163)

Notes to the financial statements continued

for the year ended 31 December 2004

28. Analysis of net debt

	At 1 January 2004 $'000	Cash flow $'000	Other non-cash items $'000	At 31 December 2004 $'000
Cash at bank and in hand	335	4,477	—	**4,812**
Convertible redeemable loan stock due after one year	(363)	—	363	**—**
Convertible redeemable loan stock due within one year	(1,864)	131	1,733	**—**
Other notes due after one year	—	—	(552)	**(552)**
Other notes due within one year	(173)	173	(108)	**(108)**
Finance leases due after one year	(76)	13	—	**(63)**
Finance leases due within one year	(22)	1	—	**(21)**
	(2,163)	4,795	1,436	**4,068**

The non-cash items comprise:

(i) The conversion of convertible redeemable loan stock to ordinary shares in the Company in accordance with the circular dated 30 June 2004.

(ii) The issuing of non-interest bearing notes to the vendors of VAMTech LLC.

Notice of annual general meeting

Notice is hereby given that the first annual general meeting of Plant Health Care plc will be held at the offices of Tavistock Communications, 131 Finsbury Pavement, London EC2A 1NT on Friday, 10 June 2005 at 11.30 am to consider and, if approved, to pass resolutions 1 to 10 as ordinary resolutions, and resolutions 11 to 12 as special resolutions.

Ordinary business

1. To receive approve and adopt the report of the directors and the financial statements of the Company for the financial year ended 31 December 2004 together with the report of the auditors thereon.

2. To elect Albert Fischer as a director, who retires pursuant to article 63 of the Company's articles of association.

3. To elect John Brady as a director, who retires pursuant to article 63 of the Company's articles of association.

4. To elect Steven Whitcomb as a director, who retires pursuant to article 63 of the Company's articles of association.

5. To elect Donald Marx as a director, who retires pursuant to article 63 of the Company's articles of association.

6. To elect Robert Chanson as a director, who retires pursuant to article 63 of the Company's articles of association.

7. To elect Thomas Isler as a director, who retires pursuant to article 63 of the Company's articles of association.

8. To elect Samuel Wauchope as a director, who retires pursuant to article 63 of the Company's articles of association.

9. To appoint BDO Stoy Hayward LLP as auditors to the Company to hold office from the conclusion of the meeting until the conclusion of the next annual general meeting and to authorise the directors to fix their remuneration.

10. That

    (i) the directors be and are hereby generally and unconditionally authorised for the purposes of Section 80 of the Companies Act 1985 ("the Act") to allot relevant securities (as defined in Section 80(2) of the Act) of the Company up to an aggregate nominal value of £99,754.33 during the year commencing on the date of the passing of this resolution and expiring at the conclusion of the annual general meeting of the Company to be held in 2006 provided that the Company may make at any time prior to the expiry of such authority any offer or agreement which would or might require relevant securities of the Company to be allotted after the expiry of such authority and the directors may allot relevant securities in pursuance of such offer or agreement as if the authority hereby conferred had not expired, and

Notice of annual general meeting

continued

(ii) all previous authorisations given by the Company in general meeting or otherwise pursuant to Section 80 of the Act be and are hereby revoked to the extent not previously exercised.

Special business

11. That, subject to the passing of resolution 10 in the notice of annual general meeting of the Company dated 29 April 2005, the directors be and are hereby empowered pursuant to Section 95(1) of the Companies Act 1985 (the "Act") to allot equity securities (as defined in Section 94(2) of the Act) of the Company as if Section 89(1) of the Act did not apply to such allotment provided that such power be limited to:

    (i) the allotment of equity securities in connection with a rights issue in favour of the holders of equity securities in accordance with the rights attaching thereto subject only to such exclusions or other arrangements as the directors may consider expedient to deal with fractional entitlements or legal or practical considerations arising under the laws of any territory or the requirements of any regulatory body, and

    (ii) the allotment (otherwise than pursuant to paragraph (i) of this resolution) of equity securities up to an aggregate nominal value of £14,978.12.

    and shall expire on the earlier of the date falling 15 months after the passing of this resolution and the conclusion of the next annual general meeting of the Company to be held in 2006, save that the directors may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities pursuant to such offer or agreement as if the power conferred hereby had not expired.

12. That the Company be and is hereby granted general and unconditional authority (pursuant to Section 166 of the Companies Act 1985 (the "Act")) to make market purchases (as defined in Section 163 of the Act) of its own ordinary shares on such terms and in such manner as the directors may from time to time determine provided that:

    (i) the maximum number of ordinary shares hereby authorised to be purchased is 2,995,625;

    (ii) the maximum price which may be paid for an ordinary share is an amount equal to 5% above the average of the middle market quotations for the ordinary shares taken from the London Stock Exchange plc Daily Official List for the ten dealing days before the day on which the share is contracted to be purchased exclusive of expenses payable by the Company;

    (iii) the minimum price which may be paid for an ordinary share is 1p, and

Notice of annual general meeting

continued

(iv) the authority conferred by this resolution shall expire on the conclusion of the annual general meeting of the Company to be held in 2006 or 10 September 2006 (whichever shall first occur), except that the Company may, before such expiry, enter into a contract for the purchase of its own shares which would or may require to be completed or executed wholly or partly after the expiration of this authority and a purchase of shares may be made in pursuance of such a contract.

BY ORDER OF THE BOARD

Christina Kennedy
Company Secretary

29 April 2005

Registered Office:

Minerva House
5 Montague Close
London
SE1 9BB

Notes:

(1) Any member entitled to attend and vote at the annual general meeting convened by this notice may appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company.

(2) To appoint a proxy, the form attached with this notice should be completed and deposited at the offices of the Company's registrars, **Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU**, not less than 48 hours before the meeting time of the annual general meeting specified above.

(3) Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, members will be entitled to attend and to vote at the meeting if they are registered on the Company's register of members 48 hours before the time appointed for the meeting or any adjournment of it.

(4) Copies of the articles of association, directors' service contracts or memoranda of the terms thereof (other than contracts expiring or determinable by the employing company without compensation within one year) and the register of interests of directors (and their families) in shares of the Company kept in accordance with Section 325 of the Companies Act 1985 will be available for inspection at the registered office of the Company during usual business hours on any weekday (Saturdays, Sundays and public holidays excluded) from the date of this notice until the date of the annual general meeting and will be available for inspection at the place of the annual general meeting for at least 15 minutes prior to and during the meeting.

Produced by Portman Lodge Limited

Form of proxy

For use by ordinary shareholders at the 2005 annual general meeting of Plant Health Care plc.

I/We (name in BLOCK CAPITALS)____

of (address)____

Being (a) member(s) of Plant Health Care plc hereby appoint the Chairman of the meeting or (see note 1) ____

as my/our proxy to act for me/us on my/our behalf at the annual general meeting of the Company to be held on Friday, 10 June 2005 at 11.30 a.m. and at any adjournment or postponement thereof, and to vote for and/or against the resolutions and/or abstain from voting in respect of the ordinary shares in the issued share capital of the Company registered in my/our name(s) (see note 2).

Number of resolution as set out in the notice of meeting

ORDINARY RESOLUTIONS	For	Against	Abstain
1. To receive, approve and adopt the report and accounts.			
2. To elect Albert Fischer as a director.			
3. To elect John Brady as a director.			
4. To elect Steven Whitcomb as a director.			
5. To elect Donald Marx as a director.			
6. To elect Robert Chanson as a director.			
7. To elect Thomas Isler as a director.			
8. To elect Samuel Wauchope as a director.			
9. To appoint BDO Stoy Hayward LLP as auditors.			
10. Authority to allot shares.			
SPECIAL RESOLUTIONS			
11. Subject to 10 above, authority to allot shares pursuant to Section 95(1) of the Act.			
12. Authority to buy back shares.			

Signature:__________________________on__________________________ 2005.
(see note 3)

Shareholders are entitled to appoint one or more proxies (who need not be an ordinary shareholder of the Company) to attend, speak and vote in place of that ordinary shareholder at the annual general meeting.

Notes:

1. Any ordinary shareholder may insert the name of a proxy or the names of two alternative proxies of the ordinary shareholder's choice in the space provided with or without deleting "the Chairman of the meeting." The person whose name appears first on the form of proxy and has not been deleted will be entitled to act as proxy to the exclusion of those whose names follow. Any alternation, deletion or correction made in the form of proxy must be initialled by the signatory/ies.
2. An ordinary shareholder's instructions to the proxy must be indicated in the appropriate space provided. Failure to comply with the above will be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting as the proxy deems fit in respect of all the votes exercisable by the ordinary shareholder or by his proxy. The proxy will act at his discretion in relation to any other business arising at the meeting (including any resolution to amend a resolution or to adjourn the meeting).
3. This form of proxy must be signed by the appointor or his attorney duly authorised in writing. If the appointor is a corporation the form of proxy should be signed on its behalf by an attorney or duly authorised officer or executed as a deed. In the case of joint holders the signature of any one of them will suffice, but the names of all joint holders should be stated.
4. The completion and lodging of this form will not preclude the relevant ordinary shareholder from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such ordinary shareholder wish to do so.
5. Forms of proxy with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of the power of authority must be received by the Company's registrars at the address overleaf, not less than 48 hours before the time fixed for the meeting.

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Capita Registrars (Proxies)
PO Box 25
BECKENHAM
Kent
BR3 4BR

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