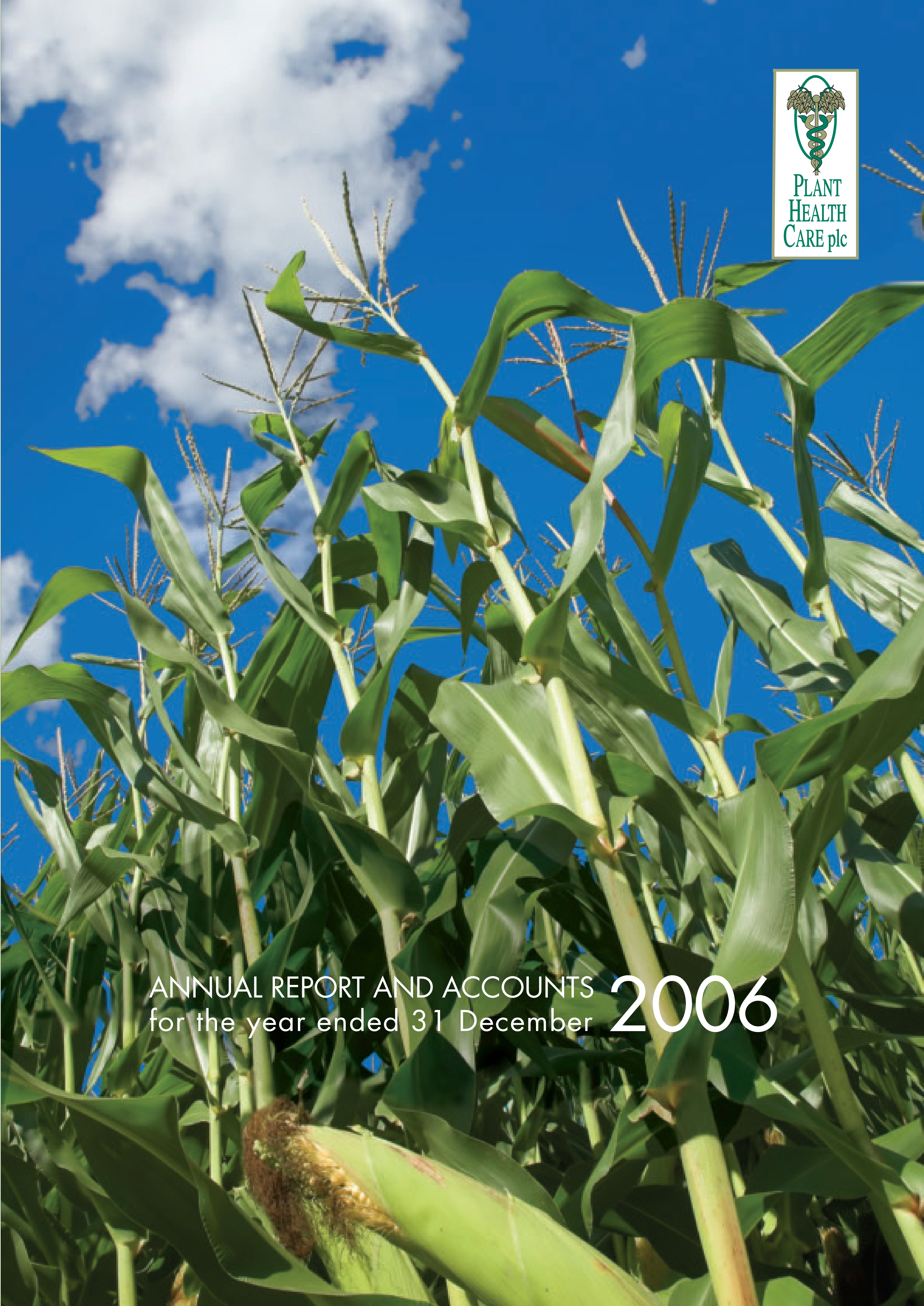

PLANT HEALTH CARE plc

ANNUAL REPORT AND ACCOUNTS for the year ended 31 December 2006

Contents

Directors and advisors

Directors	Dr Albert Fischer	*Non-executive Chairman*
	John Brady	*Chief Executive*
	Walter Bratkowski	*Finance Director*
	Dr Donald Marx	*Executive Director and Chief Scientist*
	Dr Robert Chanson	*Non-executive director*
	Thomas Isler	*Non-executive director*
	Samuel Wauchope	*Non-executive director*
Secretary	Andrew C. Wood FCIS	
Registered Office	Minerva House 5 Montague Close London SE1 9BB	
Company number	05116780	
Auditors	BDO Stoy Hayward LLP 8 Baker Street London W1U 3LL	
Company Solicitors	Reed Smith Rambaud Charot LLP Minerva House 5 Montague Close London SE1 9BB	
Registrars	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU	
Brokers and Nominated Advisor	Evolution Securities Limited 100 Wood Street London EC2V 7AN	

Highlights

Plant Heath Care was established in 1995 in Pittsburgh (Pennsylvania) in the United States. Its products are aimed at the agriculture, commercial landscaping and land reclamation industries, through both direct sales and supply and distribution agreements with major agrichemical industry partners. Plant Health Care's products create both environmental and economic benefits for our customers and capitalise upon long-term trends toward natural systems and biological products to promote plant health and growth.

Financial highlights

- Turnover up 34% to $13.7 million (2005: $10.2 million)
  - sales into European and Mexican agricultural markets increased 32% and 31% respectively
- Gross profit up 22% to $6.1 million (2005: $5.0 million)
  - lower margin percentage reflecting entry into higher volume but lower margin agricultural business
- Operating costs increased by $1.1 million to $9.0 million (2005: $7.9 million), reflecting launch costs of *Myconate*®
- Loss, after exceptional costs (as detailed in note 4 to the financial statements) and before interest and tax, of $2.9 million (2005: loss of $2.9 million)
- Net cash at 31 December of $4.3 million (2005: $0.8 million)

Operational highlights

- Further *Myconate*® testing confirmed 2% to 20% yield increases on wide range of crops
- Launched US Agriculture division
  - Organic Plant Food introduced in November 2006 with $1.0 million order
- Agreed to acquire certain assets and business of Eden BioScience Corporation (completed February 2007)
  - products, distribution channels and sales force strengthen US Agriculture presence
  - *Harpin* technology presents new and potentially lucrative growth prospects in large commodity crop market
- Since the year end, first *Myconate*® manufacture and supply agreement signed with Bayer CropScience AG in January 2007
  - exclusive for seed-coated corn, soybean, cotton and sunflower
- Quarter 1 sales in 2007 up more than 75% on the same period 2006

Chairman and Chief Executive's statement

2006 was a significant year in the development of Plant Health Care and one in which we made important strides towards our objective of becoming the world's leading supplier of natural products for the promotion of plant health and growth.

Highlights of the year included a 34% increase in sales, the launch of our US Agriculture division and achieving impressive *Myconate®* test results in Europe, North America and Mexico, culminating in the signing in January 2007 of our first major supply agreement with Bayer CropScience AG, one of the world's leading innovative crop science companies.

In February 2007 we purchased certain of the assets and business of NASDAQ-listed Eden BioScience Corporation, including the patented and EPA-registered *Harpin* technology, which can be applied in conjunction with Plant Health Care's existing range of natural products for agricultural markets. *Harpin* represents a new and potentially lucrative growth prospect in the large commodity crop market and we are focused on deriving significant value from this opportunity.

Summary of financial results

In 2006 we grew our sales by 34% to $13.7 million (2005: $10.2 million). Gross margin also grew from $5.0 million to $6.1 million, although changes in our product mix as we entered new markets contributed to a lower gross margin percentage of 44.7% (2005: 48.9%). Operating expenses before exceptional costs were $8.6 million (2005: $7.4 million), the increase due primarily to testing and marketing spend in connection with *Myconate®*. Our operating loss before exceptional costs was $2.5 million (2005: loss of $2.3 million). After exceptional costs of $0.4 million (2005: $0.5 million) the operating loss was $2.9 million (2005: loss of $2.9 million). After financing costs, taxation and minority interests, the net loss for the year was $3.1 million (2005: loss of $3.0 million).

Our year-end net cash balance was $4.3 million (2005: $0.8 million).

Strategic review

Our future is brighter than ever. 2006 was another year of record sales and *Myconate®* once again delivered substantial yield increases in a broad variety of tests, which led to our first milestone contract in early 2007. The acquisition of the *Harpin* technology and products broadens our technology portfolio and, we believe, will prove to be a significant addition to our biofuels input strategy.

Biofuels – an emerging market

Energy is a top priority for governments all over the world and there is an increasing demand for alternative fuels. Huge effort and vast resources are being applied to develop 'green' fuels from biomass. This new initiative is creating significant global demand for a wide range of crops as biofuel feedstock.

To meet the emerging demand and, particularly in the short and medium term, to avoid conflict with the demand for food and fodder supplies, crop production must increase. This can be accomplished by increasing yields per acre or by increasing the acreage planted, particularly by making more use of currently marginal lands. Both of these dynamics present new opportunities for *Myconate®*- and *Harpin*-based products.

It is our belief that alternative energy sources will remain high on the world's agenda for at least the medium term, ensuring that the market remains favourable for our business. In light of these factors, we intend to direct significant business development efforts into this very rapidly growing area.

Chairman and Chief Executive's statement

continued

Myconate® and *Harpin*

The validation of *Myconate®* and the addition of *Harpin* have now positioned Plant Health Care as a significant participant in both the agricultural food products industry and the rapidly emerging biofuels input arena. The demand for alternative plant-based energy has created a new impetus to develop higher yielding, stress resistant plants. Both *Myconate®* and *Harpin* are leading products in this field and offer very significant revenue potential for us.

We are in discussions with four of the world's largest crop science companies regarding further supply agreements for both our *Myconate®* and *Harpin* technologies. Further announcements will be made when appropriate.

Agriculture – High value crops

As well as the potential described above, we are seeing major interest in our products aimed at the market for high value crops such as lettuce, peppers and other salad crops. This led us to establish a new agricultural sales division in the USA in the second half of 2006, and initial acceptance of key products has been very encouraging. As part of our acquisition of the Eden Bioscience assets, we gained control of their range of agricultural products and access to their channels of distribution and, crucially, succeeded in recruiting their agricultural sales team of 10 personnel. The broadened product range, enhanced distribution and strengthened sales force provide an excellent platform for this strategic initiative.

We will continue to seek strategic acquisitions and partnerships to complement, enhance and commercialise our natural technologies. *Myconate®* and *Harpin* place us firmly at the centre of the dynamic growth areas of our industry and we will continue to seek to identify other relevant technologies in their early stages and either license or acquire them for commercial exploitation.

Operating review

Commentary on the financial results

Sales

2006 was a strong sales year for Plant Health Care with growth in all areas of our business. Annual sales increased 34% to $13.7 million and importantly second half sales were up 59% to $8.7 million when compared with 2005. This accelerated rate of growth is largely attributable to our agriculture business, which saw continued progress in Mexico and Europe and the launch of our agriculture sales division in the USA in the second half of the year.

Sales breakdown and growth:

	2006 $'000	*2005 $'000*	*Increase*
USA	**8,791**	6,503	*+ 35%*
Mexico	**2,536**	1,933	*+ 31%*
Europe	**2,352**	1,787	*+ 32%*
	13,679	10,223	*+ 34%*

Chairman and Chief Executive's statement

continued

Gross margins

Gross margins grew by 22% over 2005 to $6.1 million, albeit that the gross margin percentage for 2006 was slightly reduced to 44.7% compared with 48.9% in 2005. This was primarily as a result of a change in the sales mix as we entered lower margin but potentially much greater volume markets in agriculture.

Operating expenses

Operating expenses (excluding exceptional costs — see note 4 to the financial statements) increased from $7.3 million in 2005 to $8.6 million in 2006. We spent over $1 million on *Myconate*®, on staffing expenses, marketing, product registration and field trial support services. We also had an increase in selling expenses to support our sales growth across our other businesses.

Exceptional costs of $0.4 million related to the transfer of our manufacturing operations to a newer, more efficient facility, as well as equity placement costs and share-based payment expenses.

Financing

Plant Health Care utilises a combination of equity offerings and loans to finance the Group's operations. In 2006, the Company had available a revolving credit facility, and will continue to utilise this method of financing or such other lending arrangements that the Board considers will best meet the Company's working capital requirements. A consequence of the rapid rise in our sales, particularly in the second half of the year, and of the extended payment terms which are standard in the markets in which we operate, has been an increase in the level of our debtors as compared with prior years. We are constantly working to monitor and control these balances but recognise that this will be a feature of our growth.

At 31 December 2006 we had cash and short-term investments of $4.9 million and total borrowings of $0.7 million. All borrowings were denominated in US dollars apart from $41,000 of finance leases denominated in euros.

On 5 May 2006 we raised GBP 6,500,000 (before expenses) by way of a placing of 10,000,000 new ordinary shares at a price of 65 pence per share. The net proceeds of the placing are being used primarily to develop the markets for *Myconate*® and to satisfy the general working capital requirements of the Group.

It is, and has been throughout the period under review, Plant Health Care's policy not to trade in financial instruments.

Our markets

Myconate®

In 2006 our *Myconate*® division made significant progress. After completing another successful round of testing, which delivered yield increases for a range of crops from 2% to 20%, we entered into negotiations with a number of the industry's largest companies to reach an agreement for the manufacture and supply of *Myconate*®. In January 2007, we signed a contract for the exclusive supply of *Myconate*® to Bayer CropScience in the important seed-coated corn, soybean, cotton and sunflower markets.

Chairman and Chief Executive's statement
continued

We believe that, having secured this agreement with Bayer CropScience, *Myconate®* enhanced seed treatment products could be available to growers as early as 2009, subject to regulatory approvals, which are being progressed by Bayer CropScience.

Going forward, we will continue to focus significant efforts on *Myconate®* and *Harpin*. As mentioned above, we are in discussions with four of the world's largest crop science companies regarding further supply agreements for both our *Myconate®* and *Harpin* technologies. These two technologies offer valuable opportunities both in the traditional agricultural markets for food and the rapidly emerging market for biofuels feedstock. We are confident that the successful development of these two products will lead to the creation of significant shareholder value and result in Plant Health Care becoming a significant, profitable and cash generative business.

Agriculture

The world agricultural markets continue to offer us new and exciting opportunities. In our non-*Myconate®* business, we are experiencing significant demand for both new products and our more established products in the high value vegetable markets.

We launched our US Agriculture division in mid-year and in November we introduced *Organic Plant Food ("OPF")* into the California and Florida markets. *OPF* was immediately met with high demand, due to its organic status, non-animal manure base and high nitrogen content. We received orders in excess of $1.0 million and demand is expected to accelerate in 2007.

Our shelf-life extension products for leafy vegetables are now specified as a requirement by one of the major grocery chains in the UK and a similar market introduction strategy is being employed in the USA. Adding two shelf-life days will make a major impact on the cost and handling of perishable food. *OPF*, *Harpin* and our shelf-life extension products will form the backbone of our US agricultural product offerings.

Our European agriculture business posted another record year for sales, up 32% to $2.4 million. It continues to perform well both in terms of growing product sales and extending our geographical spread, with our first sales into Turkey. We believe that the addition of *Harpin*-based products to our product range will open new markets and opportunities going forward.

Sales in Mexico grew 31% to $2.5 million with strong demand for our established products. Our *Myconate®* tests in Mexico produced outstanding yield increases in corn, grain sorghum and cotton, and as a result of these test results in a large and mature market, it is anticipated that there will be substantial demand for *Myconate®* in this territory.

We expect new products to play an important role in our continued revenue expansion. As well as *Harpin*-based products, in 2006 we began testing a natural soil sterilant product which will be rolled out for full commercial sales in 2007. This is a registered organic product which will be the first of its kind in the organic vegetable market. It will also have conventional application opportunities in the golf course industry where its control of nematodes will be of great use.

Landscaping and turf

Sales in the landscaping and turf market increased 9% to $6.0 million. This growth was mainly through an existing distributor, John Deere Landscapes, as the John Deere Tree Warranty Program gained momentum in the second half of the year.

Chairman and Chief Executive's statement

continued

This division has not to date been profitable but made strong strides in that direction in the second half of the year and is expected to be profitable in 2007. However, the professional landscape business is a mature industry and buying decisions are made by professional landscapers who are under competitive cost pressures. It is not anticipated that this cost pressure will abate in the near future and consequently we expect to see this portion of our business grow at a slower rate than our agriculture businesses.

Reclamation

In Reclamation, we once again achieved record sales and profits. Whilst this business continues to grow at a steady pace, we will continue to direct our capital into the other faster developing segments of the business which offer greater opportunities to build value in the medium term.

Outlook

The future for Plant Health Care is an exciting one and the Board is confident that 2007, having started strongly with sales up by over 75% compared with the first quarter of 2006, will show further good progress.

We will continue to seek strategic acquisitions and partnerships to complement, enhance and commercialise our five natural technology platforms: *Myconate®*, *Harpin*, *Organic Plant Food*, mycorrhizal fungi and beneficial bacteria.

Whilst the agricultural supply industry as a whole is subject to the impact of adverse weather conditions, it has been Plant Health Care's long-term strategy to manage its operational risk by diversifying geographically and across a broad range of products. This strategy is central to our growth prospects over the coming years, as we develop from our current suite of technologies whilst remaining sufficiently flexible and aware to capitalise on future opportunities in the plant health industry.

The entire Plant Health Care team has shown enormous commitment and worked very hard over the past year and we would like to thank them all. We would also like to thank our shareholders for their support over the year.

Dr Albert Fischer *Non-executive Chairman*	John Brady *Chief Executive*

13 April 2007

Directors

Dr. Albert Fischer (Non-executive Chairman) (49)

Dr. Fischer is a citizen of the Netherlands. He joined the Group as Non-executive Chairman in 2001. Dr. Fischer is currently managing partner of Planet Capital, a venture investment and advisory firm he co-founded in 2002 that focuses on sustainable energy. Previously, he was a partner with Green Partners and PYMWYMIC, an investment firm 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 and business planning and strategy.

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.

John Brady (Chief Executive) (52)

Mr. Brady is a US national and joined the Group as Chief Executive in 2001. Mr. Brady is responsible for implementing the Group's strategy and for management of the Group's operations.

Prior to joining the Group, Mr. Brady was President and CEO of Alaska Seafood International, a seafood product manufacturing company. Prior to that, Mr. Brady served as Executive Vice President, Operations, for Anderson Clayton Corp, 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.

Dr. Donald Marx (Executive Director and Chief Scientist) (70)

Dr. Marx is a US national and was a founding director of the Group in 1995, following 37 years with the USDA Forest Service. As Chief Scientist, Dr. Marx oversees the Group's research programmes and works with the Group's partners and customers to explain and demonstrate to them the benefits of Plant Health Care's approach to plant management. He also manages the university and field-testing of Plant Health Care products, and chairs the Company's Scientific Advisory Board.

Dr. Marx lectures extensively throughout the USA and abroad on soil ecology, plant physiology, mycorrhizal fungi and bacteria. He has authored more than 250 scientific papers in forest microbiology, has presented more than 400 invitational lectures in 28 countries as well as at most major universities in the USA, 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.

Directors
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Walter Bratkowski (Finance Director) (52)

Mr. Bratkowski is a US national. He was appointed to the Board on 3 March 2006, having served the Group as Chief Financial Officer since July 2005.

After a professional training with Peat, Marwick, Mitchell & Co, Mr. Bratkowski held a variety of financial control and planning positions with the Westinghouse Corporation, Reese Brothers Inc and Tech Data Corporation. Most recently he was a consultant with Resources Connection of Pittsburgh, providing services covering strategic and financial planning, merger and acquisition analysis and Sarbanes-Oxley compliance.

Mr. Bratkowski has a BS in Management Science and Economics and an MBA from Carnegie Mellon University.

Dr. Robert Chanson (Non-executive director) (57)

Dr. Chanson is a Swiss national. He joined the Board of the Group 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 Executive Chairman. He is also Chairman and CEO of Ambiocare Holdings Limited in Switzerland. Dr. Chanson acts as a member of various advisory boards and committees in academic research, commerce and environmental conservation in Europe and the USA.

Thomas Isler (Non-executive director) (62)

Mr. Isler is a Swiss national and joined the Board of the Group in 2001. Mr. Isler has extensive experience in industry, international marketing and private and international banking. He is currently CEO of two privately-owned Swiss companies operating textile mills, and is a director of several other Swiss companies, including Desco von Schulthess AG, an international trading house, and Bank Hofmann AG, a private bank. From 1987 to 2005, Mr. Isler served as a Member of Parliament of the Canton of Zurich.

Samuel Wauchope (Non-executive director) (55)

Mr. Wauchope is a UK citizen and joined the Group as a non-executive director in June 2004. A chartered accountant, Mr. Wauchope's executive career has involved CEO and Executive Chairman positions in a number of UK listed companies, including Acorn Computer Group plc, Oceonics Group plc and Ultrasis plc. He has also served as a non-executive director on the boards of other fast-growing UK quoted companies, including Waste Recycling Group plc and Gall Thomson Environmental plc. Mr. Wauchope is currently a non-executive director of Property Recycling Group plc.

Board committees

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

Audit Committee

The Audit Committee is chaired by Sam Wauchope. Thomas Isler is also a member. The Committee provides a forum for reporting by the Group's auditors and reviews the Group's budget and its 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 that, through a process of regular review, the Group's remuneration arrangements attract and incentivise the quality of executive management that the Company needs to achieve its goals and grow shareholder value, and are in line with best practice. The Committee may take independent specialist advice to assist it in its work. 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 Committee report is set out on pages 15 to 19.

Corporate governance statement

In July 2003, the Financial Reporting Council published the Principles of Good Governance and the Code of Best Practice ("the Combined Code").

Since admission to AIM, Plant Health Care plc has taken note of the Combined Code and has applied its principles of corporate governance commensurate with the Company's size, notwithstanding that the rules of the London Stock Exchange do not require companies that have securities traded on AIM to formally comply with the Combined Code.

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 comprises a non-executive chairman, three executive directors and three other non-executive directors.

The Board considers all of the non-executives to be independent in judgment and character, while acknowledging the following departures from the Combined Code's anticipated criteria for independence:

(i) While serving as non-executive directors of Plant Health Care, Inc., Albert Fischer, Robert Chanson and Thomas Isler were granted options for their services to that company. At flotation, these options were exchanged for options in Plant Health Care plc. The Company will not make any further awards of options to non-executive directors.

(ii) Robert Chanson was first appointed to the Board of the Group in 1995. He has therefore now served as a director of the Group for over the recommended maximum of nine years.

Biographies of the Board members appear on pages 9 and 10. These indicate the high levels and range of business experience which is essential to oversee 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.

Board committees

The Board has established audit and remuneration committees, as described on page 11. No separate nominations committee has been established; the full Board acts as such a committee when changes to the Board of directors are proposed.

Workings of the Board

The Board meets on a pre-scheduled basis eight times each year and more frequently when 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. The schedule 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.

Corporate governance statement

continued

There is an agreed procedure for directors to take independent professional advice if necessary at the Company's expense. This is in addition to the access which every director has to the Company Secretary. The Secretary is 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 execute business strategies and processes to enable the Group's business to meet the requirements of its shareholders.

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.

The Board conducted an internal Board Performance Evaluation during the year in line with the requirements of the Combined Code. The Board intends to implement certain of the recommendations which arose from this review.

Re-election of directors

Any director appointed during the year is required 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.

Remuneration of directors

A statement of the Company's remuneration policy and full details of directors' remuneration are set out in the Remuneration Committee report on pages 15 to 19. 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.

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 year 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. From time to time, these meetings involve the non-executive chairman or other non-executive directors. All shareholders have the opportunity to put questions at the Company's annual general meeting and the Chief Executive Officer 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 provide only reasonable, but not absolute, assurance against material misstatement or loss.

Corporate governance statement

continued

The directors recognise that the Group is ambitious and seeking significant growth. There is an on-going process in place to review regularly the control systems across the Group to ensure that they develop in anticipation of this growth. Twice a year, prior to the announcement of the Group's interim and preliminary financial results, the Finance Director presents to the Board for discussion and approval a summary of the key internal controls in place during the prior period and proposals for enhancements to these controls in the forthcoming period. Based on this process, the directors believe that the Group has internal control systems in place appropriate to its size and nature.

The Board also has in place 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*.

The Company does not maintain an internal audit function. The directors do not believe such a function is justified in terms of the scale of the Group or the costs involved.

Auditor 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:

- Seeks 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 auditors and their associates to confirm this in writing, and detail the procedures which the auditors have carried out in order to make this confirmation.
- Checks that all partners engaged in the audit process are rotated at least every five years.
- Assesses 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.
- Has as a standing agenda item at each Audit Committee meeting the consideration of auditor independence.

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, and for monitoring the remuneration of first-line executive management. 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 individuals that the Group requires 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.

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.

Elements of remuneration – executive directors

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

- basic salary and benefits;
- annual bonus;
- share options; and
- pension contributions.

Basic salary and benefits

Salaries are 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 United States. Where such an increase has been awarded, the Committee will publish the reasons behind its decision in the Remuneration Committee report.

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

Annual bonuses are payable to each executive director based on achievement of financial, strategic and sustainability objectives, both corporate and personal. For 2006, the directors had bonus potential of between 25% and 50% of their basic salaries: for 2007, the figures are between 25% and 67%. 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 any annual bonus earned is retained as a long-term incentive and is released after six months only if the director is still employed by the Company.

Remuneration Committee report

continued

Share option schemes

Prior to the formation 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. 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 of options will be made under the Plant Health Care, Inc. plans.

In July 2004 the Board of directors adopted the Plant Health Care plc Unapproved Share Option Scheme 2004. Under this scheme the Board may grant options at an exercise price of not less than the market value of a share on the date of award. Options may normally be exercised between three and ten years from grant. The Company may issue options up to the greater of 3% of its issued share capital or such number 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.

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;
- employees may contribute a percentage of salary to the plan through a payroll withholding scheme;
- the Company contributes 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; and
- the plan is subject to various statutory non-discrimination tests to ensure that it does not favour highly-compensated employees.

Elements of remuneration – non-executive directors

The remuneration for non-executive directors consists solely of fees for their services in connection with the Board and Board committees. Sam Wauchope receives 100% of his fees in cash. The other non-executive directors, including the Chairman, receive 50% of their fees in cash and 50% in the form of the Company's ordinary shares.

Prior to the creation of Plant Health Care plc, the then non-executive directors participated in the Plant Health Care, Inc. Incentive Stock Option plans described above. Albert Fischer, Robert Chanson and Thomas Isler hold such options (now converted to options over shares in Plant Health Care plc). No options have been granted to non-executives since the formation of Plant Health Care plc and no further options will be granted to non-executives.

Remuneration Committee report

continued

Service contracts

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

- termination may be initiated by either party with twelve months' notice;
- if the Company terminates other than for cause, the individual is entitled to a payment equal to the basic salary that would have been paid during the balance of the notice period plus a payment equal to salary to the effective date of termination, payment for accrued but unused vacation, and *pro rata* cash bonus for the year to date (if targets are being met); 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:

- termination is on not less than one month's written notice, to expire at any time; and
- directors 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.

Directors' remuneration

The remuneration of the individual directors who served during the year, for the period for which they were directors, was as follows:

	Base salary and fees $'000s	*Performance-related bonus $'000s*	*Other $'000s*	*Total 2006 $'000*	*Total 2005 $'000s*
Executive:					
J Brady	215	34	3	252	211
W Bratkowski*	113	11	6	130	—
D Marx	138	8	7	153	147
S Whitcomb**	—	—	—	—	244
Non-executive:					
A Fischer	60	5	—	65	58
R Chanson	51	5	—	56	49
T Isler	51	—	—	51	49
S Wauchope	51	9	—	60	52
	679	72	16	767	810

* *Appointed 3 March 2006*
** *Resigned 21 July 2005*

Remuneration Committee report

continued

The performance-related bonuses paid to non-executive directors relate to services provided in connection with the Company's capital raising in May 2006.

With effect from 1 April 2007, the Committee has recommended and the Board approved an increase in the base salary of John Brady to $300,000, and has increased his bonus potential to an annual $200,000. This exceptional increase reflects the Board's view of the outstanding performance of John Brady in developing the Company to its current position, and acknowledges also the value that the market would place on those achievements.

Directors' share options

The Company maintains an Unapproved Share Option Scheme that was adopted in July 2004. Walter Bratkowski, who was appointed to the Board on 3 March 2006, was granted 100,000 options under this scheme on 31 October 2005, at which time he was Group Chief Financial Officer. The options have an exercise price of 62p and are exercisable from 31 October 2008 to 30 October 2015, with vesting subject to performance conditions related to Total Shareholder Return. Walter Bratkowski was granted a further 100,000 options under the scheme on 11 April 2006. These options, which have similar vesting conditions, have an exercise price of 73.5p and are exercisable from 11 April 2009 to 10 April 2016.

On 11 April 2006, 3,470 options were granted to Selina Marx, the wife of Donald Marx and an employee of the Company. These options, which have similar vesting conditions to those described above, have an exercise price of 73.5p and are exercisable from 11 April 2009 to 10 April 2016. For Companies Act purposes, these options fall to be disclosed as an interest of Donald Marx in the share capital of the Company.

No other director has been granted options under this scheme.

Certain directors have share options granted under the 2001 Incentive Stock Option Plan previously maintained by Plant Health Care, Inc. Upon admission to AIM, options outstanding under this plan were converted into options to acquire shares of Plant Health Care plc.

Further information related to shares issued to directors during the year is detailed in note 20 to the financial statements.

Remuneration Committee report

continued

The interests of the directors in share options over the ordinary shares of the Company at 31 December 2006 are set out in the following table.

	No of options	*Exercise price £*	*Exercisable from*	*Expiry Date*
A Fischer	37,500	0.37	Now	18 November 2011
	37,500	0.37	Now	18 November 2012
	37,500	0.37	Now	1 March 2014
	75,000	0.74	Now	23 March 2014
	37,500	0.37	Now	14 June 2014
J Brady	525,000	0.37	Now	20 August 2011
	918,975	0.37	Now	4 March 2014
	56,025	0.71	Now	4 March 2014
W Bratkowski	100,000	0.62	31 October 2008	30 October 2015
	100,000	0.735	11 April 2009	10 April 2016
D Marx	149,999	0.37	Now	17 December 2012
	565,762	0.37	Now	4 March 2014
	34,237	0.71	Now	4 March 2014
	3,470	0.735	11 April 2009	10 April 2016
R Chanson	37,500	0.37	Now	18 November 2011
	37,500	0.37	Now	18 November 2012
	37,500	0.37	Now	1 March 2014
	60,000	0.74	Now	23 March 2014
	37,500	0.37	Now	14 June 2014
T Isler	37,500	0.37	Now	18 November 2011
	37,500	0.37	Now	18 November 2012
	37,500	0.37	Now	1 March 2014
	52,500	0.74	Now	23 March 2014
	37,500	0.37	Now	14 June 2014
	3,090,968			

On 30 January 2007, John Brady exercised 300,000 options at 37p from those options exercisable until 20 August 2011. On the same date, Donald Marx exercised all of his above options which had vested, comprising 715,761 options at 37p and 34,237 options at 71p. The share price at the close of the day on which the options were exercised was 226.5p.

There were no other movements in the above holdings during 2006 or to the date of this report.

During the year, the Company's share price on AIM ranged between 56.5p and 178.5p. At 31 December 2006, the share price was 177.5p.

Report of the directors

for the year ended 31 December 2006

The directors present their report together with the audited financial statements for the year ended 31 December 2006.

Results and dividends

The results of the Group for the year are set out on page 27 and show a loss for the year of $3,060,000 (2005: loss of $3,050,000).

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

Principal activities, review of business and future developments

Details of the Group's principal activities and a review of business and future developments are included in the Chairman and Chief Executive's statement on pages 4 to 8.

Directors

The directors of the Company at the end of the year and their beneficial interests in the ordinary share capital of the Company and options to purchase ordinary shares of the Company were as follows:

	At 31 December 2006		*At 1 January 2006*	
	Shares	*Options*	*Shares*	*Options*
A Fischer	138,628	225,000	127,574	225,000
J Brady	—	1,500,000	—	1,500,000
W Bratkowski	—	200,000	—	100,000
D Marx	578,815	753,468	578,815	749,998
R Chanson	135,166	210,000	35,166	210,000
T Isler	397,777	202,500	388,424	202,500
S Wauchope	50,000	—	30,000	—

All of the directors served throughout the year, with the exception of Walter Bratkowski, who was appointed to the Board as Finance Director on 3 March 2006.

Post year-end dealings

On 17 January 2007, 4,743 shares were allotted to Albert Fischer, 4,185 shares to Robert Chanson, 3,069 shares to Thomas Isler and 2,232 shares to Sam Wauchope, all in payment for services performed. On the same day, Robert Chanson sold 4,185 shares in an off-market transaction.

On 30 January 2007, John Brady exercised options over and sold 300,000 shares. On the same day, Donald Marx exercised options over 749,998 shares and sold a total of 900,000 shares.

Following the above transactions, the interests of the directors in the share capital of the Company at the date of this report are as follows:

	Shares	*Options*
A Fischer	143,371	225,000
J Brady	—	1,200,000
W Bratkowski	—	200,000
D Marx	428,813	3,470
R Chanson	135,166	210,000
T Isler	400,846	202,500
S Wauchope	52,232	—

Report of the directors

for the year ended 31 December 2006

Further details of the directors' share options are shown in the Remuneration Committee report on pages 18 and 19.

None of the directors has any holding in any subsidiary company, nor any material interest in the transactions of the Group.

Substantial shareholders

On 2 April 2007, the Company had been notified of the following holdings representing in excess of 3% of the Company's ordinary shares:

Name	*Shares held*	*Percentage of issued share capital*
Pictet Asset Management S.A.	4,150,900	9.89
Gartmore Investment Limited	3,415,820	8.14
Funds managed by AXA SA for Framlington HSBC	3,140,000	7.48
Universities Superannuation Scheme Limited	2,552,500	6.08
Branco Weiss	2,196,954	5.24

Research and development

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

Enhanced business review

For a discussion of the Group's 2006 performance against its key performance indicators, see the Chairman and Chief Executive's statement on pages 4 to 8.

Key performance indicators

The Group uses a range of performance measures to monitor and manage the business effectively. The most significant of these are financial key performance indicators (KPI's).

KPI's include turnover, gross profit and margin, and EBIT (excluding exceptional costs). These KPI's indicate the volume of work the Group has undertaken, as well as the efficiency and profitability with which this work has been delivered.

Other performance indicators relate to the Group's progress in proving and commercially exploring its key technologies.

Financial instruments

The Group uses various financial instruments, including loans, equity offerings, cash, and items such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations.

The existence of these financial instruments exposes the Group to a number of financial risks, which are described in more detail below. The main risks arising from the Group's financial instruments are currency risk, credit risk, interest rate risk and liquidity risk. The directors review and agree policies for managing each of these risks and they are summarised below. These policies have remained unchanged from previous years.

Currency risk

The Group has a minimal exposure to translation and transaction foreign exchange risk. This is achieved by maintaining the vast majority of the Group's cash in US dollars which is the Group's functional currency.

Report of the directors
for the year ended 31 December 2006

Credit risk

The Group's principal credit risk relates to the recovery of amounts owed by trade debtors. In order to manage credit risk, the Group sets limits for customers based on a combination of payment history and third-party credit references. Credit limits are reviewed on a regular basis in conjunction with debt ageing and collection history. Balances that are beyond agreed upon terms are actively followed up to ensure collection.

Interest rate risk

The Group's external borrowings bear interest at a rate which may be a combination of fixed and variable elements. The Group seeks the lowest market rate available.

Liquidity risk

Current and projected working capital demand is reviewed in conjunction with existing financing facilities to determine cash requirements on an on-going basis.

Further information related to financial instruments is detailed in Note 19 to the financial statements.

Payment of creditors

The Company follows the practices customary in the various geographic areas in which it operates. Terms of payment are established with suppliers when agreeing the terms of each transaction. As of 31 December 2006, creditor days outstanding stood at 68 (2005: 67).

Charitable and political contributions

During the year the Group made the following contributions:

	2006	*2005*
	$	*$*
Charitable	3,000	10,000

Board meetings and attendance

The following table shows the attendance of directors at meetings of the Board and Audit and Remuneration Committees held during the 2006 financial year.

	Board	*Audit Committee*	*Remuneration Committee*
Number of meetings held	15	6	5
A Fischer	15	–	5
J Brady	12	–	–
W Bratkowski*	12	–	–
D Marx	12	–	–
R Chanson	11	–	4
T Isler	13	6	5
S Wauchope	14	6	4

** Appointed a director on 3 March 2006*

Report of the directors

for the year ended 31 December 2006

Capital raising

On 5 May 2006 the Company raised GBP 6,500,000 (before expenses) by way of a placing of 10,000,000 new ordinary shares at a price of 65 pence per share.

Post balance sheet events

On 28 February 2007, the Company acquired certain of the assets of Eden Bioscience Corporation for a total consideration of $2,200,000 plus the assumption of certain liabilities associated with these assets. $1,500,000 was paid at closing and $700,000 is due on 31 December 2007 under a secured promissory note bearing interest at a rate of 5% per annum.

Auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Company's auditors for the purposes of their audit and to ensure that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

Annual general meeting

At the forthcoming annual general meeting of the Company, resolutions will be put forward to re-elect Albert Fischer and John Brady (who retire by rotation) as directors, and to re-appoint BDO Stoy Hayward LLP as auditors to the Company.

By Order of the Board

Andrew C. Wood FCIS
Company Secretary

13 April 2007

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

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 the Group and of the profit or loss of the Group for that year. 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.

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

Independent auditors' report

To the shareholders of Plant Health Care plc

We have audited the Group and parent company financial statements of Plant Health Care plc for the year ended 31 December 2006 which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cash flow statement, the consolidated statement of recognised gains and losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland).

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 other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises the Highlights, Chairman and Chief Executive's statement, Directors, Board committees, Corporate governance statement, Remuneration Committee report and Report of the directors. 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 International Standards on Auditing (UK and Ireland) 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and 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.

Independent auditors' report

continued

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's affairs as at 31 December 2006 and of its loss for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 December 2006;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

BDO Stoy Hayward LLP
Chartered Accountants
and Registered Auditors
London

13 April 2007

Consolidated profit and loss account

for the year ended 31 December 2006

	Note	2006 $'000	2005 as restated $'000
Turnover	3	13,679	10,223
Cost of sales		(7,565)	(5,219)
Gross profit		6,114	5,004
Administrative expenses		(9,012)	(7,874)
Operating loss	4	(2,898)	(2,870)
Other interest receivable and similar income		275	64
Interest payable and similar charges	8	(335)	(96)
Loss on ordinary activities before taxation		(2,958)	(2,902)
Taxation	9	(72)	(121)
Loss on ordinary activities after taxation		(3,030)	(3,023)
Minority interest		(30)	(27)
Loss for the period		(3,060)	(3,050)
Basic and diluted loss per share	10	(8.3¢)	(10.2¢)

All amounts relate to continuing activities.

The notes on pages 32 to 49 form part of these financial statements.

Consolidated statement of total recognised gains and losses for the year ended 31 December 2006

	2006 $'000	2005 as restated $'000
Loss for the financial year	**(3,060)**	(3,050)
Exchange translation differences on consolidation	**219**	(21)
Total recognised gains and losses for the year	**(2,841)**	(3,071)
Prior year adjustement – share-based payment	**27**	
Total gains and losses recognised since last financial statements	**(2,814)**	

The notes on pages 32 to 49 form part of these financial statements.

Consolidated balance sheet

at 31 December 2006

	Note	2006 $'000	2005 as restated $'000
Fixed assets			
Intangible assets	12	**2,701**	2,769
Tangible fixed assets	13	**1,008**	790
		3,709	3,559
Current assets			
Stocks	16	**2,468**	1,582
Debtors	17	**6,942**	2,989
Short term investments		**436**	252
Cash at bank and in hand		**4,446**	894
		14,292	5,717
Creditors: amounts falling due within one year	18	**(3,762)**	(3,332)
Net current assets		**10,530**	2,385
Total assets less current liabilities		**14,239**	5,944
Creditors: amounts falling due after more than one year	18	**(414)**	(523)
Net assets		**13,825**	5,421
Capital and reserves			
Called-up share capital	20	**731**	542
Share premium	21	**21,826**	10,847
Reverse acquisition reserve	21	**11,174**	11,195
Option reserve	21	**118**	51
Profit and loss account	21	**(20,244)**	(17,404)
Shareholders' funds	22	**13,605**	5,231
Minority interests		**220**	190
		13,825	5,421

The financial statements were approved and authorised for issue by the Board on 13 April 2007.

J Brady

Director

The notes on pages 32 to 49 form part of these financial statements.

Company balance sheet

at 31 December 2006

	Note	2006 $'000	2005 as restated $'000
Fixed assets			
Fixed asset investments	14	**30,636**	23,791
Current assets			
Debtors	17	**21**	16
Cash at bank and in hand		**3,599**	181
		3,620	197
Creditors: amounts falling due within one year	18	**(333)**	(290)
Net current assets/(liabilities)		**3,287**	(93)
Net assets		**33,923**	23,698
Capital and reserves			
Called-up share capital	20	**731**	542
Share premium	21	**21,826**	10,847
Reverse acquisition reserve	21	**14,455**	14,453
Option reserve	21	**118**	51
Profit and loss account	21	**(3,207)**	(2,195)
Shareholders' funds	22	**33,923**	23,698

The financial statements were approved and authorised for issue by the Board on 13 April 2007.

J Brady

Director

The notes on pages 32 to 49 form part of these financial statements.

Consolidated cash flow statement

for the year ended 31 December 2006

	Note	2006 $'000	2005 $'000
Net cash outflow from operating activities	25	**(6,564)**	(2,833)
Returns on investments and servicing of finance			
Interest paid: Other		**(316)**	(66)
Interest paid: Finance leases		**(22)**	(19)
Interest received		**275**	64
Net cash outflow from returns on investments and servicing of finance		**(63)**	(21)
Taxation			
Foreign income tax paid		**(79)**	(39)
Capital expenditure and financial investment			
Purchase of tangible fixed assets	13	**(497)**	(549)
Proceeds on sale of fixed assets		**20**	21
Purchase of short-term investments		**(184)**	(252)
Net cash outflow from capital expenditure and financial investment		**(661)**	(780)
Cash outflow before financing		**(7,367)**	(3,673)
Financing			
Issue of ordinary shares for cash		**11,053**	—
Exercise of options and warrants		**64**	—
Issue of new borrowings: Finance leases		**101**	98
Repayment of borrowings: Notes payable		**(123)**	(119)
Repayment of borrowings: Finance leases		**(57)**	(29)
Repurchase of minority interest's shares by subsidiary		**(119)**	(309)
		10,919	(359)
Increase/(decrease) in cash	26, 27	**3,552**	(4,032)

The notes on pages 32 to 49 form part of these financial statements.

Notes to the financial statements

for the year ended 31 December 2006

1. Accounting policies

The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting policies applied consistently throughout the year and the preceding year with the exception of the policy for share-based payments explained in Note 2. The Company has not adopted the Companies Act 1985 Fair Value Rules.

The principal accounting policies are:

Basis of preparation

The financial statements have been prepared under UK GAAP and are reported in US dollars. The directors believe that it is more appropriate to use US dollars as a currency for reporting, 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. In order to present a true and fair view, the directors have adopted reverse acquisition accounting as the basis of consolidation.

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 of 15 years.

Licences

Licences are recorded at cost and are amortised through the profit and loss account over the directors' estimate of their useful economic lives of 12 years based upon the life of the underlying licence agreement.

Impairment of goodwill and licenses

Impairment tests on the carrying value of goodwill and licenses 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.

Turnover

Turnover represents sales to external customers at invoiced amount less value added tax or local taxes on sales. Sales are recognised at the point that the customer takes legal title to the goods sold.

Notes to the financial statements continued

for the year ended 31 December 2006

1. Accounting policies continued

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

Foreign currency

Foreign currency transactions of individual companies are translated at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rate of exchange ruling at the balance sheet date. Any differences are taken to the profit and loss account.

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

Financial instruments

In relation to the disclosures made in note 19, short-term debtors and creditors are not treated as financial assets or financial liabilities.

The Group does not trade in derivative financial instruments.

Notes payable are non-interest bearing and are accounted for at net present value 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.

Share-based payments

Share options and warrants are classified as equity-settled share-based payments and as such are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. The fair value determined at the date of grant is recognised as an expense with a corresponding increase in equity on a straight-line basis over the vesting period, based on the Company's estimate of the shares that will eventually vest, and adjusted for the effect of non-market-based vesting conditions. Where equity instruments are granted to persons other than employees, the profit and loss account is charged with the fair value of goods and services received. The fair value of equity instruments is calculated using the binomial option pricing model.

Research and development

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

Notes to the financial statements continued

for the year ended 31 December 2006

1. Accounting policies continued

Deferred tax

Deferred tax balances are recognised in respect of 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 present value of the minimum lease payments payable over the term of the lease. 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. Change in accounting policies

In preparing these financial statements the Group has adopted for the first time FRS 20: 'Share-based Payment'. FRS 20 requires the recognition of equity-settled share-based payments at fair value at the date of grant, and the amortisation of that value over the expected period to the exercise of the instrument. Prior to the adoption of FRS 20, the Company did not recognise the financial effect of share-based payments until such payments were settled.

In accordance with the provisions of the standard, the policy has been applied to grants of share options (which constitute equity-settled share-based payments) that were granted after 7 November 2002 and had not yet vested at 1 January 2006.

For the period ended 31 December 2006, the change in accounting policy has resulted in an increase in the loss for the period of $67,000. The standard requires that the Company restate comparative information. For the year ended 31 December 2005, the increase in the loss is $27,000.

At 31 December 2006, the share option reserve amounted to $118,000 (2005: $51,000).

Notes to the financial statements continued

for the year ended 31 December 2006

3. Segmental analysis

	2006 Turnover $'000s	2006 Pre-tax profit/ (loss) $'000s	2006 Net assets/ (liabilities) $'000s	2005 Turnover $'000s	2005 Pre-tax profit/ (loss) $'000s	2005 Net assets/ (liabilities) $'000s
Analysis by geographic market (by origin)						
USA	**8,791**	**(1,719)**	**(2,354)**	6,503	(1,276)	(634)
Mexico	**2,536**	**221**	**923**	1,933	257	765
Europe	**2,352**	**(15)**	**(394)**	1,787	71	(589)
Corporate	**—**	**(1,445)**	**15,650**	—	(1,954)	5,879
	13,679	**(2,958)**	**13,825**	10,223	(2,902)	5,421

4. Operating loss

	2006 $'000s	2005 $'000s
Operating loss is arrived at after charging:		
Research and development	**306**	295
Depreciation	**248**	190
Amortisation	**38**	41
Operating lease expense	**468**	399
Auditors' remuneration – audit services	**203**	167
– taxation services	**25**	19
– all other services	**36***	—
Exceptional costs – Plant relocation	**250**	280
– Staff reorganisation	**—**	223
– Placement costs	**63**	—
– Share-based payment expense	**67**	27
	380	530

* The all other services provided related to the Company's forthcoming transition to International Financial Reporting Standards. In 2006, the auditors were also paid $87,000 in relation to the Company's secondary placement and a business acquisition; these fees were capitalised.

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

Notes to the financial statements continued

for the year ended 31 December 2006

5. Employees

Staff costs for all employees, including executive directors, comprise:

	Group		Company	
	2006	2005	**2006**	2005
	$'000s	$'000s	**$000's**	$000's
Wages and salaries	**4,166**	3,602	**257**	394
Social security and payroll taxes	**448**	394	**17**	24
Pension costs	**—**	85	**—**	12
Medical and other benefit plans	**359**	317	**13**	30
	4,973	4,398	**287**	460

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

	Group		Company	
	2006	2005	**2006**	2005
	$'000s	$'000s	**$000's**	$000's
Management	**9**	8	**4**	4
Sales	**27**	24	**—**	—
Production and technical services	**14**	15	**—**	—
Administration	**19**	21	**—**	—
	69	68	**4**	4

6. Directors' remuneration

	2006	2005
	$'000s	$'000s
Directors' emoluments	**767**	648
Pension contributions	**—**	13
Compensation for loss of office	**—**	149
	767	810

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

Total emoluments paid to the highest paid director were $252,000 (2005: $211,000). The amount paid includes a pension contribution of nil (2005: $6,000).

The three executive directors who served during the year were eligible to participate in the Group's 401(k) retirement plan.

Notes to the financial statements continued

for the year ended 31 December 2006

7. Share-based payment

Valuation of the share options granted during the period was as follows:

	3 November 2006	*22 June 2006*	*11 April 2006*
Share options granted	3,000	50,000	131,470
Weighted average fair value	39p	47p	34p
Assumptions used in measuring fair value:			
Weighted average share price	128p	106p	74p
Exercise price	128p	123p	74p
Expected volatility	57%	57%	57%
Option life	10 years	10 years	10 years
Expected vesting period	4.5 years	4.5 years	4.5 years
Expected dividend yield	Nil	Nil	Nil
Risk free interest rate	4.77%	4.77%	4.42%

The expected volatility was determined by reference to the historic share price of three comparable companies.

The expected vesting period reflects market-based performance conditions for these options.

Fair values were calculated using the binomial option pricing model.

Further information related to share-based payments is detailed in section (d) of note 20.

8. Interest payable and similar charges

	2006* *$'000s	*2005* *$'000s*
On finance leases	**22**	40
Other interest and finance charges	**313**	56
	335	96

9. Taxation on loss from ordinary activities

The taxation charge for the year comprises:

	2006* *$'000s	*2005* *$'000s*
Corporation tax:		
Current tax charge on loss for the period	**(81)**	(121)
Deferred tax:		
Origination and reversal of timing differences	**9**	–
Taxation on loss on ordinary activities	**(72)**	(121)

Notes to the financial statements continued

for the year ended 31 December 2006

9. Taxation on loss from ordinary activities continued

The differences between the Group's tax charge shown above and the amount calculated by applying the Group's standard rate of expected corporation tax is as follows:

	2006	*2005*
		as restated
	$'000s	*$'000s*
Loss on ordinary activities before tax	**(2,958)**	(2,902)
Expected tax credit on loss on ordinary activities (using standard rate of UK corporation tax of 30% (2005: 30%))	**887**	863
Losses in year not relieved against current tax	**(959)**	(984)
Current tax charge	**(72)**	(121)

The Group has significant tax losses available for carry-forward in several of the jurisdictions in which it operates. The tax charge in future periods may be affected by the utilisation of a deferred tax asset of approximately $7,400,000 (2005: $6,400,000) in respect of timing differences relating to losses, not currently recognised as there is insufficient evidence related to the recoverability of the asset. Future utilisation of these losses is subject to suitable profits arising in the appropriate tax jurisdictions.

10. Loss per share

Loss per ordinary share has been calculated using the weighted average number of shares in issue during the relevant financial periods. For 2006, the weighted average number of equity shares in issue is 36,838,918 (2005: 30,048,252) and the loss after tax and minority interests is $3,060,000 (2005: $3,050,000). Instruments (share options and warrants – see note 20 for instruments in existence) that could potentially dilute basic earnings per share in the future have been considered, but were not included in the calculation of diluted earnings per share because they are anti-dilutive for the periods presented.

11. 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 $1,012,000 (2005: $1,557,000) which is dealt with in the financial statements of the parent company.

Notes to the financial statements continued

for the year ended 31 December 2006

12. Intangible assets

	Licences $'000s	Group Goodwill on consolidation $'000s	Total $'000s
Cost			
At 1 January and 31 December 2006	2,586	536	3,122
Amortisation			
At 1 January 2006	5	348	353
Provision for the year	2	36	38
Impairment charge	30	—	30
At 31 December 2006	37	384	421
Net book value			
At 31 December 2006	**2,549**	**152**	**2,701**
At 1 January 2006	2,581	188	2,769

13. Tangible assets

	Leasehold improvements $'000s	Production machinery $'000s	Group Office equipment $'000s	Vehicles $'000s	Total $'000s
Cost					
At 1 January 2006	185	748	840	311	2,084
Additions	—	108	153	236	497
Disposals	—	—	(1)	(82)	(83)
At 31 December 2006	185	856	992	465	2,498
Depreciation					
At 1 January 2006	136	490	530	138	1,294
Provision for the year	5	63	103	77	248
On disposals	—	—	(1)	(51)	(52)
At 31 December 2006	141	553	632	164	1,490
Net book value					
At 31 December 2006	**44**	**303**	**360**	**301**	**1,008**
At 1 January 2006	49	258	310	173	790

The net book value of tangible fixed assets includes an amount of $236,000 (2005: $173,000) in respect of assets held under finance leases. Depreciation expense includes an amount of $54,000 (2005: $31,000) in respect of assets held under finance leases.

Notes to the financial statements continued

for the year ended 31 December 2006

14. Investments

	Company		
	Shares in Group undertakings $'000s	*Loans to Group undertakings $'000s*	*Total $'000s*
Cost			
At 1 January 2006	15,293	8,498	23,791
Additions	14	6,831	6,845
At 31 December 2006	**15,307**	**15,329**	**30,636**

During the year ended 31 December 2006, 7,500 ordinary shares, with an aggregate value of $14,000, were issued in exchange for Plant Health Care Inc. (Nevada) shares in accordance with the circular dated 30 June 2004. As a result of this transaction, the Company's percentage ownership of Plant Health Care, Inc. (Nevada) increased to 96.9% at 31 December 2006 (2005: 96.8%).

The Directors do not consider that any provision is required against the cost of these investments.

15. Subsidiary undertakings

The following were subsidiary undertakings at the end of the year. All have 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)	96.9%	Holding company
Plant Health Care, Inc	USA (Pennsylvania)	96.9%*	Manufacturing and sales
PHC Reclamation, Inc	USA (Nevada)	96.9%*	Contracting and consulting
Plant Health Care de Mexico S. de R.L. de C.V.	Mexico	77.5%*	Sales
Plant Health Care (UK) Limited	United Kingdom	96.9%*	Sales
Plant Health Care BV	Netherlands	96.9%*	Sales
Plant Health Care España	Spain	96.9%*	Sales
VAMTech, LLC	USA (Delaware)	96.9%*	Manufacturing
PHC Royalty Corporation	USA (Nevada)	96.9%*	Intellectual property

* Held indirectly

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

Subsequent to the year end, the Company purchased 3 shares, representing 0.3% of the total share capital of Plant Health Care, Inc. (Nevada); increasing the Company's percentage ownership of Plant Health Care, Inc. (Nevada) from 96.9% to 97.2% as of the date of this report. The total purchase price of the shares was $90,000.

Notes to the financial statements *continued*

for the year ended 31 December 2006

16. Stocks

	Group	
	2006	2005
	$'000s	$'000s
Raw materials	**1,089**	766
Work in progress	**53**	72
Finished goods	**1,326**	744
	2,468	1,582

17. Debtors

	Group		Company	
	2006	2005	**2006**	2005
	$'000s	$'000s	**$000's**	$000's
Trade debtors	**5,882**	2,721	**—**	—
Prepayments	**1,060**	268	**21**	16
	6,942	2,989	**21**	16

All amounts fall due for payment within one year.

18. Creditors

(a) *Amounts falling due within one year*

	Group		Company	
	2006	2005	**2006**	2005
	$'000s	$'000s	**$000's**	$000's
Revolving credit facility	**114**	114	**—**	—
Trade creditors	**1,513**	1,171	**107**	48
Accruals	**1,655**	1,624	**226**	242
Taxation and social security	**114**	71	**—**	—
Corporation tax	**166**	181	**—**	—
Notes payable	**131**	126	**—**	—
Finance leases	**69**	45	**—**	—
	3,762	3,332	**333**	290

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

	Group	
	2006	2005
	$'000s	$'000s
Notes payable	**286**	415
Finance leases	**128**	108
	414	523

Notes payable are unsecured.

Finance lease obligations are secured by retention of title to the relevant equipment and vehicles.

Notes to the financial statements continued
for the year ended 31 December 2006

18. Creditors continued

(c) *Due date for payment:*

Financial liabilities are due:

	Notes payable		*Finance leases*		*Revolving credit facility*	
	2006	*2005*	***2006***	*2005*	***2006***	*2005*
	$'000s	*$'000s*	***$'000s***	*$'000s*	***$'000s***	*$'000s*
In less than one year	**131**	126	**69**	45	**114**	114
In more than one year but less than two years	**139**	129	**71**	50	**—**	—
In more than two years but less than five years	**147**	286	**57**	58	**—**	—
	417	541	**197**	153	**114**	114

(d) *Other financial commitments*

The Group had $250,000 of letters of credit outstanding at 31 December 2006 (2005: $114,000), expiring September 2007. Short-term investments in the amount of $275,000 (2005: $125,000) are pledged as security for these letters of credit.

19. Financial instruments

(a) *Interest rate and currency of borrowings*

The Group's borrowings comprise notes payable, finance leases and a short-term revolving credit facility.

Non-interest bearing subordinated notes payable of $417,000 (2005: $541,000) are accounted for at net present valuing 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 to August 2009.

$197,000 (2005: $153,000) of the Group's borrowings are finance leases; $156,000 is denominated in US dollars (2005: $122,000) and $41,000 in euros (2005 – $31,000), all at fixed interest rates. The weighted average fixed rate is 10.9% and the weighted average period for which it is fixed is 34 months.

The Group has $114,000 (2005: $114,000) in short-term financing through a revolving credit facility in the USA. Borrowings under this facility are repayable upon demand. Interest is at LIBOR plus 2.375% adjusted weekly.

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

Floating rate financial assets comprise $3,940,000 (2005: $685,000) of deposits on money market deposit at call, seven-day and monthly floating rates; $3,517,000 is denominated in US dollars and $423,000 in British pounds (2005: all denominated in US dollars).

Short-term investments include $436,000 (2005: $252,000) held in US treasury notes maturing 31 December 2007. The securities earn interest at 4.375%. These securities are pledged as collateral for letters of credit and the revolving credit facility.

Notes to the financial statements continued
for the year ended 31 December 2006

19. Financial instruments continued

(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 31 December 2006 and 2005, the current values of all of the Group's financial instruments are not materially different from the book values.

(e) *Undrawn bank facilities*

The Group had no undrawn committed bank borrowing facilities available to it at 31 December 2006 (2005: $Nil).

On 12 April 2007, the Company entered into a revolving credit agreement that provides for $2,000,000 in borrowings. The agreement matures one year from the date it was entered into. Interest is at prime plus 8%. A facility fee of 4% was payable upon closing. As of the date of this report, borrowings of $586,000 were outstanding under the agreement. Borrowings under the agreement are based on the eligible accounts receivable and inventory of certain of the Group's US subsidiaries. They are secured by substantially all of the assets of those subsidiaries and are guaranteed by Plant Health Care, Inc.

20. Share capital

(a) *Authorised and issued share capital*

	2006 $'000s	*2005 $'000s*
Authorised share capital:		
500,000,000 ordinary shares at £0.01 each;	**8,984**	8,984
Allotted, called up and fully-paid share capital:		
40,333,972 (2005: 30,150,462) ordinary shares at £0.01 each;	**731**	542

(b) *Movement in share capital*

The movements on issued share capital during the year ended 31 December 2006 and to the date of this report are as follows:

	Ordinary shares of Plant Health Care plc	
	Number	*$'000s*
In issue at 1 January 2006	**30,150,462**	**542**
Secondary placement	**10,000,000**	**186**
Shares exchanged	**7,500**	—
Shares issued for services received	**29,760**	—
Share options exercised	**90,000**	**2**
Warrants exercised	**56,250**	**1**
In issue at 31 December 2006	**40,333,972**	**731**
Shares issued for services received	**14,452**	—
Share options exercised	**1,602,498**	**31**
In issue at the date of this report	**41,950,922**	**762**

Notes to the financial statements continued
for the year ended 31 December 2006

20. Share capital continued

During the year ended 31 December 2006 the following fully-paid 1p ordinary shares in the Company were issued:

(i) 10,000,000 ordinary shares, with an aggregate value of $12,066,000, were issued by way of a placing at 65p per share on 5 May 2006.

(ii) 7,500 ordinary shares, with an aggregate value of $14,000, were issued in exchange for Plant Health Care Inc. shares in accordance with the circular dated 30 June 2004.

(iii) 29,760 shares, with an aggregate value of $38,000, were issued to certain non-executive directors in payment of fees.

(iv) 90,000 shares, with an aggregate value of $62,000, were issued for the exercise of share options at exercise prices of 37 pence per share

(v) 56,250 shares, with an aggregate value of $1,000, were issued for the exercise of share warrants, in accordance with the circular dated 30 June 2004.

During the period from 1 January 2007 to the date of this report, the following additional shares of 1p each have been issued:

(i) 14,452 shares, with an aggregate value of $64,000, have been issued to certain non-executive directors and the former company secretary in payment of fees.

(ii) 1,602,498 shares, with an aggregate value of $1,196,000, have been issued for the exercise of share options, at exercise prices ranging from 37 pence per share to 71 pence per share.

(c) *Warrants*

The movements on share warrants during the year ended 31 December 2006 and to the date of this report are as follows:

	Warrants over ordinary shares
Outstanding at 1 January 2006	176,704
Warrants in Plant Health Care, Inc. exchanged	56,250
Warrants exercised	(56,250)
Outstanding at 31 December 2006	**176,704**

The warrants are exercisable at 52p per warrant on or before 5 July 2014.

There have been no further movements in warrants to the date of this report.

(d) *Share options*

As described in the Remuneration Committee report on pages 15 to 19, the Company issues share options to certain employees under the Plant Health Care plc Unapproved Share Option Scheme 2004. At the time of its admission to AIM, outstanding options under the Plant Health Care, Inc. 2001 Equity Incentive Plan were converted into options over shares in Plant Health Care plc. No further options have been or will be issued under that Plan.

Notes to the financial statements continued

for the year ended 31 December 2006

20. Share capital continued

The movements on share options during the year ended 31 December 2006 and to the date of this report are as follows:

	Options over ordinary shares		
	Directors	*Other*	*Total*
Outstanding at 1 January 2006	2,887,498	1,923,498	4,810,996
Appointment of CFO as director	100,000	(100,000)	—
Awarded	103,470	81,000	184,470
Exercised	—	(90,000)	(90,000)
Lapsed	—	(104,500)	(104,500)
Outstanding at 31 December 2006	**3,090,968**	**1,709,998**	**4,800,966**
Awarded	—	175,000	175,000
Exercised	(1,049,998)	(552,500)	(1,602,498)
Outstanding at the date of this report	2,040,970	1,332,498	3,373,468

The weighted average exercise prices of the above movements were as follows:

	Number of share options	*Weighted average exercise price*
Outstanding at 1 January 2006	4,810,996	43p
Awarded	184,470	88p
Exercised	(90,000)	37p
Lapsed	(104,500)	62p
Outstanding at 31 December 2006	**4,800,966**	**45p**
Awarded	175,000	224p
Exercised	(1,602,498)	38p
Outstanding at the date of this report	3,373,468	57p

The weighted average share price at the dates of exercise for the share options exercised during 2006 was 119p. For the options exercised in 2007 to date, the figure was 226p.

The options outstanding at 31 December 2006 have a weighted average remaining life of 6.3 years and the range of the exercise prices is 37p to 128p.

Notes to the financial statements continued

for the year ended 31 December 2006

21. Reserves

	Group			
	Share premium $'000s	Reverse acquisition reserve $'000s	Option reserve $'000s	Profit and Loss $'000s
Balance at 1 January 2006 – as restated	10,847	11,195	51	(17,404)
Plant Health Care, Inc. shares exchanged	13	(21)	—	—
Share issues	11,880	—	—	—
Share-based payments	38	—	67	—
Options exercised	61	—	—	—
Placement costs	(1,013)	—	—	—
Movement in exchange rates	—	—	—	220
Loss in the year	—	—	—	(3,060)
Balance at 31 December 2006	**21,826**	**11,174**	**118**	**(20,244)**

	Company			
	Share premium $'000s	Reverse acquisition reserve $'000s	Option reserve $'000s	Profit and Loss $'000s
Balance at 1 January 2006 – as restated	10,847	14,453	51	(2,195)
Plant Health Care, Inc. shares exchanged	13	2	—	—
Share issues	11,880	—	—	—
Share-based payments	38	—	67	—
Options exercised	61	—	—	—
Placement costs	(1,013)	—	—	—
Loss in the year	—	—	—	(1,012)
Balance at 31 December 2006	**21,826**	**14,455**	**118**	**(3,207)**

Notes to the financial statements continued

for the year ended 31 December 2006

22. Reconciliation of movements in shareholders' funds

	Group 2006 $'000s	Group 2005 as restated $'000s	Company 2006 $000's	Company 2005 as restated $000's
Loss for the year	**(3,060)**	(3,050)	**(1,012)**	(1,557)
Other net recognised gains and losses relating to the year	**220**	(21)	**—**	—
Exercise of options	**63**	—	**63**	—
Exercise of warrants	**1**	—	**1**	—
Repurchase of minority interest's shares by subsidiary	**(8)**	(676)	**—**	—
Share-based payments	**67**	27	**67**	27
Reverse acquisition	**—**	—	**14**	42
Share issues for services	**38**	159	**39**	159
Share placement	**12,066**	—	**12,066**	—
Placement costs	**(1,013)**	(50)	**(1,013)**	(50)
Net additions/(reductions) to shareholders' funds	**8,374**	(3,611)	**10,225**	(1,379)
Opening shareholders' funds	**5,231**	8,842	**23,698**	25,077
Closing shareholders' funds	**13,605**	5,231	**33,923**	23,698

23. 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. This plan covers substantially all US employees. In 2006, the Company made no contribution to the scheme (2005: $85,000).

24. Commitments under operating leases

As at 31 December 2006, the Group had annual commitments under non-cancellable operating leases as set out below:

	2006 Land and buildings $000's	2006 Other $000's	2005 Land and buildings $000's	2005 Other $000's
Operating leases which expire:				
Within one year	**1**	**10**	5	—
In two to five years	**119**	**71**	126	76
	120	**81**	131	76

Notes to the financial statements continued

for the year ended 31 December 2006

25. Reconciliation of operating loss to net cash outflow from operating activities

	2006 $'000s	2005 as restated $'000s
Operating loss	**(2,898)**	(2,870)
Depreciation	**248**	190
Amortisation of intangibles	**38**	41
Share-based payment expense	**68**	27
Gain on sale of fixed assets	**10**	1
Impairment charge	**30**	—
Increase in stocks	**(887)**	(458)
Increase in debtors	**(3,952)**	(830)
Increase in creditors	**779**	1,066
Net cash outflow from operating activities	**(6,564)**	(2,833)

26. Reconciliation of net funds inflow to movement in net debt

	2006 $'000s	2005 $'000s
Increase/(decrease) in cash	**3,552**	(4,032)
Cash inflow from change in short-term investments	**184**	252
Cash inflow from changes in debt	**80**	50
Movement in net cash	**3,816**	(3,730)
Opening net funds	**338**	4,068
Closing net funds	**4,154**	338

27. Analysis of net funds

	At 1 January 2006 $'000s	Cash flow $'000s	Non-cash items $'000s	At 31 December 2006 $'000s
Cash at bank and in hand	894	3,552	—	**4,446**
Revolving credit facility	(114)	—	—	**(114)**
	780	3,552	—	**4,332**
Short-term investments	252	184	—	**436**
Notes due after one year	(415)	—	129	**(286)**
Notes due within one year	(126)	124	(129)	**(131)**
Finance leases due after one year	(108)	(101)	81	**(128)**
Finance leases due within one year	(45)	57	(81)	**(69)**
	338	3,816	—	**4,154**

Notes to the financial statements continued

for the year ended 31 December 2006

28. Post balance sheet events

(a) *Agreement with Bayer CropScience AG*

On 16 January 2007, the Company entered into an agreement of up to ten years with Bayer CropScience AG to develop new seed treatment solutions based on Plant Health Care's *Myconate*® technology in combination with Bayer CropScience's seed treatment products. The Company received an up-front payment and will receive two additional milestone payments, dependent on the progress of the development over the next two years, and supply payments.

(b) *Asset Purchase Agreement*

On 28 February 2007, the Company acquired certain of the assets of Eden Bioscience Corporation for a total consideration of $2,200,000 plus the assumption of certain liabilities associated with these assets. $1,500,000 was paid at closing and $700,000 is due on 31 December 2007 under a secured promissory note bearing interest at a rate of 5% per annum.

The principal assets acquired were stock, plant and machinery, intellectual property and licences. The Company is assuming the liabilities associated with the licensing of technology from Cornell University. The payment due under the agreement with Cornell is the greater of 2% of sales or $200,000 per annum, net of the cost of field trial expenditures paid by the Company. In addition, the Company assumed the lease for one of Eden Bioscience's facilities which runs until 31 December 2009 with an annual rental payment of $230,000.

29. Commitments and contingencies

On 17 October 2006, the Company committed to purchase $524,000 of goods from a third party supplier. These goods are due for delivery during the first half of 2007.

For your notes

For your notes

Produced by Portman Lodge Limited

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