

# 2006 INTERIM REPORT



PHC® Naturally Better.



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## Chairman's statement

### Another record half

I am pleased to announce results for the six months to 30 June 2006. Plant Health Care plc ("PHC" or "the Company") continues to make great strides towards its goal of becoming the pre-eminent supplier of natural products to the agricultural and landscaping communities. Sales of \$5.0 million are up 4% compared to the same period last year, the fifth year in a row that it has posted record first half sales, with gross profit up by 8%. This result was achieved despite adverse weather conditions, which has affected the agricultural supply industry as a whole.

In May the Company completed a secondary placing raising \$11.1 million (£6.0 million), net of expenses, for the commercialisation of Myconate®, PHC's proprietary product line for enhancing yields of agricultural crops. The placing was met with great enthusiasm and enabled us to widen our shareholder base.

PHC has made significant progress in a number of areas in the first half of the year; the continuing strong results of our Myconate® tests and ongoing discussions regarding Myconate®'s commercialisation with major chemical and seed companies; the successful trials in the US of our Pre-Tect™ shelf life extension product; and strong sales increases in our Mexican and Reclamation units.

### Financial results

Turnover for the six months ended 30 June 2006 increased to \$5.0 million (2005: \$4.8 million) and gross margins increased to 46.6% (2005: 45.2%). The net operating loss for the period was \$2.1 million (2005: loss of \$1.8 million). This increased loss was largely as a result of the rise in administrative expenses to \$4.5 million (2005: \$4.0 million) reflecting the substantial investments in our sales and marketing capabilities to generate future growth in our current markets, the development of Myconate® markets and related distribution outlets.

Operating cash outflow for the period was \$2.2 million, but with the benefit of the \$11.1 million net proceeds from the placing in May, cash balances at 30 June 2006 were \$10.6 million, a strong position from which to develop further the business.

### Operational review

Sales in our US based landscape business were behind expectations primarily due to one of the coldest and wettest springs on record in the eastern part of the US, followed by a prolonged hot dry period. The division also experienced technical problems implementing the JDL Tree Warranty programme at the vendor level which were largely out of our control and which have now been rectified.

## Chairman's statement

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In May, the Company announced an agreement with Horizon, one of North America's leading provider of services to the "green" market. The deal expands PHC's distribution network into the US landscape, golf, irrigation and water management markets and adds a further 43 outlets in nine US states.

Mexico enjoyed an excellent first half growing season, which resulted in a 38% sales increase over the first half of 2005. This growth was fuelled by the addition of new customers and increased uptake of products by existing distributors. In Europe, sales volumes were slightly below the same period in 2005, but this was partially offset by increased prices across the product range.

PHC's Reclamation unit had a strong first half-year reporting a 37% sales increase over the same period of 2005. New contracts and the addition of a new re-vegetation service drove sales in this operation.

### Myconate®

We have expanded our Myconate® trials to include larger production-level trials to be carried out by independent parties throughout the world, adding further varieties of agricultural crops to the trials. Early progress reports show that Myconate®, entirely in line with the Company's expectations, is producing significantly enhanced yields under these varied circumstances.

The Company identified earlier this year as a preferred route to the commercialisation of Myconate®, a licensing agreement with a major chemical or seed company in 2008, preceded by an extensive testing programme in 2006 and 2007. So far, in line with the Company's milestones, as set out earlier in the year, it has concluded product evaluation agreements with five major agribusiness conglomerates, with the view to developing commercialisation avenues with which to fully realise the economic potential of Myconate®. This has now led to advanced negotiations with some major seed coating companies, well ahead of the timeline that we were expecting earlier in the year. The Board now hopes to announce its first licensing and distribution agreement in 2007, a year earlier than previously anticipated.

The outlook for commercial sales of Myconate® in 2007 is also strong. Both major distribution companies in Europe and commercial farming operations in North America have indicated strong interest to use Myconate® for the 2007 planting season.

## Chairman's statement

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### Pre-Tect™

Following the success of Pre-Tect™ in Europe we have now concluded final, independent testing of our Pre-Tect™ product in the US lettuce market with very impressive results. Field tests on Red and Romaine lettuce resulted in a shelf life increase of six days over non-treated lettuce. On the basis of these trials we have implemented a testing programme with the major lettuce farmers in the US as part of our next step to exploit this market. We are also engaged in business discussions with large US grocery chains, to endorse this product treatment to speed its successful adoption. We expect to see meaningful sales of this product in the US in 2007.

### New products and markets

PHC has introduced several new products and entered new markets that represent excellent sales growth potential. Organic Plant Food (OPF) received official certification in July, making it available for sale in the US. This product is a cornerstone of our agricultural sales effort in Europe and we will follow the same sales approach in the US. We believe the market potential for OPF is excellent due to the organic farming efforts in North America being concentrated in just a few regions, such as California, which will allow us to achieve a significant penetration impact with a limited sales force.

We have signed an exclusive distribution agreement in Northern Europe for a new all natural soil sterilant as a replacement for the synthetic methyl bromide, which will be removed from usage following government legislation pending a suitable substitute. This product is now well received by growers and will increase our product line, particularly in the field crop sector. We have also seen dramatic effects in the sports turf markets and vegetable markets. The Company has applied for organic registration on the product which will open a new market for PHC in Europe and potentially the US.

In our continuing efforts to penetrate the organic markets, PHC has developed an organic mycorrhizal fungi product for sale into the vegetable markets. This product received official organic certification from the Organic Materials Review Institute (OMRI) in May. We have already made sales of this product into the Mexican vegetable markets and are now marketing it into the California and Florida organic vegetable markets.

## Chairman's statement

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Finally, in May the Company established its first distributor in the People's Republic of China. Initially, PHC will target China's 'green industry' with the products available within 11 Chinese provinces, covering the area between Beijing and Shanghai. The venture is a five year renewable agreement and is part of the Chinese government's US\$61 billion Environmental and Beautification Programme which it has recently announced.

### Outlook

Whilst the agricultural supply industry as a whole experienced reduced sales over the same period last year, largely as a consequence of adverse weather conditions, PHC achieved a modest increase in same period sales. It has been PHC's long term strategy to manage its operational risk, made necessary from working within a weather related business, by diversifying geographically and across a broad range of products. With weather improving in mid-summer around the globe, a strong second-half growing season in Spain and Mexico, as well as the increased traction of our new products, we are beginning to see a pick-up in sales, and, with margins being maintained, we are confident of a satisfactory result for the full year.

It is with great anticipation we work towards realising the potential of Myconate®. Demand for agricultural crops is being driven by the growth in size and affluence of the global population, as well as from a dramatic rise in the use of renewable fuels for which corn and soy are the feedstock materials. As a result, carryover stocks of such commodities remain low, providing support to crop prices and overall farm fundamentals, from which Myconate® can benefit. This, combined with the advanced stage of our discussions with testing partners for a commercialisation strategy, gives us great confidence in the future of this product as a cornerstone of PHC's growth through 2007 and beyond.

Albert Fischer  
*Chairman*

26 September 2006

# Unaudited consolidated profit and loss account

For the six months ended 30 June 2006

		<i>Six months to 30 June 2006</i>	<i>Six months to 30 June 2005 as restated</i>	<i>Year ended 31 December 2005 as restated</i>
	<i>Note</i>	<i>\$,000</i>	<i>\$,000</i>	<i>\$,000</i>
<b>Turnover</b>		<b>4,975</b>	4,763	10,223
Cost of sales		<u>(2,656)</u>	<u>(2,612)</u>	<u>(5,219)</u>
<b>Gross profit</b>		<b>2,319</b>	2,151	5,004
Administrative expenses		<u>(4,468)</u>	<u>(3,971)</u>	<u>(7,874)</u>
<b>Operating loss</b>	6	<b>(2,149)</b>	(1,820)	(2,870)
Other interest receivable and similar income		78	34	64
Interest payable and similar charges		<u>(254)</u>	<u>(46)</u>	<u>(96)</u>
<b>Loss on ordinary activities before taxation</b>		<b>(2,325)</b>	(1,832)	(2,902)
Taxation		<u>—</u>	<u>—</u>	<u>(121)</u>
<b>Loss on ordinary activities after taxation</b>		<b>(2,325)</b>	(1,832)	(3,023)
Minority interest		<u>(4)</u>	<u>(3)</u>	<u>(27)</u>
<b>Loss for the period</b>		<b><u>(2,329)</u></b>	<b><u>(1,835)</u></b>	<b><u>(3,050)</u></b>
<b>Basic and diluted loss per share</b>	3	<b><u>(7.0)¢</u></b>	<b><u>(6.1)¢</u></b>	<b><u>(10.2)¢</u></b>

All amounts relate to continuing activities.

# Unaudited consolidated statement of total recognised gains and losses

For the six months ended 30 June 2006

	<i>Six months to 30 June 2006</i>	<i>Six months to 30 June 2005 as restated</i>	<i>Year ended 31 December 2005 as restated</i>
	<i>\$,000</i>	<i>\$,000</i>	<i>\$,000</i>
<b>Loss for the period</b>	<b>(2,329)</b>	(1,835)	(3,050)
Exchange translation differences on consolidation	<u>85</u>	<u>(20)</u>	<u>(21)</u>
<b>Total recognised gains and losses for the period</b>	<b><u>(2,244)</u></b>	<b><u>(1,855)</u></b>	<b><u>(3,071)</u></b>

# Unaudited consolidated balance sheet

At 30 June 2006

	30 June 2006	30 June 2005 <i>as restated</i>	31 December 2005 <i>as restated</i>
Note	\$,000	\$,000	\$,000
<b>Fixed assets</b>			
Intangible assets	2,741	2,809	2,769
Tangible assets	812	727	790
	<u>3,553</u>	<u>3,536</u>	<u>3,559</u>
<b>Current assets</b>			
Stocks	2,476	1,211	1,582
Debtors	2,613	2,805	2,989
Short term investments	258	—	252
Cash at bank and in hand	10,563	2,478	894
	<u>15,910</u>	<u>6,494</u>	<u>5,717</u>
Creditors: amounts falling due within one year	(4,662)	(2,770)	(3,332)
<b>Net current assets</b>	<u>11,248</u>	<u>3,724</u>	<u>2,385</u>
<b>Total assets less current liabilities</b>	<u>14,801</u>	<u>7,260</u>	<u>5,944</u>
Creditors: amounts falling due after one year	(506)	(692)	(523)
<b>Net assets</b>	<u>14,295</u>	<u>6,568</u>	<u>5,421</u>
<b>Capital and reserves</b>			
Called up share capital	730	541	542
Share premium	21,761	10,818	10,847
Merger reserve	11,181	11,195	11,195
Share option reserve	76	36	51
Profit and loss account	(19,647)	(16,188)	(17,404)
<b>Shareholders' funds</b>	<u>14,101</u>	<u>6,402</u>	<u>5,231</u>
Minority interests (equity)	194	166	190
	<u>14,295</u>	<u>6,568</u>	<u>5,421</u>

# Unaudited consolidated cash flow statement

For the six months ended 30 June 2006

		<i>Six months to 30 June 2006 \$,000</i>	<i>Six months to 30 June 2005 \$,000</i>	<i>Year ended 31 December 2005 \$,000</i>
	<i>Note</i>			
Net cash outflow from operating activities	7	(2,229)	(2,052)	(2,833)
Returns on investments and servicing of finance				
Interest paid		(252)	(16)	(85)
Interest received		78	34	64
Net cash outflow from returns on investments and servicing of finance		(174)	18	(21)
Taxation		(84)	—	(39)
Capital expenditure and financial investment				
Purchase of tangible fixed assets		(149)	(344)	(549)
Proceeds on sale of fixed assets		6	—	21
Purchase of intangible and other assets		—	(24)	—
Purchase of short term investments		(6)	—	(252)
Net cash outflow from capital expenditure and financial investment		(149)	(368)	(780)
Cash outflow before financing		(2,636)	(2,402)	(3,673)
Financing				
Issuing of ordinary share capital		11,049	—	—
Exercise of warrants		1	—	—
Issue of new borrowings		1,301	91	98
Repayment of borrowings		(26)	(13)	(148)
Repurchase of minority interest's shares by subsidiary		(20)	(10)	(309)
		12,305	68	(359)
Increase/(Decrease) in cash		9,669	(2,334)	(4,032)

# Notes to the unaudited financial information

## 1. Basis of preparation

The financial information set out in this report does not constitute full accounts for the purposes of Section 240 of the Companies Act 1985. The interim accounts for the six months ended 30 June 2006 and 30 June 2005 are unaudited. The comparative figures for the financial year ended 31 December 2005 are not the Company's statutory accounts for the financial year but are abridged from those accounts which have been reported on by the Company's auditors, whose report was unqualified. The interim accounts have been prepared on the basis of the accounting policies set out in the annual financial statements of the Group for the year ended 31 December 2005, except as discussed in Note 2 below. The interim accounts were approved by the Directors on 26 September 2006.

The results are reported under UK GAAP and presented in US dollars. The Directors believe that it is more appropriate to use US dollars as the currency for presentation, given that the majority of the Group's operations are denominated in that currency.

## 2. Share-based payment

(a) *Adoption of Financial Reporting Standard 20: 'Share-based Payment'*  
Effective 1 January 2006 the Company adopted 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 2005.

For the interim period ended 30 June 2006, the change in accounting policy has resulted in an increase in the loss for the period of \$25,000. At 30 June 2006, the total share option reserve amounted to \$76,000.

The Standard requires that the Company restate comparative information. For the six months ended 30 June 2005, the increase in the loss for this period is \$12,000 and for the year ended 31 December 2005, the increase in the loss for this year is \$27,000.

# Notes to the unaudited financial information

continued

## 2. Share-based payment continued

### (b) Accounting policy

The Company issues share options to certain employees. Such options 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 expensed 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. Fair value is measured by the binomial option pricing model.

### (c) Share options outstanding

The Company issues share options under the Plant Health Care plc Unapproved Share Option Scheme 2004, which includes a 10 year maximum term for options granted and vesting of options in usual circumstances no earlier than the third anniversary from the date of grant. At the time of its admission to AIM, the Company also agreed to honour outstanding options under the Plant Health Care, Inc 2001 Equity Incentive Plan, which provided that the term and the vesting requirements of the options be set by the Board of Directors. No further options have been or will be issued under that Plan.

The movement on share options during the six month period ended 30 June 2006 and to the date of this report are as follows:

	<i>Number of share options</i>	<i>Weighted average exercise price</i>
Outstanding at 1 January 2006	4,810,996	43p
Awarded	181,470	87p
Lapsed	(103,000)	62p
Outstanding at 30 June 2006	4,889,466	44p
Exercised	(60,000)	37p
Outstanding at 26 September 2006	<u>4,829,466</u>	44p

The weighted average share price at the date of exercise for the share options exercised was 89p.

# Notes to the unaudited financial information

continued

## 2. Share-based payment continued

The options outstanding at 30 June 2006 have a weighted average remaining life of 6.7 years and the range of the exercise price is 37p to 123p.

(d) *Valuation of share options issued*

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

	22 June 2006	11 April 2006
Share options granted	50,000	131,470
Weighted average fair value	59p	42p
<b>Assumptions used in measuring fair value:</b>		
Weighted average share price	106p	74p
Exercise price	123p	74p
Expected volatility	57%	57%
Option life	10 years	10 years
Expected vesting period	4.5 years	4.5 years
Expected dividend yield	Nil	Nil
Risk free interest rate	4.77%	4.42%

The expected volatility was determined by reference to the Company's historic share price for the prior two years and historic volatility of two comparative companies.

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

Fair values were calculated using the binomial option pricing model.

## 3. Basic and diluted loss per share

Basic loss per share for the six months ended 30 June 2006 has been calculated on the basis of the loss for the period of \$2,329,000 and the average number of shares in issue during the period of 33,327,537.

The effect of all potential ordinary shares is not dilutive.

## 4. Financial instruments

On 6 January 2006, the Company entered into a revolving credit agreement that provided for \$2,000,000 in borrowings with a provision that allowed, based on the cyclical needs of the business, an increase in borrowing capacity to \$2,720,000. The agreement had a maturity date of one year from the date it was entered into.

# Notes to the unaudited financial information

continued

## 4. Financial instruments continued

As of 30 June 2006 \$795,000 in borrowings were outstanding under the agreement. Borrowings under the agreement were based on the eligible accounts receivable and inventory of certain of the Group's US subsidiaries. They were secured by substantially all of the assets of those subsidiaries and guaranteed by Plant Health Care, Inc. Interest on the outstanding borrowings for the period was charged at prime rate, as published in the *Wall Street Journal*, plus 8 per cent.

On 7 July 2006, the Company terminated the revolving credit agreement and repaid the outstanding balance.

## 5. New shares issued in period

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. Following completion of the placing, the issued share capital increased to 40,180,222 fully paid ordinary shares. The new ordinary shares represented 24.9% of the issued share capital at the date of admission. The net proceeds of the placing will be used to develop the market for Myconate® and to satisfy the general working capital requirements of the Group.

## 6. Operating loss

	<i>Six months to</i> <i>30 June</i> <i>2006</i> <i>\$,000</i>	<i>Six months to</i> <i>30 June</i> <i>2005</i> <i>\$,000</i>	<i>Year ended</i> <i>31 December</i> <i>2005</i> <i>\$,000</i>
This is arrived at after charging:			
Depreciation	123	71	190
Amortisation	50	25	41
Share based payment expense	25	12	27
Placement costs	63	—	—
Provision for plant relocation	100	180	280

# Notes to the unaudited financial information

continued

## 7. Reconciliation of operating loss to net cash outflow from operating activities

	<i>Six months to 30 June 2006</i>	<i>Six months to 30 June 2005 as restated</i>	<i>Year ended 31 December 2005 as restated</i>
	<i>\$,000</i>	<i>\$,000</i>	<i>\$,000</i>
Operating loss	(2,149)	(1,820)	(2,870)
Adjust for non-cash items:			
Depreciation	123	71	190
Amortisation of intangibles	50	25	41
Share based payment expense	25	12	27
Gain/(loss) on sale of fixed assets	(2)	(1)	1
(Increase) in stocks	(894)	(87)	(458)
(Increase)/decrease in debtors	394	(612)	(830)
Increase in creditors	224	360	1,066
	<u>          </u>	<u>          </u>	<u>          </u>
Net cash outflow from operating activities	<u>(2,229)</u>	<u>(2,052)</u>	<u>(2,833)</u>





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