Plant Health Care plc

Interim Report

30 June 2014

Contents

Trademarks:
Myconate® is a trademark which Plant Health Care has the exclusive license to use.
Astera™ with αβpro™ are trademarks of Arysta LifeScience

Chairman's statement

Introduction

I am pleased to report the interim results for the six months to 30 June 2014. During the six months, we have made further substantial progress in establishing Plant Health Care as a leading provider of novel biological products for the agricultural industry. Paul Schmidt has continued to build his team and focus it on the key drivers of value - expanding the revenue base with the current portfolio and developing the technology platform.

Expanding the revenue base with the current portfolio

Plant Health Care has a portfolio of established products based on our proprietary Harpin and Myconate® technologies. Harpin-based products are well established in both the seed and foliar treatment markets and have been applied on more than 10 million acres of crops worldwide; an achievement that distinguishes our position from that of many competitors. Myconate is also a proven product with sales currently limited to certain niche markets with the potential for modest growth. The Group is evaluating options to address certain commercial barriers to deployment of Myconate in larger markets, the resolution of which would enable a more meaningful revenue contribution in 2015.

Excluding milestone payments, underlying product revenue from our core products (Harpin αβ and Myconate) strengthened considerably in the first half, as compared to the first half of 2013, from $0.85m to $1.76m, reflecting the early stages of progress in expanding the breadth of our customer base. Last year's sales benefitted from a milestone payment, whereas no milestone payments were received in the same period of 2014. Consequently, total revenue from Harpin and Myconate in the first half of 2014 fell to $1.76m compared with $2.1m in the same period in 2013. We consider that underlying product sales of these existing products are now on a firmly growing track. However, sales by Plant Health Care in any one period will continue to be subject to a number of seasonal and market-related factors, including the terms of agreements with third parties and the timing of product registrations. As a result, the Group's sales of these products may not follow a strictly linear trend.

Our business in Mexico, which we decided to retain, has been refocused and is on budget and profitable. Following the divestiture of our non-core business in Europe in the fourth quarter of last year, we have a clearly enhanced focus on expanding our business with proprietary products in that region.

In 2013, we signed a development and commercialisation agreement with Arysta LifeScience for the foliar use of Harpin αβ in several crops, in a number of geographies. The first fruit of that collaboration was the US launch in 2014 of "Astera™ with αβpro™", a mixture of Harpin αβ with the fungicide propiconazole. The product experienced broad trial use and the market dynamics are shaping up positively for the 2015 season. Development work on other products and territories continues with Arysta LifeScience, with the potential for further product launches.

We continue to seek commercial agreements for both Harpin αβ and Myconate and have an active pipeline of negotiations. We anticipate completing at least one additional commercial agreement during the remainder of 2014. Concurrently, we continue to work on expanding market access. A critical rate-limiting step is to obtain product registrations in South America, Europe and Asia. We are deploying substantial resources in applying for these registrations. New registrations are anticipated in two countries in 2014 and in six additional countries in 2015.

Developing the PRE*tec* technology platform

Plant Health Care's technology development has made impressive progress over the past six months, in line with the plans set out at the time of the fundraising in March 2013. Under Chief Science Officer Dr Zhongmin Wei, the team expanded and moved into larger premises in Seattle in the third quarter of 2013. The extra resources have permitted acceleration in the work on Harpins, additional work on the PRE*tec* (Plant Response Elicitor technology) platform and enhanced support for sales of existing products.

Research has focused on generating a large number of new peptides and their initial characterisation in new, streamlined screening procedures. More than 100 new peptides have been synthesised and screened, allowing us to define sequences which have specific activity. From this work, new peptide variants are being identified for further screening, both in the laboratory and in the field. We anticipate entering into at least one evaluation agreement concerning this new technology platform by the end of 2014.

This work is also allowing us to identify targets for further generations of products, which supports the potential for our PRE*tec* platform to be expanded into a significantly wider pipeline of products over time.

Activities in our own laboratory have been significantly strengthened and accelerated through collaboration with several leading universities. These collaborations include marker-gene screening and genome sequencing, which will help us to design future products based on the PRE*tec* platform.

Summary of financial results

Financial highlights for the six months ended 30 June 2014, with comparatives for the six months ended 30 June 2013, are set out below:

	2014	*As restated (Note 7 - see page 13)* *2013*
	$'000	*$'000*
Revenue	**3,295**	3,782
Gross profit	**1,761**	2,722
Research and development	**(1,519)**	(1,285)
Business development	**(503)**	(387)
Sales and marketing	**(1,624)**	(1,962)
Administrative	**(1,794)**	(1,907)
Restructuring costs	**-**	(2,191)
Total administrative expenses	**(5,440)**	(7,732)
Operating loss	**(3,679)**	(5,010)
Net finance income/(expense)	**42**	(26)
Profit on disposal of discontinued operations	**-**	172
Net loss for period	**(3,637)**	(4,864)
Cash and investments at end of period	**19,445**	23,662

Revenues during the first half of 2014 were \$3.3m (2013: \$3.8m), the decrease being due to milestone payments of license revenue for Harpin αβ recognised in the same period in 2013. Core product sales increased by \$0.9m in the first six months of 2014 compared to the first six months of 2013, excluding the 2013 Harpin αβ license revenue. Revenues associated with Harpin and Myconate as a percentage of total revenue increased from 43% in 2013 to 53% in the current period.

Gross profit margin from continuing operations was 53% (2013: 72%). The decrease is attributable to the higher margin licensing fees recognised in the prior period. Operating expenses from continuing operations were lower at \$5.4m (2013: \$7.7m) but the distribution of spend has changed substantially. Expenditure was significantly reduced in head office and related corporate expenses and resource re-deployed into research and development.

In the second half of 2013, the Group successfully moved its corporate office from Pittsburgh to Raleigh. The move reduced operational costs for the first half of 2014 and additional cost savings will be recognised in the second half of the year. The resulting operating loss from continuing operations was \$3.6m (2013: loss of \$5.0m).

The Group continues to have no debt and held cash and investments of \$19.4m at 30 June 2014.

Current trading and outlook

Trading at the beginning of the second half of the year has started positively and the Board remains confident at this stage that it can deliver further significant progress in the remaining six months of the year.

Dr. Christopher Richards

Chairman

15 September 2014

Unaudited consolidated statement of comprehensive income
FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Note	**Six months to 30 June 2014 $'000**	*As restated (Note 7) Six months to 30 June 2013 $'000*	*Year ended 31 December 2013 $'000*
Revenue		**3,295**	3,782	7,455
Cost of sales		**(1,534)**	(1,060)	(2,292)
Gross profit		**1,761**	2,722	5,163
Research and development		**(1,519)**	(1,285)	(2,079)
Business development		**(503)**	(387)	(852)
Sales and marketing		**(1,624)**	(1,962)	(3,474)
Administrative expenses		**(1,794)**	(1,907)	(3,606)
Restructuring costs	4	**-**	(2,191)	(2,098)
Total administrative expenses		**(1,794)**	(4,098)	(5,704)
Operating loss	5	**(3,679)**	(5,010)	(6,946)
Finance income		**43**	2	38
Finance expense		**(1)**	(28)	(1)
Loss before tax		**(3,637)**	(5,036)	(6,909)
Income tax expense		**-**	-	117
Net loss from continuing operations		**(3,637)**	(5,036)	(6,792)
Profit/(Loss) of discontinued operations	7	**-**	172	(89)
Loss for the period		**(3,637)**	(4,864)	(6,881)
Other comprehensive (loss)/income:				
Exchange difference on translation of foreign operations		**(11)**	(92)	(2)
Total comprehensive loss for the period		**(3,648)**	(4,956)	(6,883)
Net loss attributable to:				
Owners of the parent		**(3,637)**	(4,883)	(6,900)
Non-controlling interest		**-**	19	19
		(3,637)	(4,864)	(6,881)
Total comprehensive loss attributable to:				
Owners of the parent		**(3,648)**	(4,975)	(6,902)
Non-controlling interest		**-**	19	19
		(3,648)	(4,956)	(6,883)
Basic and diluted loss per share	8	**$(0.05)**	$(0.08)	$(0.11)
Basic and diluted loss per share from continuing operations	8	**$(0.05)**	$(0.08)	$(0.11)

Unaudited consolidated statement of financial position
AT 30 JUNE 2014

	Note	**30 June 2014 $'000**	30 June 2013 $'000	31 December 2013 $'000
Assets				
Non-current assets				
Intangible assets		**2,869**	3,125	3,004
Property, plant and equipment		**283**	213	276
Trade and other receivables		**296**	100	316
Total non-current assets		**3,448**	3,438	3,596
Current assets				
Inventories		**1,978**	1,539	2,510
Trade and other receivables		**1,861**	3,878	3,170
Investments	2	**13,433**	9,979	11,054
Cash and cash equivalents		**6,012**	13,683	9,495
Total current assets		**23,284**	29,079	26,229
Total assets		**26,732**	32,517	29,825
Liabilities				
Current liabilities				
Trade and other payables		**2,830**	3,695	3,034
Borrowings		**7**	-	9
Total current liabilities		**2,837**	3,695	3,043
Non-current liabilities				
Trade and other payables		**-**	-	153
Borrowings		**31**	53	34
Total non-current liabilities		**31**	53	187
Total liabilities		**2,868**	3,748	3,230
Total net assets		**23,864**	28,769	26,595
Capital and reserves attributable to owners of the Company				
Share capital		**1,234**	1,214	1,215
Share premium		**70,894**	70,142	70,206
Reverse acquisition reserve		**-**	10,548	10,548
Share-based payment reserve		**-**	2,890	2,556
Foreign exchange reserve		**(593)**	(672)	(582)
Retained earnings		**(47,671)**	(55,353)	(57,348)
	3	**23,864**	28,769	26,595
Non-controlling interests		**-**	-	-
Total equity		**23,864**	28,769	26,595

Unaudited consolidated statement of cash flows
FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Six months to 30 June 2014	*Six months to 30 June 2013*	*Year ended 31 December 2013*
	$'000	*$'000*	*$'000*
Net cash flows used in operating activities	**(1,791)**	*(3,397)*	*(6,251)*
Investing activities			
Purchase of property, plant and equipment	**(52)**	*(28)*	*(278)*
Expenditure on externally-acquired intangible assets	**-**	*(8)*	*(25)*
Disposal of discontinued operations, net of cash	**-**	*-*	*(252)*
Purchase of investments	**(15,559)**	*(7,599)*	*(24,765)*
Sale of investments	**13,181**	*1,824*	*17,915*
Finance income	**43**	*2*	*38*
Net cash (used in)/provided by investing activities	**(2,387)**	*(5,809)*	*(7,367)*
Financing activities			
Interest paid	**(1)**	*(24)*	*(1)*
Issuing of ordinary share capital	**-**	*19,780*	*19,829*
Exercise of options	**707**	*-*	*16*
Purchase of minority shares	**-**	*(238)*	*(235)*
Repayment of borrowings	**(5)**	*(7)*	*(17)*
Net cash provided by financing activities	**701**	*19,511*	*19,592*
Effects of exchange rate changes on cash and cash equivalents	**(6)**	(123)	20
Net (decrease)/increase in cash	**(3,483)**	*10,182*	*5,994*
Cash and cash equivalents at beginning of period	**9,495**	*3,501*	*3,501*
Cash and cash equivalents at end of period	**6,012**	*13,683*	*9,495*

Notes to the unaudited financial information

1 Accounting policies

Basis of preparation
The financial information in these interim results is that of the holding company and all of its subsidiaries ("the Group"). It has been prepared in accordance with the recognition and measurement requirements of International Financial Reporting Standards ("IFRSs") as adopted for use in the EU. The accounting policies applied by the Group in this financial information are the same as those applied by the Group in its financial statements for the year ended 31 December 2013 and which will form the basis of the 2014 financial statements.

A number of new and amended standards have become effective since the beginning of the previous financial year. None of the new standards and amendments are expected to materially affect the Group.

The comparative financial information presented herein for the year ended 31 December 2013 does not constitute full statutory accounts for that period. The Group's annual report for the year ended 31 December 2013 has been delivered to the Registrar of Companies. The Group's independent auditor's report on those accounts was unqualified, did not include references to any matters to which the auditor drew attention by way of emphasis without qualifying their report and did not contain a statement under section 498(2) or 498(3) of the Companies Act 2006. The financial information for the half years ended 30 June 2014 and 30 June 2013 is unaudited.

2 Investments

Investments comprise short-term investments in notes and bonds having investment grade ratings. These assets are actively managed and evaluated by key management personnel on a fair value basis in accordance with a documented investment strategy. They are carried at fair value as determined by quoted prices on active markets, with changes in fair values recognised through profit and loss.

3 Changes in equity

	Six months to 30 June 2014 $'000	*Six months to 30 June 2013 $'000*	*Year ended 31 December 2013 $'000*
Net loss attributable to owners of the parent	**(3,637)**	*(4,902)*	*(6,900)*
Exercise of options	**707**	*-*	*16*
Share-based payments	**210**	*110*	*(224)*
Shares issued or exchanged	**-**	*19,780*	*19,829*
Purchase of minority interest	**-**	*51*	*54*
Exchange difference on translation of foreign operations	**(11)**	*(92)*	*(2)*
	(2,731)	*14,947*	*12,773*
Capital and reserves attributable to owners of the Company at the beginning of the period	**26,595**	*13,822*	*13,822*
Capital and reserves attributable to owners of the Company at the end of the period	**23,864**	*28,769*	*26,595*

Reclassification
During the period ended 30 June 2014, the Company has transferred the amounts in the share-based payment reserve and reverse acquisition reserve into retained earnings.

4 Restructuring expenses

Exceptional items in the period ended 30 June 2014 were nil (exceptional items for the six months ended 30 June 2013: $2,191,000, and exceptional items for the year ended 31 December 2013:$2,098,000). These expenses represented severance payments, relocation costs and other expenses.

During 2013, the Group rearranged its expense categories to better align with the Group's objectives going forward. In particular, the Research and Development and Business Development functions were separated into two distinct expense classifications. This was done to create a more focused effort to perform critical functions in order to go from research to commercialisation of a product in the most efficient manner.

5 Operating loss

	Six months to 30 June 2014 $'000	*Six months to 30 June 2013 $'000*	*Year ended 31 December 2013 $'000*
Operating loss is stated after charging:			
Depreciation	**46**	*51*	*108*
Amortisation	**137**	*134*	*273*
Share-based payment expense/(credit)	**210**	*110*	*(224)*

6 Segment information

The Group views, manages and operates its business according to geographical segments. Revenue is generated from the sale of agricultural products across all geographic segments.

Six months to 30 June 2014

	USA *$'000*	*Mexico* *$'000*	*Europe* *$'000*	*Elimination* *$'000*	*Total* *$'000*
Revenue					
Core product sales	1,034	209	512	-	1,755
Non-core product sales	71	1,443	26	-	1,540
Inter-segment sales	560	-	26	(586)	-
Total revenue	1,665	1,652	564	(586)	3,295
Research and development	(1,519)	-	-	-	(1,519)
Business development	(503)	-	-	-	(503)
Sales and marketing	(770)	(463)	(391)	-	(1,624)
Administration	(845)	(155)	(16)	-	(1,016)
Restructuring	-	-		-	-
Depreciation	(28)	(15)	(3)	-	(46)
Amortisation	(127)	-	(10)	-	(137)
Segment operating profit/ (loss)	(3,208)	204	(80)	-	(3,084)
Corporate expenses*:					
Wages and professional fees					(377)
Administration expenses					(218)
Operating loss					(3,679)
Finance income					43
Finance expense					(1)
Loss before tax					(3,637)

Six months ended 30 June 2013 – as restated (note 7)

	USA *$'000*	*Mexico* *$'000*	*Europe* *$'000*	*Elimination* *$'000*	*Total* *$'000*
Revenue					
Core product sales	1,690	142	252	-	2,084
Non-core product sales	91	1,283	1,375	-	2,749
Inter-segment sales	247	17	290	(554)	-
Total revenue	2,028	1,442	1,917	(554)	4,833
Discontinued operations	-	-	(1,051)	-	(1,051)
Group consolidated revenue	2,028	1,442	866	(554)	3,782
Research and development	(1,285)	-	-	-	(1,285)
Business development	(387)	-	-	-	(387)

Sales and marketing	(1,104)	(452)	(406)	-	(1,962)
Administration	(807)	(169)	(68)	-	(1,044)
Restructuring	(2,191)	-		-	(2,191)
Depreciation	(19)	(15)	(17)	-	(51)
Amortisation	(125)	-	(9)	-	(134)
Segment operating profit/ (loss)	(4,252)	85	(165)	-	(4,332)
Corporate expenses*:					
Wages and professional fees					(388)
Administration expenses					(290)
Operating loss					(5,010)
Finance income					2
Finance expense					(28)
Loss before tax and discontinued operations					(5,036)

Year ended 31 December 2013

	USA *$'000*	*Mexico* *$'000*	*Europe* *$'000*	*Elimination* *$'000*	*Total* *$'000*
Revenue					
Core product sales	2,169	579	1,009	-	3,757
Non-core product sales	72	2,791	2,464	-	5,327
Inter-segment sales	1,274	-	540	(1,814)	-
Total revenue	3,515	3,370	4,013	(1,814)	9,084
Discontinued operations	-	-	(1,629)	-	(1,629)
Group consolidated revenue	3,515	3,370	2,384	(1,814)	7,455
Research and development	(2,079)	-	-	-	(2,079)
Business development	(852)	-	-	-	(852)
Sales and marketing	(1,624)	(970)	(880)	-	(3,474)
Administration	(1,615)	(292)	(186)	-	(2,093)
Restructuring	(2,098)	-		-	(2,098)
Depreciation	(47)	(33)	(28)	-	(108)
Amortisation	(255)	-	(18)	-	(273)
Segment operating profit/ (loss)	(6,046)	429	(178)	(19)	(5,814)
Corporate expenses*:					
Wages and professional fees					(877)
Administration expenses					(255)
Operating loss					(6,946)
Finance income					38
Finance expense					(1)
Loss before tax and discontinued operations					(6,909)

* These amounts represent public company expenses for which there is no reasonable basis by which to allocate the amounts across the Group's segments.

7 Discontinued operations

In November 2013, the Group sold the 100% shareholding of its Netherlands business, which represents the only operation presented as discontinued operations for the year ended 31 December 2013. The consolidated statement of comprehensive income has been restated for the period ended 30 June 2013 to show the discontinued operation separately from continuing operations. The results of this business for the year ended 31 December 2013 are shown under "Loss of discontinued operations, net of tax" in the consolidated statement of comprehensive income.

(a) PHC BV: profit on disposal

In November 2013, the Group sold the 100% shareholding of its Netherlands business.

The post-tax loss on disposal of discontinued operations was determined as follows:

	2013 $'000
Cash received	-
Net assets disposed of:	
Cash	252
Property, plant and equipment	86
Trade and other receivables	287
Inventory	385
Trade and other payables	(252)
Notes payable	(573)
	185
Loss on disposal of discontinued operations	185

(b) The profit/(loss) of discontinued operations, net of tax, was determined as follows:

	Six months to 30 June 2014 $'000	Six months to 30 June 2013 $'000	Year ended 31 December 2013 $'000
Revenue	**-**	1,051	1,629
Expense other than finance costs	**-**	(879)	(1,533)
Loss on disposal of discontinued operations	**-**	-	(185)
	-	172	(89)

(c) Cash flows on discontinued operations

Cash flows attributable to operating, investing and financing activities of the above discontinued operations were as follows:

	Six months to 30 June 2014 $'000	Six months to 30 June 2013 $'000	*Year ended 31 December* 2013 $'000
Operating inflows	**-**	324	270
Investing outflows	**-**	-	(252)

8 Loss per share

Basic loss per ordinary share has been calculated on the basis of the loss for the period of $3,637,000 (loss for the six months ended 30 June 2013: $4,864,000, and loss for the year ended 31 December 2013: $6,881,000) and the weighted average number of shares in issue during the period of 71,299,620 (six months ended 30 June 2013: 60,527,269, and year ended 31 December 2013: 65,598,377).

Basic loss per share from continuing operations has been calculated with a numerator of $3,637,000 (loss for the six months ended 30 June 2013: $5,036,000, and for the year ended 31 December 2013: $6,792,000).

The weighted average number of shares used in the above calculation is the same as for total basic loss per ordinary share. Instruments 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. This is due to the Group incurring losses on continuing operations for the period.

Copies of this report and all other announcements made by Plant Health Care plc are available on the Company's website at www.planthealthcare.com/investor-relations

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