

Plant Health Care plc

Interim Report

30 June 2015

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Trademarks:

Myconate, Harpin, ProAct, N-Hibit and Innatus are trademarks or trade names which Plant Health Care owns or which others own and license to Plant Health Care for use. All other third party trade mark rights are acknowledged.

Chairman's statement

Introduction

I am pleased to report the interim results for the six months to 30 June 2015. 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 agriculture industry. Paul Schmidt has continued to strengthen his team, both to expand revenues with the Group's current portfolio and in developing the technology platform.

Discovery

Discovery is focused on the discovery and development of novel proprietary peptides using the Group's PREtec science (PREtec signifies Plant Response Elicitor technology) and its internationally-recognised research capability.

The Group's technology development has made further substantial progress over the last six months. PREtec is living up to its early promise. The Group has built up unique science and technology capabilities in this field, on the foundations of its earlier experience with the discovery and development of Harpins. Chief Science Officer Dr. Zhongmin Wei continues to expand his team. Having outgrown their laboratory space, they moved into much larger premises in downtown Seattle in July 2015.

The first family of PREtec was introduced in late 2014, as Innatus 3G. Innatus 3G is a platform of potential products, a patent-protected family of peptides with a common mode of action, that show great potential in delivering yield improvements and invoking disease and pest resistance in crop plants. They can be combined with conventional agrochemical and biological applications in seed treatments or sprays. Being signal molecules, they are effective at very low application rates.

During the first half of 2015, we announced the first two evaluation agreements for Innatus 3G with major industry players. Discussions continue with others. These agreements envisage completion of evaluation at the end of 2016, with a competitive licensing process for rights to develop Innatus-based products from 2017 onwards. Encouraging initial results may lead us to modify this timetable over the next six months.

Research has confirmed that there are further families of peptides beyond Innatus 3G. These families have different modes of action and equally impressive potential as agricultural inputs; these are being actively explored in our expanded facilities. New patent applications have been submitted, and we have strengthened our capability to extend and defend a broad intellectual property footprint in the future. We hope to bring our next 3G family to evaluation in 2016.

Commercial Products

The Group has a portfolio of existing products, based on our proprietary Harpin and Myconate® technologies. Harpin-based products are established in certain seed and foliar treatment markets; they have now been applied on more than 12 million acres of crops worldwide, an achievement which distinguishes our position from that of many competitors. Harpin $\alpha\beta$, the current generation product, has substantial scope for revenue growth as we expand beyond existing markets. Myconate is also a proven product, with sales in certain niche markets and the potential for modest growth.

During the first half of 2015, overall product sales were \$3.2 million (\$3.3 million in 2014). In constant currency terms sales grew 7.1%. Excluding milestone payments,

underlying product revenue from our core products (Harpin $\alpha\beta$ and Myconate) declined to \$1.53 million (\$1.76 million in the first half of 2014). In constant currency terms, this was a decline of 6.8%.

USA revenue declined 4.3%, whilst non-USA revenue grew by 12.8% on a constant currency basis excluding milestone payments. In the USA, sales of Astera® Fungicide with $\alpha\beta$ pro™ Yield Enhancer through Arysta LifeScience were negatively impacted by a weak corn environment and a highly competitive foliar fungicide market in US corn. In contrast, sales of Harpin $\alpha\beta$ through our partner SymAgro grew 80% in high value vegetable and fruit markets in the Pacific Northwest of the USA. The partnership with SymAgro, which started in 2011, demonstrates how Harpin $\alpha\beta$ revenue can be generated through consistent investment in demand creation at the farm level. The Group is intending to build more partnerships of this type to drive revenue growth.

Outside the USA, we received a milestone payment from Arysta LifeScience for a sugar cane agreement in Brazil. We were also encouraged by 11% and 20% sales growth in Mexico and Europe, respectively (in local currency). We anticipate continued growth in South Africa with our partner Dux Agri, as they expand their participation in existing and new markets.

In July, we announced registration for foliar applications of our product in Brazil on all crops, including sugar cane. In field trials, the product has shown significant and reliable increases in the yield of sugar, offering the potential for substantial benefits to growers and sugar mills. We are working together with Arysta LifeScience, our partner for the sugar cane sector in Brazil, towards an initial launch of the product in 2016. There is significant potential for this technology in sugar cane in other countries, such as South Africa and India, where we are also developing the product with local partners.

Accelerating revenue of existing products will be driven by our ability to obtain new registrations and to conclude distribution agreements with strong partners who can develop sales in-market. Based on the learning of the past three years, we are now seeking to replicate this experience in other sectors and around the world, in place of reliance on a small number of larger deals with major companies.

We consider that there are substantial additional sales opportunities in the European Union ("EU") as regulatory approvals are obtained. Disappointingly, continued delays and uncertainty whilst governments establish the regulatory regime for biological products in the EU is serving as a sales barrier at present.

The commercial team is being strengthened by the recruitment of experienced and senior professionals in the USA, Brazil and the EU. These appointments will enable us to accelerate the development of commercial relationships with downstream partners over the coming years.

Sales by the Group in any one period will be subject to a number of seasonal and market-related factors, including the term of agreements with third parties and the timing of product registrations. As a result, the Group's sales may not follow a strictly linear trend.

Summary of financial results

Financial highlights for the six months ended 30 June 2015, with comparatives for the six months ended 30 June 2014, are set out below:

	2015	<i>2014</i>
	\$'000	<i>\$'000</i>
Revenue	3,198	3,295
Gross profit	2,021	1,761
Research and development	(1,592)	(1,519)
Business development	(580)	(503)
Sales and marketing	(1,410)	(1,624)
Administrative	(1,512)	(1,794)
Total administrative expenses	(5,094)	(5,440)
Operating loss	(3,073)	(3,679)
Net finance income	70	42
Net loss for period	(3,003)	(3,637)
Cash and investments at end of period	12,555	19,445

Revenues during the first half of 2015 were relatively unchanged at \$3.2m (2014: \$3.3m), producing gross profit of \$2.0m (2014: \$1.8m) and loss before tax of \$3.0m (2014: \$3.6m). Gross profit margin was 63% (2014: 53%). The increase is attributable primarily to higher pricing, as well as some improvements in the cost of goods.

Sales of Myconate developed positively, with an increase of 29% driven largely by sales in South Africa, the USA and the EU.

Operating expenses were lower at \$5.1m (2014: \$5.4m), but the distribution of spend has changed substantially. Head office and related corporate expenses were significantly reduced and the savings re-deployed into research and business development.

During the first half of 2015, we continued to invest in our Discovery group by increasing our personnel and space in the laboratory. We plan to continue to increase our spending in the Discovery area through the remainder of the year.

The Group continues to have no debt and held cash and investments of \$12.6m at 30 June 2015.

Current trading and outlook

The Board remains upbeat about the prospects for our Discovery activities, with PREtec showing increasing promise and scope, and the pace of research and development accelerating with the arrival of new laboratory space and recruits. Progress on evaluation agreements with major industry players is an important validation of the technology. These developments are a key driver of long-term value for our shareholders.

First half revenue from our commercial products was in line with expectations and we anticipate a strong second half resulting from the seasonal uplift in the last quarter as well as the replenishment of stocks in the distribution channel. The Board believes that the investment in additional commercial business development resource and the ability to gain access to new markets and distribution channels will begin to contribute to our 2016 performance.

Dr. Christopher Richards

Chairman

14 September 2015

**Unaudited consolidated statement of comprehensive income
FOR THE SIX MONTHS ENDED 30 JUNE 2015**

	<i>Note</i>	Six months to 30 June 2015 \$'000	<i>Six months to 30 June 2014 \$'000</i>	<i>Year ended 31 December 2014 \$'000</i>
Revenue		3,198	3,295	6,880
Cost of sales		(1,177)	(1,534)	(3,379)
Gross profit		2,021	1,761	3,501
Research and development		(1,592)	(1,519)	(2,044)
Business development		(580)	(503)	(1,037)
Sales and marketing		(1,410)	(1,624)	(2,731)
Administrative expenses		(1,512)	(1,794)	(3,766)
Operating loss	4	(3,073)	(3,679)	(6,077)
Finance income		71	43	119
Finance expense		(1)	(1)	(3)
Loss before tax		(3,003)	(3,637)	(5,961)
Income tax expense		-	-	(169)
Net loss for the period		(3,003)	(3,637)	(6,130)
Other comprehensive (loss)/income:				
Exchange difference on translation of foreign operations		(101)	(11)	(29)
Total comprehensive loss for the period		(3,104)	(3,648)	(6,159)
Basic and diluted loss per share	6	\$(0.04)	\$(0.05)	\$(0.09)

All the group's revenue and operating profit relate to operating activities.

**Unaudited consolidated statement of financial position
AT 30 JUNE 2015**

	<i>Note</i>	30 June 2015 \$'000	30 June 2014 \$'000	31 December 2014 \$'000
Assets				
Non-current assets				
Intangible assets		2,572	2,869	2,707
Property, plant and equipment		495	283	298
Trade and other receivables		79	296	41
Total non-current assets		3,146	3,448	3,046
Current assets				
Inventories		2,019	1,978	1,084
Trade and other receivables		2,403	1,861	2,710
Investments	2	9,787	13,433	12,775
Cash and cash equivalents		2,768	6,012	3,898
Total current assets		16,977	23,284	20,467
Total assets		20,123	26,732	23,513
Liabilities				
Current liabilities				
Trade and other payables		1,349	2,830	1,832
Borrowings		9	7	10
Total current liabilities		1,358	2,837	1,842
Non-current liabilities				
Trade and other payables		-	-	-
Borrowings		20	31	24
Total non-current liabilities		20	31	24
Total liabilities		1,378	2,868	1,866
Total net assets		18,745	23,864	21,647
Capital and reserves attributable to owners of the Company				
Share capital		1,234	1,234	1,234
Share premium		70,895	70,894	70,895
Foreign exchange reserve		(712)	(593)	(611)
Retained earnings		(52,672)	(47,671)	(49,871)
Total equity	3	18,745	23,864	21,647

**Unaudited consolidated statement of cash flows
FOR THE SIX MONTHS ENDED 30 JUNE 2015**

	Six months to 30 June 2015	<i>Six months to 30 June 2014</i>	<i>Year ended 31 December 2014</i>
	\$'000	<i>\$'000</i>	<i>\$'000</i>
Net cash flows used in operating activities	(3,828)	<i>(1,791)</i>	<i>(4,548)</i>
Investing activities			
Purchase of property, plant and equipment	(261)	<i>(52)</i>	<i>(114)</i>
Purchase of investments	(4,610)	<i>(15,559)</i>	<i>(20,831)</i>
Sale of investments	7,598	<i>13,181</i>	<i>19,110</i>
Finance income	71	<i>43</i>	<i>119</i>
Net cash provided/(used in) by investing activities	2,798	<i>(2,387)</i>	<i>(1,716)</i>
Financing activities			
Interest paid	(1)	<i>(1)</i>	<i>(3)</i>
Exercise of options	-	<i>707</i>	<i>708</i>
Repayment of borrowings	(5)	<i>(5)</i>	<i>(9)</i>
Net cash provided by financing activities	(6)	<i>701</i>	<i>696</i>
Effects of exchange rate changes on cash and cash equivalents	(94)	<i>(6)</i>	<i>(29)</i>
Net decrease in cash	(1,130)	<i>(3,483)</i>	<i>(5,597)</i>
Cash and cash equivalents at beginning of period	3,898	<i>9,495</i>	<i>9,495</i>
Cash and cash equivalents at end of period	2,768	<i>6,012</i>	<i>3,898</i>

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 2014 and which will form the basis of the 2015 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 2014 does not constitute full statutory accounts for that period. The Group's annual report for the year ended 31 December 2014 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 2015 and 30 June 2014 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 2015 \$'000	<i>Six months to 30 June 2014 \$'000</i>	<i>Year ended 31 December 2014 \$'000</i>
Net loss attributable to owners of the parent	(3,003)	(3,637)	(6,130)
Exercise of options	-	707	708
Share-based payments	202	210	503
Exchange difference on translation of foreign operations	(101)	(11)	(29)
	(2,902)	(2,731)	(4,948)
Capital and reserves attributable to owners of the Company at the beginning of the period	21,647	26,595	26,595
Capital and reserves attributable to owners of the Company at the end of the period	18,745	23,864	21,647

4 Operating loss

	Six months to 30 June 2015 \$'000	<i>Six months to 30 June 2014 \$'000</i>	<i>Year ended 31 December 2014 \$'000</i>
Operating loss is stated after charging:			
Depreciation	58	46	87
Amortisation	134	137	297
Share-based payment expense	202	210	503

5 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 geographies.

Six months to 30 June 2015

	USA \$'000	Mexico \$'000	Europe \$'000	Unallocated /Elimination \$'000	Total \$'000
Revenue					
Proprietary product sales	993	179	560	-	1,732
Third-party product sales	64	1,397	5	-	1,466
Inter-segment sales	789	-	60	(849)	-
Total revenue	1,846	1,576	625	(849)	3,198
Business development	(580)	-	-	-	(580)
Sales and marketing	(676)	(407)	(327)	-	(1,410)
Administration	(426)	(133)	(88)	-	(647)
Depreciation	(37)	(18)	(3)	-	(58)
Amortisation	(127)	-	(7)	-	(134)
Share-based payment	(84)	(1)	-	(117)	(202)
Segment operating profit/ (loss)	(958)	204	(139)	(117)	(1,010)
Corporate expenses*:					
Wages and professional fees					(328)
Administration expenses					(143)
Research and development **					(1,592)
Operating loss					(3,073)
Finance income					71
Finance expense					(1)
Loss before tax					(3,003)

	USA \$'000	Mexico \$'000	Europe \$'000	Unallocated /Elimination \$'000	Total \$'000
Six months to 30 June 2014					
Revenue					
Proprietary product sales	1,034	209	512	-	1,755
Third-party product sales	71	1,443	26	-	1,540
Inter-segment sales	560	-	26	(586)	-
Total revenue	1,665	1,652	564	(586)	3,295
Business development	(503)	-	-	-	(503)
Sales and marketing	(770)	(463)	(391)	-	(1,624)
Administration	(845)	(155)	(16)	-	(1,016)
Depreciation	(28)	(15)	(3)	-	(46)
Amortisation	(127)	-	(10)	-	(137)
Share-based payment	(34)	(6)	(2)	(168)	(210)

Segment operating profit/ (loss)	(1,723)	198	(82)	(168)	(1,775)
Corporate expenses*:					
Wages and professional fees					(377)
Administration expenses					(8)
Research and development **					(1,519)
Operating loss					(3,679)
Finance income					43
Finance expense					(1)
Loss before tax					(3,637)

Year ended 31 December 2014

	<i>USA</i> \$'000	<i>Mexico</i> \$'000	<i>Europe</i> \$'000	<i>Unallocated /Elimination</i> \$'000	<i>Total</i> \$'000
Revenue					
Proprietary product sales	1,971	563	1,240	-	3,774
Third-party product sales	138	2,917	51	-	3,106
Inter-segment sales	1,552	38	33	(1,623)	-
Total revenue	<u>3,661</u>	<u>3,518</u>	<u>1,324</u>	<u>(1,623)</u>	<u>6,880</u>
Business development	(1,037)	-	-	-	(1,037)
Sales and marketing	(1,174)	(903)	(654)	-	(2,731)
Administration	(1,222)	(303)	(173)	-	(1,698)
Depreciation	(52)	(30)	(5)	-	(87)
Amortisation	(253)	-	(44)	-	(297)
Share-based payment	(169)	(10)	(2)	(322)	(503)
Segment operating profit/ (loss)	(2,705)	505	(330)	(322)	(2,852)
Corporate expenses*:					
Wages and professional fees					(811)
Administration expenses					(370)
Research and development **					(2,044)
Operating loss					(6,077)
Finance income					119
Finance expense					(3)
Loss before tax					(5,961)

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

** The research and development expenses comprise the Group's Discovery area.

6 Loss per share

Basic loss per ordinary share has been calculated on the basis of the loss for the period of \$3,003,000 (loss for the six months ended 30 June 2014: \$3,637,000, and loss for the year ended 31 December 2014: \$6,130,000) and the weighted average number of shares in issue during the period of 71,709,705 (six months ended 30 June 2014: 71,299,620, and year ended 31 December 2014: 71,490,056).

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/for-investors.



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