

Plant Impact

March 2009

Key points

- 'Smart' agricultural technologies set to capitalise on pressures in Global food resources
- Strong portfolio of products and IP
- Letter of intent signed for distribution of BugOil
- Potential for sharp increase in valuation on subsequent licensing

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Sector: Chemicals

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Plant Impact



Plant Impact

PIM

Date:	06.04.09
Share price p	26.5
52 week High/Low p	52.5/8.5
Issued share cap	26.31
Market cap £m	7.0

Plant Impact (Pi) specialises in plant stress relief solving the problems of abiotic stress including temperature stress, salinity stress, drought stress, and light stress. Their technologies include BugOil, PiNT, CaT, Alethea and Speedo.

SUMMARY

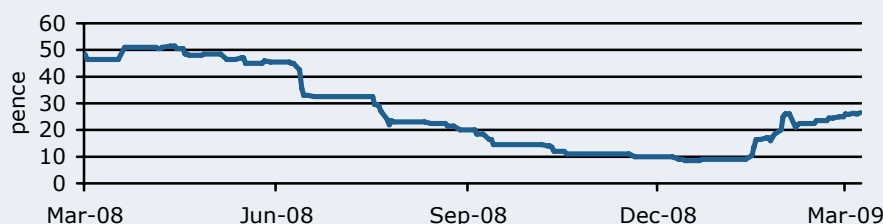
Plant Impact has developed a portfolio of fertilizer and pest control technologies with a range of agricultural and horticultural applications. The company has signed a letter of intent on a global licensing deal for BugOil®, its benign pesticide, with a leading agrochemical company. A final licensing agreement is expected to be signed before the end of June and looks set to generate significant licensing revenues.

Sales of the nutrition products to the fruit and vegetable markets should see significant growth this year, boosted by new additions to the sales team with horticulture backgrounds. The CaT product range offers scope to position Plant Impact as an important player in the niche market segment for speciality calcium products. In addition to CaT, we see major potential for PiNT in the medium term. PiNT and Alethea are both potentially disruptive technologies with the possibility to change the face of the nitrogen fertilizer market (in the case of PiNT) and the general agribusiness market (in the case of Alethea), with positive environmental impacts.

We are forecasting a move into profits of c. £0.2 million in the year to March 2011. The shares are trading on just 1.4x forecast sales for the year to March 2011, which appears very attractive compared to the largest AIM quoted peer, Plant Health Care. The shares are a speculative investment – but one in which the returns could potentially be considerable **as the value of Plant Impact's intellectual property is not reflected in the current share price.**

We would expect the share price to move ahead sharply on confirmation of the signature of the licensing deal for BugOil. While the investment risk is high, so are the potential returns. Our medium term share price target is 40p which implies a rise of more than 50% from the current price. This target assumes that the 'advanced discussions' are completed and a licensing deal is signed for BugOil this year. Longer term, the potential for major licensing deals for the plant nutrition business should provide further support to the share price and we see potential for the company's valuation to rise substantially over time to reflect this.

Figure 1: Share price performance



ADVFN

Plant Impact is quoted on AIM and investors should be aware that shares traded on AIM are subject to lighter due diligence than shares quoted on the main market and are therefore more likely to carry a higher degree of risk than main market companies.

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COMPANY PROFILE

Plant Impact, formed in 2003, was listed on the AIM market in October 2006 at a price of 38p per share, valuing the company at £8.78m. The company has developed a range of “green” agricultural solutions: benign pesticides and crop nutrient products which avoid the problems and issues surrounding the bulk of the agrochemical industry.

Agriculture faces a challenge to find effective, sustainable and ecologically sound crop nutrition and pesticide solutions. The growing world population will require more food, while the prospect of global warming threatens to make agricultural growing conditions more demanding.

The company focuses on “green” solutions for growing crops in ways which are better for the environment, the grower and the consumer. Its solutions also improve the marketable yield, quality, shelf life and profitability of agricultural crops. The technologies, which are patented, offer an alternative to both biotechnology and conventional agrochemical solutions.

The current environment is conducive to the acceptance of Plant Impact’s products. Demand for reduced use of chemicals in agriculture is being driven by both consumer demand and legislation. Products such as BugOil® fit with the current zeitgeist.

Plant Impact recently signed a letter of intent with a major agrochemical company which looks set to acquire a license for BugOil, the company’s benign pesticide. License fees are likely to underpin revenues next year and we are forecasting revenue of £3.5m, rising to £5m in the year to March 2011.

BugOil, and the plant nutrition products which are already in the market are being targeted at the high value market segments, where the quality of an individual fruit or flower is more important than the quantity – and margins are potentially higher than in the bulk fertilizer markets.

We are forecasting that the company reaches profitability in the year to March 2011. The longer term outlook, however, is what underpins the valuation of the shares. With the backing of a major global agrochemical player, which appears to be on the cards, the potential market for Plant Impact products and the associated stream of royalty revenues is enormous.

The shares are not without risk. The company is still at a very early stage in terms of product launch and we still do not have details or confirmation of the licensing deal which is under discussion. However, assuming that this deal is signed, the potential for licensing revenue in the short term from BugOil should underpin the share price.

By developing this range of benign pesticides and crop nutrient technologies they have created products which avoid all of the problems and issues which surround the agrochemical industry. This broad product portfolio has been developed using these innovative and proprietary technologies, the most advanced of which are already being marketed and sold through established agricultural distribution networks. The company’s approach to research and development is to address industry challenges by thinking ‘outside the box’.

BACKGROUND

Agriculture – a growth market

Agriculture and the agrochemical industry had been out of favour for many years, but became the focus of investor attention last year mainly as a result of sharp rises in the prices of soft commodities. Last year's crop prices were not sustained, but were perhaps a forewarning of what is to come. The current recession notwithstanding, the agricultural industry is charged with the task of feeding a growing world population and will need to invest heavily in order to meet projected future demand. The rising world population (estimated by the UN to reach 9.2 bn by 2050) is placing more and more pressure on availability of arable land. Dutch research institute IRIS estimates that global food demand will double by 2050, driven in part by the growth in population, but also by rising demand for meat and dairy products as a result of greater wealth.

According to IRIS, meat consumption has risen by 75% since 1990 in emerging countries, but Chinese consumption of meat is still less than half that of that in the US on a per capita basis. Demand for corn and grain for animal feed is growing rapidly and the agricultural industry is bringing more land under cultivation.

The agrochemical industry will need to respond to these trends. IRIS is forecasting sharp growth in the markets for crop protection and resistance and for yield improvements. The prospect of climate change is also likely to have a major impact on farming. IRIS anticipates that more efficient farming techniques will be required to generate higher yields and adapt crops to changing climate conditions. There is likely to be demand for products which can help crops to resist drought, or withstand saline conditions, for example.

The agricultural industry will either need to use more fertilizers and pesticides to grow more food, or to use smarter fertilizer and crop production products. Problems associated with the use of nitrogen and other traditional fertilizers will require alternative solutions. Legislation is likely to result in the phasing out of some products with the result that genetic modification and 'green chemistry' solutions are increasingly likely to come to the fore in the future. The industry will increasingly need to focus on supplying more efficient fertilizers and pesticides which are less energy dependant – and which avoid negative environmental impacts.

In geographical terms, IRIS sees significant scope for improvements in yields in Asia, where crop production and fertilizers tend to be of low quality. However, the gap between actual and potential yield is enormous in most geographical regions.

Global Fertilizers and Agricultural Chemicals Industry

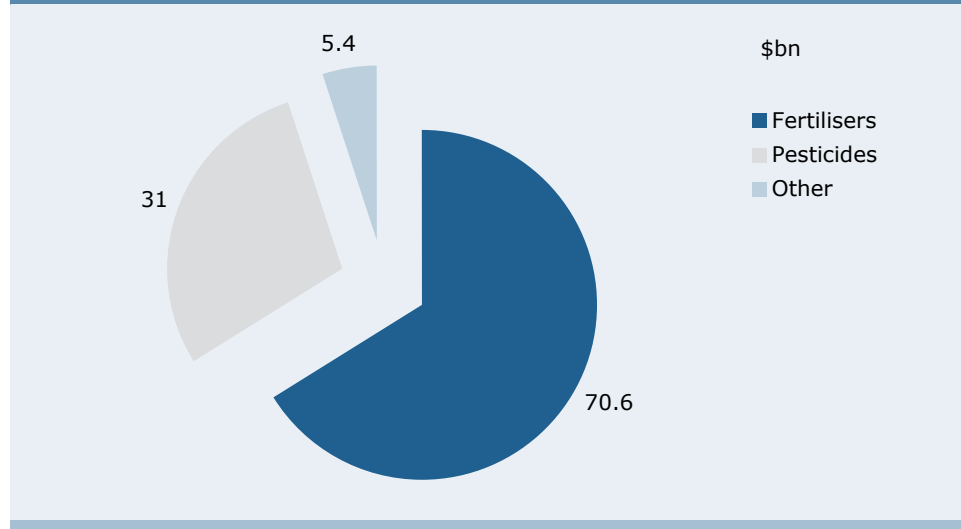
The agrochemical industry can be divided into three broad segments:

- Pesticides (herbicides, insecticides, fungicides).
- Fertilizers (main plant nutrients and secondary plant nutrients).
- Other agrochemical chemicals (e.g. home and garden products).

The IBIS World Industry Report on Global Fertilizers and Agricultural Chemicals Manufacturing, published in February 2008, estimated the total industry revenue

to be \$107 billion in 2007. The total industry growth rate was estimated at 3% in 2007 after 2% in 2006 – and it is projected that 2008 growth will have accelerated, boosted by higher crop prices. According to IBIS World, fertilizers account for two thirds of the total market, pesticides make up 28% and other products 5%.

Figure 2: Global Agrochemical Market Breakdown, 2007 (total est. \$107bn)



IBIS World

Pesticides

(estimated industry size \$31bn; 28% of global industry)

Herbicides are the largest sub category within the pesticides industry: IBIS World estimates that they account for 45% of the total, followed by fungicides and insecticides at 25% each and 'others' at 5%. The pesticides industry is relatively diverse compared to the fertilizer industry, with many varied market segments. It is also characterized by patented products and generic competition is an issue. In contrast to the fertilizer industry which is dominated by bulk products, price is typically a less important industry driver than product innovation.

Preliminary estimated results for 2008 indicate that the pesticides market grew by 25% gross (11.9% post currency adjustment). Key elements to this growth rate were increased agrochemical prices, low global stock of all major crops resulting in higher commodity prices, reduction in the EU set-aside rate to 0%, increased intensity of agrochemical usage and continuing demand for biofuel production.

Despite softening commodity prices and global economic problems, the outlook for agrochemical market performance remains positive in 2009, although not as positive as 2008. The major concern surrounds farmer and distributor income, particularly in the face of fuel and fertilizer costs that remain high by historic standards. Despite softening crop commodity prices, the situation remains more positive than at the start of 2007, with global grain stocks remaining low by historic levels and an improvement in prices anticipated during the first half of 2009.

As long as crop prices are sustained then the drive to improve yield remains a positive factor. Although agrochemical prices have declined from the peaks in the first half of 2008, it is anticipated that again they will remain stronger than prior to 2007.

The pesticides market is highly concentrated. Major multinational companies such as Monsanto, Syngenta, Dow, DuPont, BASF and Bayer are important players in the sector – these six are estimated to account for three quarters of the global market. Global brands are being promoted by the major players – for example Roundup (Monsanto) and Fipronil (BASF). Amongst the other players, companies from developing countries are increasingly present in the market – including those producing generic products. According to AgriService, the global market for insecticides was valued at \$9.7 billion in 2007. The largest segment is Organophosphates, accounting for 21.3% of this; followed by Neonicotinoids at 20% and Pyrethroids, 18.5% (see full breakdown in the following table).

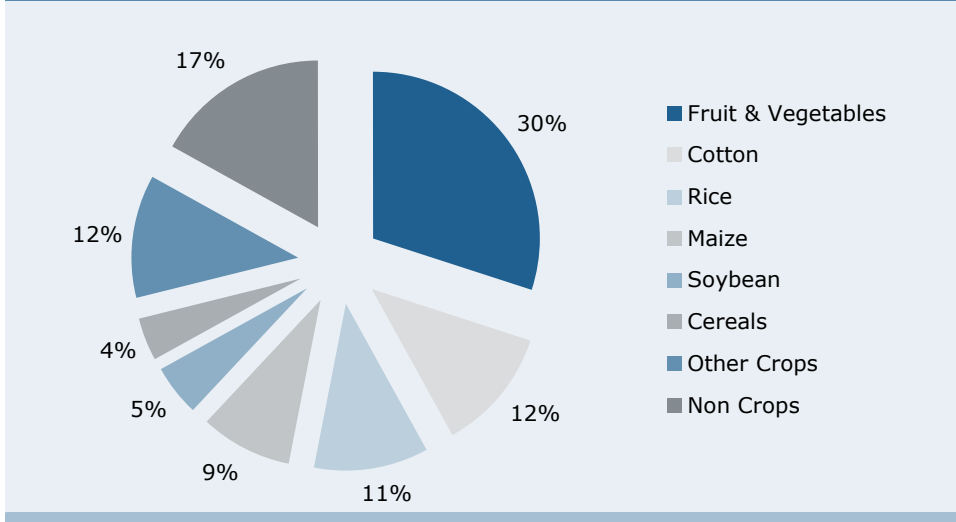
Table 1: Insecticide Market Breakdown by Chemical Sector, 2007

	Mode of action	Market Size (\$bn)	% total market	Active Ingredient and major manufacturers
Acaricides	Various (target mites rather than insecticides)	0.52	5.3	
Carbamates	Inhibition of cholinesterase	1.01	10.4	Carbofuran (FMC, Bayer)
Benzoylureas	Inhibition of chitin synthesis	0.34	3.5	
Natural Products	Various	0.74	7.6	Spinosad (Dow)
Neonicotinoids	Blocking postsynaptic nicotinic acetyl choline receptors	1.94	20	Imidacloprid, Clothianidin (Bayer); Thiamethoxam (Syngenta)
Organochlorines	Antagonism of the gamma aminobutyric acid receptor-chloride channel complex	0.22	2.3	Endosulfan (Bayer, MAI)
Organophosphates	Inhibition of cholinesterase	2.07	21.3	Chlorpyrifos (Dow); Acephate (Arysta, Sumitomo)
Other IGRs	Hydrazides: mimic 20-hydroxy ecdysone, the hormone that promotes moulting; Juvenile hormone mimics: prevent insect larvae from metamorphosis into viable adults	0.23	2.4	
Pyrethroids	Contact and stomach poison activity	1.80	18.5	Deltamethrin (Bayer); Lambda-cyhalothrin (Syngenta), Cypermethrin (FMC, Sumitomo); Bifenthrin (FMC)
Others		0.84	8.6	Fipronil (BASF); Indoxacarb (DuPont)
Total		9.72		

AgriService

In terms of market segments, fruit and vegetables account for the largest portion of insecticide sales by value (if not by volume), making up 30% of the total market value of \$9.72 bn, according to AgriService. Cotton is the largest single crop by value, accounting for 12%. It is followed by rice (11%) and maize (9%), then soy bean (5%) and other cereals (4%).

Figure 3: Insecticide Market Value by Crop 2007 (Total Value \$9.72bn)



AgriService

The industry is dominated by synthetic products but the emergence of bio-pesticides or ‘natural’ pesticides is an increasingly important feature, due to concern over the misuse/overuse of synthetic pesticides. Alternative products based, for example, on plant extracts (like Bug Oil) have been around for some time. However, most tend to be less effective than the synthetic based products. BugOil sits alongside a group of “softer” pesticides which have a reduced environmental impact and which are increasingly moving into favour. In contrast to most, Bug Oil can compete head on with the chemical alternatives, with no compromise in terms of performance – and indeed offering advantages in some instances.

Plant Impact estimates that the niche segment of the insecticides market which the company is addressing with its BugOil product is estimated to be worth between \$1.4 billion and \$1.9 billion. Plant Impact defines this niche as the markets for higher added value pesticides to target just three pests: aphids (estimated market size of \$849 million), mites (estimated market size \$852 million) and whitefly (estimated market size \$172 million). Plant Impact products have also been tested on thrips and psylla, but the figures for these have not been included.

The addressable market for BugOil includes all types of crops, including cotton, maize and rice, although Plant Impact is not actively addressing these agricultural crops at present: in the short term the company’s focus is the high added value fruit and vegetable markets. The primary market segments being addressed by BugOil are the commercial agriculture and commercial horticulture markets, ranging from roses to fruit and vegetable horticulture and including nuts, olives, citrus fruits and apples – effectively high value fresh produce where quality is at a premium; high value crops where any variations in quality are unacceptable – where growers are interested in high quality, rather than just yield. The ‘Ornamentals’ market alone is estimated to be worth \$540m: BugOil is establishing a position for itself (pre registration) in the Ornamentals market and has undergone field trials in three of the key markets, Holland, Kenya and Ecuador.

The synthetic products which BugOil will compete with include the Neonicotinoids (a \$1.9 billion market), the Pyrethroids (a \$1.8 billion market) and the Acaricides (a \$0.5 billion market). It also competes with a number of natural products. Significant products positioned within the BugOil niche include:

Synthetic Products

Abamectin

Abamectin, one of the largest off-patent insecticides, generates sales of over \$290m annually. Abamectin is displacing older insecticides which are faced with regulatory restrictions. Originally developed by Merck & Co, the Merck manufacturing technology for Abamectin was licensed to Syngenta in 2007. Syngenta holds registrations for Abamectin on fruit, vegetables and cotton in over 80 countries and is expanding its capacity. Syngenta brands based on Abamectin include Agri-Mek, Avicta, Avid and Proclaim. Other brands include Dynamec and Abacide. Key markets are the US, Japan and South Korea.

Imidacloprid

Imidacloprid, developed by Bayer and sold under brands including Admire®, Confidor®, Connect®, Evidence®, Leverage®, Muralla®, Provado® Gaucho and Trimax®, is a Neonicotinoid. Bayer has registrations for Imidacloprid in more than 100 countries. As an insecticide, it targets sucking and biting insects including aphids, beetles, bugs, jassids, leaf miners, locusts, mealy-bugs, psyllids, scales, soil and fruit flies, termites, thrips, weevils and whiteflies. Target crops include citrus, coffee, cotton, fruits, grapes, potatoes, rice, soybeans, sugarcane, tobacco and vegetables. It is also sold as Premise as a flea control product for pets. Estimated sales of Imidacloprid are \$840m.

Imidacloprid has attracted controversy due to possible detrimental effects upon honey bees. It is under investigation in France (as Gaucho) and has been banned in Germany for certain seed treatments.

Bifenazate

Floramite™, a registered trademark of Chemtura, is an Acaricide which attacks the nervous system of the pest which becomes hyperactive and stops feeding. A recent introduction, it is growing rapidly and expected to become the leading Acaricide in horticulture with current sales of \$40m.

Natural products:

Spinosad

Spinosad, a patented product developed by Dow Chemical, is derived from a naturally occurring bacterium and works by killing susceptible species by rapid excitation of the nervous system. Two commercial products are registered (by Dow) for use in commercial agriculture, Conserve SC and Entrust. The latter is approved for use on USDA certified organic produce. It is also the active ingredient in Comfortis, a flea medication for pets and in products for turf. Estimated sales are \$205m.

Spinosad must be ingested by the insect so has little effect on sucking insects. Target insects include fruit flies, caterpillars, leafminers, thrips, sawflies, spider mites, fire ants and leaf beetle. It does not affect beneficial organisms, but is highly toxic to bees.

Bt bacteria

Bacillus thuringiensis or *Bt*, an insect killing bacteria, was discovered in the early 1900s and has been used commercially since the 1930s. It became the focus of research in the 1980s, at which point the identification of different genes associated with the production of different *Bt* proteins, which could target different groups of insects.

Neem Oil

Azadiracta indica (Neem Oil), which has been used for centuries in India in Ayurvedic medicine, is a source of environmentally friendly biopesticides. The properties of Neem Oil are perhaps the closest to Plant Impact compared to any of the other 'non chemical' products on the market. Within the EU, a German company, Trifolio, had submitted a Neem Oil based product for approval but has subsequently withdrawn its application as further research and testing work on the product is needed.

Pyrethrum

Pyrethrum is a natural insecticide and lice remedy made from the dried flower heads of *Chrysanthemum cinerariifolium* and *Chrysanthemum coccineum*. Pyrethrum was widely used in the Middle East and was marketed in the 19th century under the Zacherlin brand in Europe. Although a natural product, Pyrethrum is highly toxic.

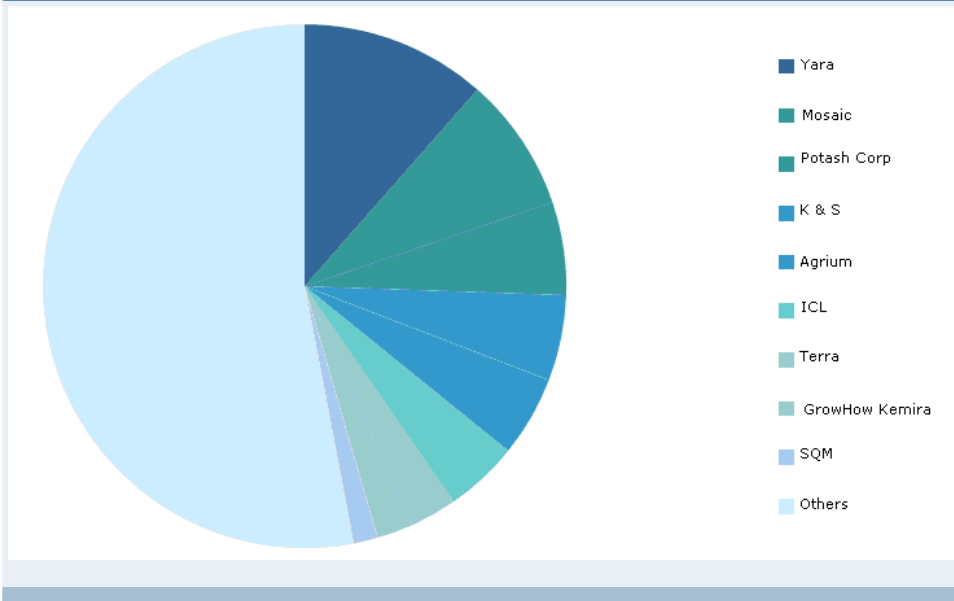
Fertilizers

(estimated industry size \$71bn; 66% of global industry)

The fertilizer industry is dominated by sales of the major plant nutrients: nitrogen (N), phosphorus (P) and potassium (K) – collectively 'NPK'. The secondary plant nutrients, calcium, sulphur and magnesium, are also important, as are trace elements.

Generally, the fertilizer market is less concentrated than the pesticide market. There are approximately 4,200 companies operating in the Fertiliser industry (IBIS Report –pg 12)) – a large number of small companies which operate on a national / regional basis. The top ten players account for less than 50% of the market (Yara Fertilizer Industry Handbook 31 May 2005). Major players in the fertilizer market include large quoted companies such as Agrium Inc., The Mosaic Company, Yara, Potash Corp, Terra, Israel Chemical and K&S – and Russia's Eurochem. The largest players are vertically integrated companies. Many of the companies are solely targeted at commodity sales however companies such as Yara, SQM and Haifa have stated aims of increasing specialty products within their portfolio.

Figure 4: Major Fertilizer Market Players



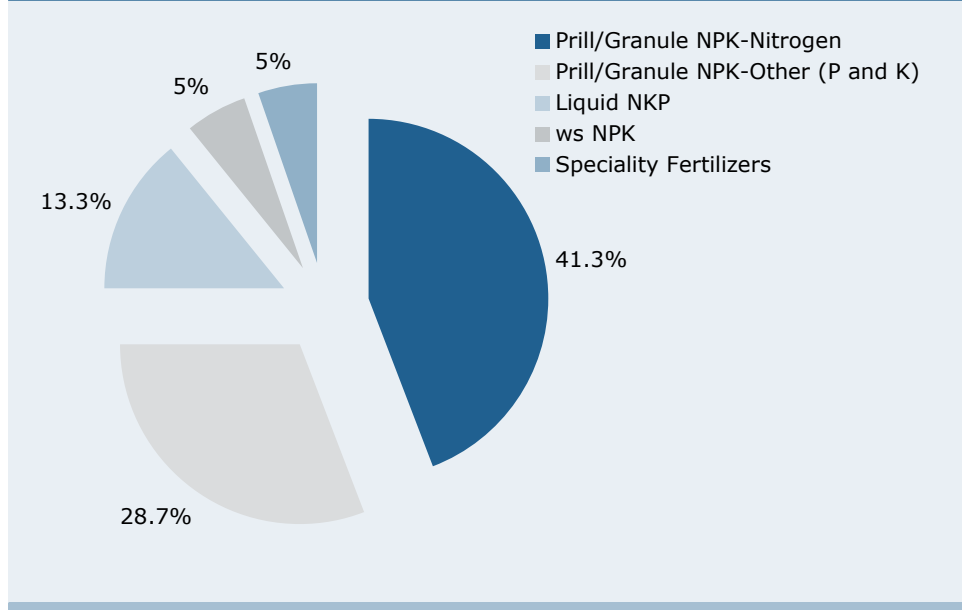
Yara Handbook

Globally, the market is dominated by large North American and European players. However, the nitrogen fertilizer market, in particular, has shifted to lower cost destinations. Half of all production of urea is now located in Asia (in particular China) and Urea is produced in over 60 countries. Cost competition is a key factor in the bulk fertilizer markets, especially in markets such as urea. Fertilizers are in many respects global commodities.

The major part of the fertiliser market is prill or granule NPK which is largely undifferentiated sold in bulk and is low margin commodity with price related to energy pricing, approximately 60% of which is Nitrogen sold in various forms, increasingly as urea.

There is a growing segment of Liquid NPK for use as targeted injection applications and one of the fastest growing segments is the water soluble NPK for use in irrigation.

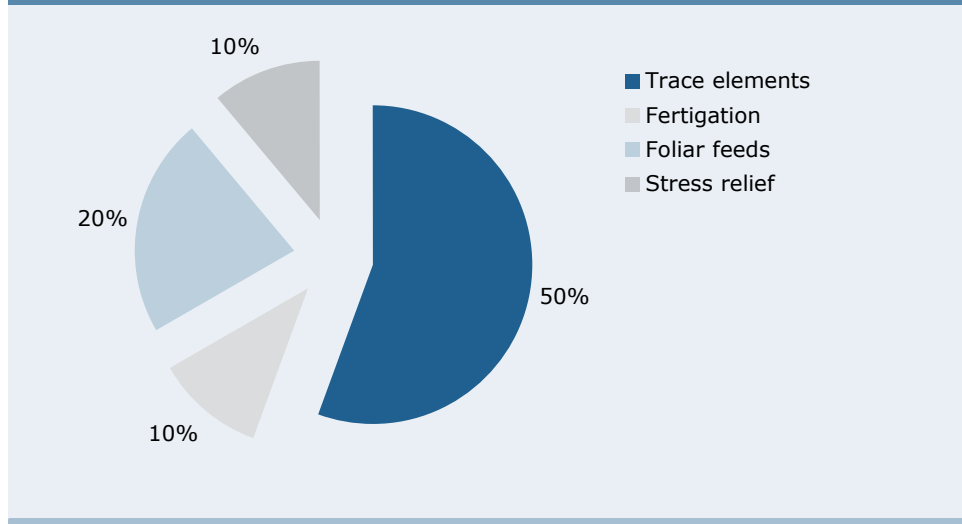
Figure 5: Fertilizer Market by segment (total sales \$66bn)



IBIS World

In addition to NPK is the speciality fertiliser segment which can be further divided into the following segments: Trace elements, Fertigation, Foliar feeds and Stress relief.

Figure 6: Speciality Fertilizer Market by Segment (total sales \$3.33bn)



IBIS World

These segments are competitive. The producer base is highly fragmented with products of varying capabilities. There are highly differentiated technical products and a significant number of 'muck and mystery' products with unsubstantiated claims. The larger players are setting an agenda of scientific product support. However the barriers to entry are relatively low, hence customer trust in new claims is low and market uptake is slow.

The stress relief segment is of particular note as it overlaps with the pesticide market. Stress relief can be affected by nutrition or by Plant Growth Regulatory

mechanisms. The latter are considered pesticides and are regulated as such. There is considerable interest in this area and some debate over how to regulate products, especially in Europe.

The main drivers of fertiliser use, in terms of volume, are the extensive arable crops. However, the specialty fertiliser segments, where Plant Impact products are positioned, target the high value crops such as fruit and vegetables. Fertilizers for the fruit and vegetable segment of the market are growing faster than any other segment. Demand is being driven by emerging economies such as China.

The speciality fertilizer products industry is dominated by large fertilizer industry players and is undertaken in conjunction with the supply of commodity products. The definition of specialty products varies from producer to producer. Many players claim lead market share in specialty markets, but few can truly claim to have extensive expertise outside the bulk market.

There is growing interest in more targeted fertilisation, driven by concerns about the environmental impact of leaching and vaporization – but also for economic reasons. Methods being developed include targeted injection, fertilization through irrigation systems and Enhanced Efficiency Fertilisers (EEF).

The American Association of Plant Food Control Officials has described EEF as “fertilizer products with characteristics that minimize the potential of nutrient losses to the environment, as compared to ‘reference soluble’ products.” This description says nothing about agronomic effectiveness, but in many cases agronomic effectiveness and reduced environmental impacts go hand-in-hand. The description is not nutrient specific, but in practice most EEF technologies are applied to Nitrogen.

TECHNOLOGY & PRODUCT REVIEW

Benign Pesticides

BugOil®

The BugOil® technology, the product of a £2m research and development programme by Plant Impact, is a patented insecticide and acaricide which effectively controls an exceptionally wide range of soft bodied pest species including Whiteflies, Aphids, Mites and Thrips, performing at an equivalent or higher level than the leading products on the market. BugOil is based purely on natural plant extracts, particularly essential oils. It contains four active substances which work in a synergistic manner in prescribed proportions: Thyme oil (*Thymus vulgaris*) (6g/l); Tagetes oil (*Tagetes erecta*) (6g/l); Wintergreen oil (*Gaultheria procumbens*) (trace); and vegetable oil (typically canola), in which the product is formulated. The product is based on Pi technology – the proprietary knowledge which has been developed by the company is the synergistic effect of the oils. The product is a foliar directed spray typically intended for application on 7-10 day intervals, depending upon the pests.

BugOil has both repellent and insecticidal activity and hence can act as a protectant and curative agent; although its use is primarily curative it offers repellency against adult whitefly and the potential to reduce virus transmission by killing the aphid (an insect such as the cotton aphid (*Aphis gossypii*), or melon aphid, is a vector of viruses from garden greenfly to cotton aphids, aphid infestations are a major cause of yield loss).

As a natural product, BugOil offers many advantages over its synthetic peers including:

- No detectable residues on food produce (very short pre-harvest interval, so it can be used as a final spray before harvesting)
- Low risk of resistance build up
- No environmental impact on mammals/birds/fish
- Safe to non-target insects (in contrast to abamectin and imidacloprid, both of which are either toxic or harmful to insects such as bees and both of which cause mortality in earthworms).
- Safe to humans (including farmers who spray the product)

BugOil's rate of application is comparable to the traditional insecticides, however many of the more recent introductions have the advantage of substantially lower volumes of application.

Plant Impact has a family of BugOil patents, the first of which was granted in the UK in 2005 and has term of 20 years. Registration submissions for BugOil have been submitted to the PSD (UK) and will be submitted to the EPA (USA) during the second half of 2009. The regulatory approval route is unusual amongst natural pesticides.

The potential for the product is enormous if the pests are considered: for example there are ten species of thrips globally, infesting crops ranging from tea and rice to banana, mango and beans. Amongst the aphid species, major pests include *Rhopalosiphum padi*, a major pest of cereals (sorghum, millet, sugarcane, wheat, barley and rice). The market for cotton alone accounts for 12% of the total

insecticide market: BugOil can be effective against cotton pests such as the silverleaf whitefly. The main product in this market is Bayer's Imidacloprid which had 2007 sales of some \$840m

Within the segments which the company is targeting (high value fruit, vegetables and flowers with the focus on pests which are debilitating on the leaf), the estimated potential market size is between \$1.4 and \$1.9 bn.

BugOil field trials have been conducted to regulatory standards on high-value crops including ornamentals, fruit and vegetables. BugOil has been proven to have the following benefits when compared to standard treatments:

- Significant pest-repellent properties when applied ahead of crop planting, reflected in an increased average crop yield in tomatoes of 42% against standard.
- Broad-spectrum pest coverage, particularly for ornamentals such as cut flowers.
- Indication of increased efficacy (in several trials), suggesting that BugOil is at least equal to, if not better than current industry standards.

Nematicide Technology

This is an early stage technology which is based on low toxicity compounds, in contrast to the highly toxic products which dominate the market. A patent application was filed in 2006. Plant Impact is hoping to receive an EU grant for this project. The total value of the grant will be £1.8m, which would be split between several parties. Plant Impact is the project manager for the team and will retain the rights to the IP on the project, if it proceeds. Confirmation on the grant will be received later this year.

Crop nutrient products/speciality fertilizers

Plant Impact’s technology range includes four crop nutrient processes: CaT (Calcium Technology), PiNT (Nitrogen Technology), Speedo and Althea.

Table 2: Plant Impact's Specialist Fertilizer Technologies					
Technology	Brand name(s)	Key Target Applications	Estimated market segment size	License Partners	Existing sales
CaT (Calcium Technology)	Inca	Nuts; Fruit & vegetables	\$2 bn	Miller Chemical & Fertilizer Corp (In some countries)	Chile, Egypt, Greece, Holland, Kenya, Portugal, Spain, UK, USA, Yemen, France, Egypt
	Cold Grow				
	Hot Grow				
PiNT (Plant Impact Nitrogen Technology)	PiNT Ca		\$4.6 bn		Kenya, Portugal, Saudi Arabia, Spain, UK, USA, Yemen, France, Syria, Egypt, Morocco
	PiNT Mg				
	PiNT K				
Speedo	Saxon		\$1 bn	Miller Chemical & Fertilizer Corp (In some countries)	Greece, Libya, Oman, Spain, UK, Yemen, France, Syria, Egypt, Morocco
	Balance				
Althea	Cocoa Stress Tolerance (CST)	Cocoa	\$0.2 bn		Nigeria

Company/ ED

Calcium Technology: CaT™

Calcium is one of the three secondary plant nutrients (the others are sulphur and magnesium). CaT is an innovative system of improving calcium uptake and retention by plants. CaT balances the calcium sinks in a plant, permitting an even absorption of calcium and targeting the treatment of ‘physiological disorders’ associated with low calcium levels. It also permits the absorption of plants in temperatures which are not normal for the plant (very hot or very cold temperatures).

The CaT technology’s key attribute is the ability to move calcium around within a plant, to target a particular part, for example the fruit – or other parts, such as the leaf or stem might be targeted if the aim is to produce bulk (e.g. Biomass energy crops). CaT uses the plant’s own cellular calcium pump to move calcium to places which have reduced availability of the nutrient. It does this using CaT, a patented proprietary technology of Plant Impact that mimics the presence of auxin. CaT is partnered with a calcium molecule and the nutrient is pushed into the cell. The products work in very small quantities and have been proven in tests to be more than 20 times more active than conventional calcium products. Marketable yield increases of 30% have been achieved and fruit and vegetable crops can be grown with longer shelf lives and an improved appearance (all important factors for supermarket customers).

Figure 7: The Calcium Fertilizer Market

The calcium fertilizer market is considerably smaller than the market for nitrogen fertilizers. Calcium fertilizer products currently on the market may be divided into two groups: Cost effective products and Speciality Products, with the latter including products which offer calcium in different forms.

The bottom level, cost effective products, include applications such as calcium nitrate and calcium chloride. These are applied at the root and foliage levels. While such products have their uses, they are not without problems. Generally speaking, root applications tend to supply significantly more nutrient than is required and potentially can scorch crops. This end of the market is dominated by Yara, which is by far the world's largest supplier of calcium fertilizers. Yara's products include SENIPHOS, which aims to avoid some of the typical side effects of calcium fertilizers as it is applied as a low level calcium foliage spray. Even SENIPHOS, however, has negative side effects: it is known to have the effect of chemically hardening fruit and it is poor at providing calcium. It also has acidic properties.

Within the higher margin speciality products, there are a number of calcium nitrate suspension products on the market. CALMAX is a calcium nitrate suspension product sold by Omex, a privately owned UK company. It is primarily marketed in the US, where it has a niche market presence in almond growing. CALMAX is based on suspension technology. It is a £14 million revenue product which achieves operating margins in excess of 50%.

Another category of speciality products is the metalosate stable of calcium products. These are amino metal calciums – which aim to convince the plant that they are a different type of product. ZeroNCalmex, also owned by Omex, is a calcium gluconate which fits in this category. Other manufacturers of metalosates include Nippon Soda and Albion Chemicals.

Other speciality products include the CALCIUM CHELATE product range. Ciba has a product in this category, as does Yara.

The Addressable Market for CaT

The CaT technology is marketed under the 'INCA' brand and as 'Cold Grow' and 'Hot Grow'. CaT competes against speciality products and does not compete with the bulk products – it is not the sort of product which would replace root applied calcium.

Plant Impact is targeting the fruit and vegetable and ornamentals markets in countries where there is intensive farming. These segments are where CaT is perceived to be able to make a strong impact. CaT is also being actively sold into the niche market for almonds in the US, where it is perceived to have significant scope.

Plant Impact Nitrogen Technology: PiNT™

PiNT™ (Plant Impact Nitrogen Technology) is designed to control the uptake of nitrogen by a plant. PiNT consists of urea bound into an organic acid cation complex with an essential metal nutrient. This complex stabilises amine and ammonium molecules, reducing the rate at which they break down into nitrates. PiNT enables nitrogen to be taken up by the plant in its most useful form. The

complex can include essential metal nutrients such as calcium, magnesium and potassium, depending on what response is required from the plant.

Figure 8: Nitrogen fertilizer - miracle and challenge

The Haber-Bosch process, invented almost 100 years ago, revolutionized the agricultural industry. The process permitted the production of ammonia on an industrial scale for the first time. The oxidization of ammonia generates nitrates, for the production of nitrate fertilizer and hundreds of millions tons of artificial fertilizer are manufactured through this process annually. Ammonia is either used directly or is combined with phosphoric acid to produce ammonium phosphates (MAP and DAP), with carbon dioxide to produce urea, or with nitric acid to form ammonia nitrate.

Ammonia based nitrogen fertilizers have contributed significantly to the world's ability to feed the growing population: it is estimated that nitrogen fertilizer sustains around one third of the world's population. Nitrogen efficiency has improved significantly, but there are a number of issues associated with the wide spread use of nitrogen fertilizers including the following:

- Nitrogen fertilizer manufacturing requires the use of large volumes of natural gas: between 75% and 90% of the cost of producing ammonia is accounted for by natural gas, accounting for an estimated 1% of the world's total energy supply. This implies dependency upon fossil fuels and has implications for prices security of supply.
- The scope for environmental damage from the overuse of nitrogen fertilizers. Because nitrates are highly soluble, any fertilizers not taken up by plant roots enter the ground water and can create 'dead zones', both on land and in coastal waters. Oxidized forms of nitrogen can also contribute to smog and acid rain and are a greenhouse gas.

We consider the PiNT technology to have disruptive potential, to the degree that it offers the potential to revolutionize the market for nitrogen fertilizers – a major market which is suffering from environmental challenges.

There are three main products associated with the PiNT technology, each of which combines the technology with major plant nutrients: PiNT Mg (PiNT combined with Magnesium) and PiNT K (PiNT combined with Potassium) – as well as PiNT Ca (PiNT combined with calcium). All three are sold in liquid form so are best suited to the high value end of the market (fruit, vegetables, nuts).

PiNT products are already being successfully sold by the company and are being positively received in the market. However, to fulfil its disruptive potential PiNT would require a massive field trial and marketing budget, which would only be possible with the backing of a major industry player. There is significant potential for PiNT even within the niche market segments where it currently operates and our forecasts are based on the assumption that revenues are derived by the company's internal sales force. Longer term, however, there is scope for significant licensing revenues.

Speedo™

Speedo technology accelerates the reproductive growth of the plant, enabling additional or prolonged harvests, it is being used within some of the company's products based on other technology platforms. The wsNPK (water soluble) product, based on the Speedo technology is also in the pipeline – this will have the advantage of being able to address different market segments.

Alethea®

Alethea uses a new molecule designed to combat the effects of abiotic stress. The chemistry, which is patent pending, has been developed from an entirely novel approach and can be incorporated into different fertilizer products. Abiotic stress is a large challenge in agriculture and this product, although still in the early stages of testing, offers potential to revolutionise the agrochemical market.

Alethea has undergone independent trials, on lettuce and on cocoa, both showing significant yield improvements. Under the CST (Cocoa Stress Tolerance) formula, it has achieved improvements in yield of 69% in tests in the Ivory Coast and Ghana. To date, sales of Alethea have been primarily as an additive to other Plant Impact products. The full potential for this product, however, is enormous in the longer term.

Figure 9: Abiotic Stress

In contrast to biotic stress (caused by biological organisms such as insects, fungi, bacteria, nematodes or weed competition), abiotic stress is created by environmental conditions. It can be caused by intense light, ozone, herbicide damage, temperature stress (extreme heat or cold), heavy metals, herbicides or water stress (drought and salinity). The loss of yield from abiotic stress is considered to be a major challenge

Abiotic stress, according to some studies, accounts for between 50% and 82% of loss in major crops (the figure of 82% comes from a study on wheat by Bray et al, 2000). Given the potential for this as yet largely untapped market, it is unsurprising that abiotic stress is a major focus for research by many of the large agrochemical players. Monsanto is looking at stress in corn and soya and is developing 'drought tolerant' seeds.

The 'food fuel' debate, which has raised questions over the use of arable land for growing fuel crops, is focusing attention on the potential for growing crops for fuel on marginal land – where technologies which can address abiotic stress could potentially play a major role (notwithstanding the issue of abiotic stress on arable land, which also offers potential).

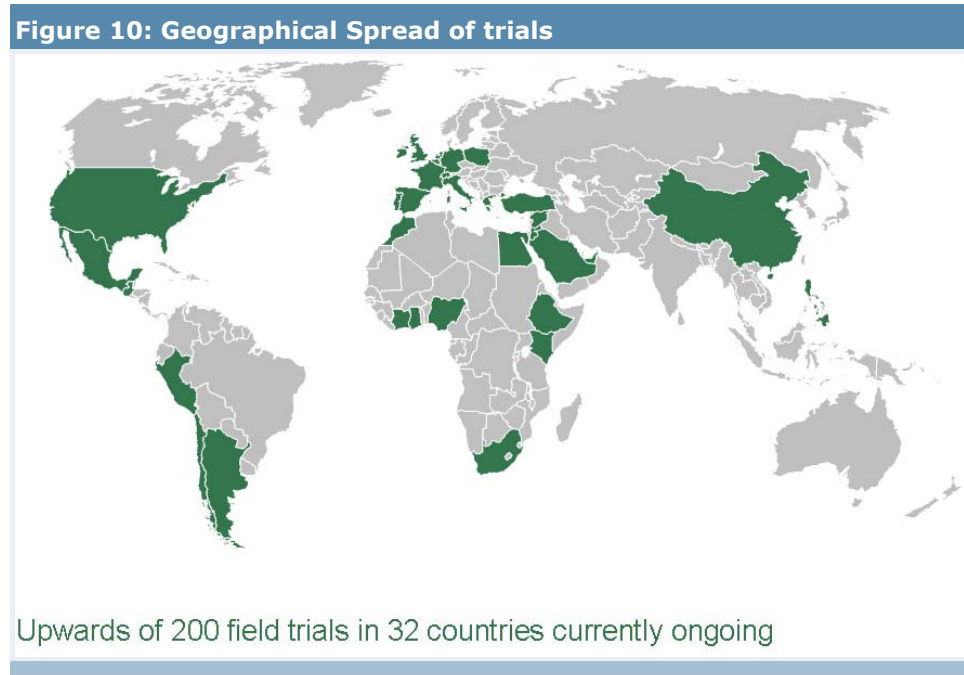
Trials

Currently, the focus in terms of trials is on high value fruit, vegetable and nut crops, where Plant Impact sees potential to add value relatively easily in the short term with the products which are already in the market (notably the CaT technology products). However, on a longer term view, there is major potential within the arable crop industry – which is likely to be fulfilled through partnerships rather than independently.

The products are tested in various different formulations. **Pi currently has some 200 field trials taking place in 32 countries.** The objective of the field trial programmes includes;

- Efficacy proof including: potential to improve shelf life;
- potential to reduce physiological diseases;
- yield increase.

The following map indicates the locations of current trials:



Company Data

LICENSING AND DISTRIBUTION AGREEMENTS

Benign Pesticides

Plant Impact announced last month that it has entered into exclusive discussions on a global licensing deal for BugOil® with a leading agrochemical company. This unnamed company has signed a letter of intent and is expected to sign a final licensing agreement before the end of June. The proposed agreement would provide the company with an exclusive license for 20 years to BugOil® for all market segments except for home, garden and animal health.

Crop Nutrients

In April last year Plant Impact signed a five year agreement with Miller Chemical & Fertilizer Corporation, of Pennsylvania, for the marketing and distribution of three products, primarily in the USA, but also in other territories under the "Miller" brand name. The products included in the agreement are Inca, Cocoa Stress Tolerance "CST" and Balance. **Miller has a US distribution network of over 400 distributors and a sales team of 26.**

The discussions with the chemical company regarding the license for BugOil® may also be extended to include distribution rights to some of the crop nutrient products.

RECENT RESULTS & FINANCIAL POSITION

Results for the six months to 30 September 2008, Plant Impact reported turnover of £225,287, compared with £128,578 for the six months ended 30 September 2007. The growth was due to a combination of direct sales to growers, particularly in the UK and Europe, and sales via distributors in the USA (sales by Miller accounted for \$64,200 in the period). All sales are derived from the nutrient products. The company reported an operating loss of £1,300,464, compared with £892,135 for the six months ended 30 September 2007. Higher research and development costs and the expansion of the sales team have pushed up costs. The net loss was £1,146,259, compared with £814,922 for the previous period.

The company's cash balance stood at £1,850,423 at the end of September, compared with £2,363,275 at 30 September 2007. Plant Impact has entered into a loan agreement with the agrochemical company with which it has signed the letter of intent regarding the licensing deal on BugOil®. This agreement provides Plant Impact with £750,000, at a variable rate of LIBOR plus 3%, repayable in three years and secured against Plant Impact's intellectual property. The loan is not conditional upon the deal with the agrochemical company being signed.

Table 3: Historical Balance Sheet

Period ending (£m)	Mar-08	Sep-08
Tangible Fixed Assets	0.03	0.03
Intangible Assets	0.59	0.59
Total Fixed Assets	0.61	0.61
Debtors	0.21	0.30
Other current assets	0.18	0.24
Net cash	2.98	1.85
Total Assets	3.99	3.01
Trade Creditors	-0.53	-0.65
Net assets	3.46	2.36
Share capital and reserves	8.26	8.30
Profit and loss account	-4.80	-5.95
Shareholders Funds	3.46	2.36

Company Data

Forecasts

Plant Impact is seeing steady growth in revenues from direct sales of the plant nutrition products and the sales from the Miller agreement are set to have an impact in the next financial year. However, the key driver to the top line next year will be licensing revenue from the agreement on BugOil. Further information on that deal should become available over coming months. In the meantime, we have factored in significant lump sum payments for the years ending March 2010 and 2011, which will drive top line growth.

We have assumed that the operating costs will rise with additions to the sales team. However, costs could be contained at lower levels in the event that revenues do not feed through from licensing agreements.

We anticipate that Plant Impact will approach break-even at the operating level next year and will become profitable in the year ending March 2011. Assuming the company remains loss making, there is scope for R&D tax credits which enhance the bottom line numbers. We are forecasting a small loss of £0.2m for next year and a profit of £0.2m in the year to March 2011.

Table 4: Profit & Loss Forecast				
Financial year to March (£m)	2008A	2009F	2010F	2011F
Revenues	0.3	0.8	3.5	5.0
Cost of Sales	0.2	0.4	1.2	1.8
Gross profit	0.1	0.4	2.3	3.2
Gross margin (%)	34.7	50.0	64.9	63.4
Operating costs	2.1	3.0	2.7	3.0
Operating profit/(loss)	-2.0	-2.6	-0.4	0.2
Operating margin (%)	n.a.	n.a.	n.a.	4.2
Interest income/(expense)	0.1	0.1	0.0	0.0
Pretax profit/(loss)	-1.9	-2.5	-0.4	0.2
Tax	0.2	0.2	0.2	0.0
Net profit	-1.7	-2.3	-0.2	0.2
Net margin (%)	n.a.	n.a.	n.a.	3.9

ED estimates

Valuation

A DCF valuation is, in our view, largely irrelevant while the company is at such an early stage in terms of commercialization of its product range. Plant Impact is set to remain loss making for at least another year, but we are forecasting profit of £0.2 million in 2010 (year to March 2011). Investment risks are always high for young companies, but the risk factor will improve significantly upon signature of the licensing deal for BugOil.

For the purposes of valuation, Plant Impact is most comparable with other small companies which are developing natural products for the agribusiness market. AIM quoted peers include Plant Health Care and TyraTech. On PLUS Markets, Eden Research is worth a mention. All three have similar business models to the degree that they work with partners and are pursuing licensing agreements. However, none are fully direct competitors (TyraTech, for example, focuses on 'functional foods' and pest control, but not on plant nutrition). Both Plant Health Care and TyraTech are arguably further along the path of commercial partnerships than Plant Impact. Plant Health Care has agreements with Monsanto, Bayer CropScience and Scotts; Tyrattech has an agreement with Arysta Life Science in the pesticide space. Eden Research, meanwhile, has an agreement with Cheminova. Plant Health Care recently acknowledged that co-operation with Bayer CropScience in respect of one of its products, Myconate, has been terminated.

Comparable Price/Sales figures for the peers, where available, are in the following table.

Table 5: Forecasts (£m)

	2008	2009	2010	Market cap (£m)
Plant Impact Revenue(1)	0.8	3.5	5	£6.97
Price/Sales (x)	8.72	1.99	1.39	
Plant Health Care Revenue(2)	13.57	17	29.1	£69.60
Price/Sales (x)	5.1	4.1	2.4	
TyraTech Revenue(2)	4.02	14.87	23.81	£3.30
Eden Research	0.10	n.a.	n.a.	£16.61
(1) year ends March				
(2) Dollars figures translated into Sterling at a rate of 1.466				

CONCLUSION

Plant Impact and its technologies are well placed in an industry that is strongly supported by macro trends in population growth and increasing pressures on food resource. The immediate risks facing the company are those of execution; however a licensing deal will secure revenues that should underpin the ongoing feasibility of the group. With a strong portfolio of products, and no value attached by the stockmarket to the company's IP, investors appear to be afforded a very attractive entry price should an appropriate licensing deal be subsequently signed.

APPENDICES

Plant Nutrition Products – Field Trial Conclusions

Table 6: Field Trial Conclusions				
Product	Crop	Country	Objective	Conclusions
PiNT Ca	Almonds	Morocco	Dormancy test	Homogenous fruit Improved fruit development Improved fruit colour Flowering 20% higher than std Fruit setting 15% higher than std Improved shoot development by 40%
PiNT Ca, Inca, Saxon	Almonds	Morocco	Yield increase	Frost damage reduced by 25%, std 5% Brix – 40% increase Fruit size improved by 10% Fruit setting 15% higher than std Increase yield by 20%
Inca	Apples	USA	Calcium content in fruit	Calcium in peel increase from 1.55% std to 2.25% Inca Calcium in flesh increase from 0.7% std to 1.6% Inca
Inca	Apples	USA	Apogee combination	Significant increase in calcium content from 6.5 std to 7.5 units. Important as Apogee is a growth retardant and has a negative effect on auxin. Inca is designed to improve this.
Inca	Apples	USA	Compared to Mira-Cal	Storage data Inca demonstrated improved fruit colour and firmness and reduced bitter pit. Grower cost per acre reduced from \$88 to \$82
Inca	Apples	USA	Compared to NutriCal	Inca demonstrated improved firmness and reduced bitter pit.
Inca	Apples	UK	Calcium content in fruit	Dry matter had increased by an average 5%
Inca	Apples	France	Efficacy	Inca showed better efficacy on bitter pit and on russetting than std No phytotoxicity was observed
Inca	Apples	France	Efficacy	Significantly showed a positive effect in limiting bitter pit Showed a positive effect on firmness of fruit No phytotoxicity was observed
Inca	Bananas	Morocco	Fruit quality & physiological disorders	Homogenous fruit Improved fruit curving Increased brix General increase in fruit weight
Balance	Blueberries	Netherlands	Ripening and brix levels	Improved ripening was observed Brix improvement from 9 to 11.8 Dry matter increased by 12%
Inca, Scope	Cherries	Chile	Comparing Inca, Scope Messenger and std	Improved colour Nutrition elements in fruit statistically higher

				Improved sugar content and fruit diameter
				Earlier harvest, better quality increasing grower return
CST	Cocoa	Costa Rica	Efficacy, yield and control of black pod disorder	Three year independent trial by CABI
				Year on year increase in yield of 60%
				Yield increase despite the presence of black pod
wsNPK plus Alethea & Speedo	Cucumber	United Arab Emirates	Improvement to std wsNPK	Yield increase of 11%
				Improved fruit flowering and setting
Saxon	Cucumber	Saudi Arabia	Product efficacy comparison to Nurileaf	No differentiation in nutrient content, both products improved against std
				Increase yield of Saxon 50% and Nutrileaf 25% against std
Inca	Cucumber	Jordan	Heat stress and fruit setting	Improved resistance to heat increasing fruit setting by 50%
PiNT Ca & PiNT K	Cucumber	Greece	Efficacy	Trials on going
				Flowering shoots were longer and faster growing
				Fruit was more advanced
Inca & Saxon	Grapes	Jordan	Heat and water stress	Temperature 450 , water 25% of normal availability
				Increase in yield, fruit size, bunch uniformity and maturity
				Improved post harvest storage
PiNT Ca & Saxon	Grapes	Morocco	Dormancy measure comparison to Dormex and earliness compared to std	Dormancy breakage of PiNT Ca 92% Dormex 96%
				Flowering and setting stronger than Dormex
				Fruit size is larger than Dormex
				Improved colour and sugar levels
				Harvest 10 days earlier
PiNT Ca, Saxon & Inca	Grapes	Jordan	Efficacy and increased yield	PiNT Ca – improved stem thickness and colour, improved flowering and size
				Saxon – Improved colour of fruit, earlier harvest (10-12 days), higher sugar content 20%
				Inca – Rigid fruit, increased shelf life, improved drought resistance
				General – improvement under heat stress, increased yield by 10%-15%
Balance	Grapes	France	Efficacy	No visible improvement in fruit during vegetation and until harvest
				Improved storage one month post harvest
PiNT Ca	Lettuce	Saudi Arabia	Reduction in tip burn	Very good results in reducing tip burn
Inca	Lettuce	Netherlands	Efficacy	Tighter and larger lettuce heads
				Increase shelf life by 7 days
				Improved control of disease stress reducing entry points for fungi
				Increase yield by 15%
Inca	Lettuce	Netherlands	Comparison to Ca Metalosate	Increase in Ca levels by 15%

				Lettuce head weight increased by 3%
				Inca applied 15 units of Ca, Ca Metalosate applied 54 units
				Inca was 3.6 times more effective in delivering Ca
PiNT Ca & Inca	Lettuce	Spain	Efficacy, yield and phytosanitary state	Early maturity at date of cutting
				6% - 11% increase in diameter
				5% - 10% increase in weight
				20% - 40% post harvest lettuce hearts in good consumable condition
				Improved shelf life
Inca	Lettuce	Spain	Comparison to Estandar	Stronger looking lettuce
				Significantly reduced tip burn
Inca	Melon	France	Efficacy	Inducing an earlier harvest
				Good crop safety
PiNT Ca	Olives	Morocco	Efficacy	40% increase in fruit setting
				8% - 10% better fruit size
Balance	Onions	Saudi Arabia	Efficacy	18.6% increase in yield from 63.83Mt/ha to 75.73Mt/ha
Inca	Peaches	Spanish	Yield	Increased brix
				Improved colour
				Increased dry weight in both peel and flesh
				Increased Ca levels in both peel and flesh
				Considerable decrease in deformed fruit
				No phytotoxicity was observed
				Improved storage condition after 25 days
				Increased sugar content
Inca	Pears	USA	Cork spot comparison to FoliGro Ca	Significant reduction in cork spot
PiNT Ca, Saxon & Inca	Pears	Syria	Efficacy	Stronger flowering and bigger buds
				Fruit setting increased by 18%
				Increased fruit size by 15%
				Improved sugar content by 19.8%
				Frost damage 10% Inca, 40% control
Saxon	Peppers	Jordan	Efficacy	Increased speed of vegetative growth
				Increased reproductive growth, colouring and fruit size
Inca	Pistachio	USA	Efficacy	Increased fruit setting
				Multiple fruiting sites increasing the number of nuts
Balance	Potatoes	France	Efficacy	Improved use of nutrients
				Quicker tuberisation and an earlier maturity of tubers, earlier harvest
Inca	Soybeans	USA	Drought stress	Increase in bushels per acre from 40 to 46.5
Inca	Strawberries	Netherlands	Nutrient comparison to Ca EDTA	Increase in calcium, magnesium and potassium decrease in phosphorus. Ca improvement was over 30% of Ca EDTA
				Inca Ca units 15, Ca EDTA 80. Inca

				was 5.3 time more effective in increasing fruit Ca.
				Reduction in physiological disorders
				Improvement in shelf life
				Increased brix levels
Inca	Strawberries	UK	Nutrient comparison to Seniphos (Yara) and Vitalise (Omex)	Improved Ca content plus improved mobility of other nutrients. Ca increase 7%
				Brix level increase by 4%
				Inca was 10 times more effective in lifting Ca levels.
Inca	Tomatoes	UK	Ca levels and blossom end rot control	Increased Ca content by 12%
				Blossom end rot completely cleared in trusses treated from flower set.
				Brix levels increased by 10%
PiNT	Tomatoes	USA (Chesapeake Bay)	Efficacy and environmental impact	Trial on going
				Good interim results indicating the benefits of PiNT above std, significantly better root growth.
PiNT CA & PiNT K	Tomatoes	Greece	Efficacy	Trials on going
				Increased fruit size and firmness
				Fruit was more advanced
				Cooler than normal growing conditions. Std fruit was smaller, Inca fruit was normal.
Inca & PiNT	Tomatoes	Spain	Efficacy and yield	Increased yield of between 36% and 48%
				Reduction in blossom end rot from 30% to 8%
				Improved fruit homogeneity

BugOil – Field Trial Conclusions

Table 7: Field Trial Conclusions				
Country	Pest	Crop		Conclusion
Holland	Aphid	Chrysanthemum		Control as good as 4 competing synthetic products
Holland	Whitefly	Christmas Plant		Better control than leading standard
Japan	Aphid	Potato		Control as good as 2 competing synthetic products
Japan	Whitefly	Egg Plant		Control as good as standard
Spain	Thrip	Pepper		Control better than standard
Spain	Whitefly	Tomato		Control as good as standard
UK	Whitefly	Verbena		Control as good as standard
UK	Whitefly	Tomato		Control as good as standard
Kenya	Aphid	Cabbage		Control better than standard
Kenya	Mite	Roses		Control as good as standard
Kenya	Whitefly	Roses		Control as good as standard
Lebanon	Mite	Egg Plant		Control as good as standard
Lebanon	Mite	Lemon		Control as good as standard
Chile	Mite	Vines		Control as good as standard

Shareholders

RisingStars Growth Fund	16.87%
Blackrock Investment Management plc	10.48%
Gartmore investment Management plc	8.24%
Progressive Asset Management	6.73%
AXA Framlington Investment Management	3.73%
Lancashire County Developments (Investments) Limited	3.64%
YFM Private Equity Limited	3.30%
Allianz Cornhill	3.23%

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