

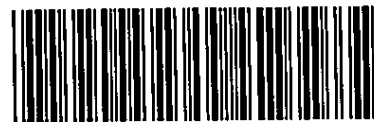
Avecia Finance Limited

**Directors' report and financial
statements**

Registered number: 3768215

Year ended 31 December 2009

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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2009

Principal activities

The company is an intermediate holding company and is a wholly owned subsidiary of Avecia Holdings Limited. Its immediate subsidiary undertakings, Avecia Investments Limited and Avecia Group Limited, are intermediate holding companies. The directors do not foresee any change of activities in the foreseeable future.

Business review

During the year the company made a loss of £90,086,000 (2008 £131,123,000). On 17 December 2009, the company received a dividend in specie of £146,200,000 from its subsidiary undertaking, Avecia Group Limited, representing its shareholding in Avecia Investments Limited (2008 £nil).

Subsequent to the year end, in February, the company received two dividends from Avecia Investments Limited. The first for £63 million was used to repay all the intra-group loans outstanding. The second for £50 million was used to make a partial redemption of the deep discount notes.

Political and charitable contributions

The company made no political or charitable contributions during the year (2008 £nil).

Directors

The directors who held office during the year were as follows:

Adrian Buckmaster
Duncan McLellan

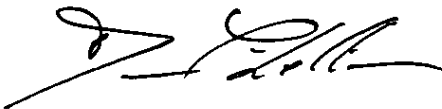
Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

Pursuant to a shareholders' resolution, the company is not obliged to reappoint its auditors annually and KPMG Audit Plc will therefore continue in office.

By order of the board



D McLellan
Director

PO Box 42
Hexagon Tower
Blackley
Manchester
M9 8ZS

Statement of directors' responsibilities in respect of the Directors' report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



KPMG Audit Plc

St James' Square
Manchester
M2 6DS
United Kingdom

Independent auditors' report to the members of Avecia Finance Limited

We have audited the financial statements of Avecia Finance Limited for the year ended 31 December 2009 set out on pages 6 to 15. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with chapter 3 of part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/UKNP.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its loss for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006


In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditors' report to the members of Avecia Finance Limited (*continued*)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

 27 May 2010

David Bills (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants

Profit and loss account
for the year ended 31 December 2009

	<i>Note</i>	2009 £000	2008 £000
Exceptional operating costs	6	(146,200)	(42,784)
Operating loss		(146,200)	(42,784)
Income from shares in group undertakings	7	146,200	-
Other interest receivable and similar income	8	1,653	-
Interest payable and similar charges	9	(91,739)	(88,339)
Loss on ordinary activities before taxation		(90,086)	(131,123)
Tax on loss on ordinary activities	10	-	-
Loss on ordinary activities after taxation and retained for the year		(90,086)	(131,123)

All activities relate to continuing operations

Statement of total recognised gains and losses
for the year ended 31 December 2009

There were no gains or losses in the current or preceding year other than those shown in the profit and loss account above

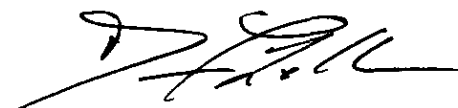
Balance sheet

as at 31 December 2009

Registered number 3768215

	<i>Note</i>	2009 £000	2009 £000	2008 £000	2008 £000
Fixed assets					
Investments	<i>11</i>		146,200		146,200
Creditors amounts falling due within one year	<i>12</i>	(63,276)		(64,179)	
Net current liabilities			(63,276)		(64,179)
Total assets less current liabilities			82,924		82,021
Creditors amounts falling due after more than one year	<i>13</i>		(837,948)		(746,959)
Net liabilities			(755,024)		(664,938)
Capital and reserves					
Called up share capital	<i>14</i>		74,100		74,100
Profit and loss reserve	<i>15</i>		(829,124)		(739,038)
Shareholders' deficit			(755,024)		(664,938)

These financial statements were approved by the board of directors on 20 May 2010 and were signed on its behalf by



Duncan McLellan
Director

Reconciliation of movements in shareholders' deficit
for the year ended 31 December 2009

	2009 £000	2008 £000
Loss for the financial year	(90,086)	(131,123)
Net addition to shareholders' deficit	(90,086)	(131,123)
Opening shareholders' deficit	(664,938)	(533,815)
Closing shareholders' deficit	(755,024)	(664,938)

Notes

(forming part of the financial statements)

1 Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules

The company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group accounts as its results are included in the consolidated financial statements of Avecia Holdings Limited. These financial statements present information about the company as an individual undertaking and not about its group. The consolidated financial statements of Avecia Holdings Limited can be obtained from Avecia Holdings Limited, PO Box 42, Hexagon Tower, Blackley, Manchester, M9 8ZS.

Under Financial Reporting Standard 1 (Revised 1996) the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

As 100% of the company's voting rights are controlled within the group headed by Avecia Holdings Limited, the company has taken advantage of the exemption contained in Financial Reporting Standard 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties).

Going Concern

The directors believe it is appropriate to prepare the financial statements on the going concern basis, notwithstanding the net liabilities of £755,024,000 for the following reasons:

The holders of all of the deep discount notes, which represent a liability of £837,948,000, have entered a solvency preservation agreement with the company, pursuant to which the holders agreed that, in the event of the winding up of the company, they would prove or claim as creditors of the company only if and to the extent that the company had assets available for repayment of the deep discount notes after satisfaction or deduction of all other creditors or liabilities of the company.

In April 2010 the terms of the deep discount notes were amended, with the agreement of the holders of the notes, such that mandatory redemption of the notes on 30 June 2011 is not required which makes the timing of redemption at the discretion of the company.

The company has received assurances from the group companies providing loans to the company that they will not seek repayment of these loans unless and until the company has sufficient funds to make full or partial repayment of the amounts due.

Subsequent to the year end, in February, the company received a dividend of £63 million from Avecia Investments Limited which was used to repay all the intra-group loans outstanding.

The directors have reviewed the company's existing liabilities and forecasts of cash flows for the current year and outline projections for the subsequent year. Following this review and taking into account the solvency preservation agreement entered into with the holders of all of the deep discount notes, the change in the terms for redemption of the notes, and the repayment of all intra-group loans outstanding, the directors have formed a judgement that, at the time of approval of these financial statements, the company has sufficient resources to continue operating for the foreseeable future. For these reasons the directors continue to prepare the financial statements on a going concern basis.

2 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except as noted below:

Fixed asset investments

Fixed asset investments are stated at cost less provision for any permanent impairment.

Notes (continued)

2 Accounting policies (continued)

Taxation

The charge for taxation is based on the loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax assets are recognised to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted.

Discount security

Finance costs are calculated by applying the implied rate of interest to the carrying amount of the borrowing. Accrued finance costs are included within that carrying amount.

Classification of financial instruments issued by the company

Financial instruments issued by the company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and
- b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds (see dividends policy), are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

Dividends

Dividend distribution to the company's shareholders is recognised as a liability in the company's financial statements in the period in which they are declared and approved. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements. Interim dividends are recognised in the period in which they are paid.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account. Exchange differences on foreign currency borrowings and deposits are included within net interest payable.

3 Remuneration of directors

None of the directors received any remuneration for their work as director of the company (2008: none)

4 Staff numbers and costs

Other than the named directors, the company has no employees (2008: nil)

Notes (continued)

5 Auditors' remuneration

Audit services for the company totalled £3,310 (2008 £3,310) This amount was borne by the ultimate parent undertaking

6 Exceptional operating costs

Exceptional operating costs in 2009 and 2008 relate to an impairment of the fixed asset investments

7 Income from shares in group undertakings

On 17 December 2009, the company received a dividend in specie of £146,200,000 from its subsidiary undertaking, Avecia Group Limited (2008 £nil) The dividend in specie represented its shareholding in Avecia Investments Limited

8 Interest receivable and similar income

	2009 £000	2008 £000
Exchange differences on foreign currency loans	1,653	-

9 Interest payable and similar charges

	2009 £000	2008 £000
On all other loans	89,947	80,310
Amortisation of finance fees	1,042	1,042
Payable on loans from group undertakings	750	1,996
Exchange differences on foreign currency loans	-	4,991
	<u>91,739</u>	<u>88,339</u>

10 Taxation

The company has no UK corporation tax credit due to tax losses being surrendered to other members of the Avecia UK group for which no payment is made

	2009 £000	2008 £000
Loss on ordinary activities before taxation	(90,086)	(131,123)
Current tax at 28% (2008 28.5%)	(25,224)	(37,370)
Effects of Group relief surrendered for the current period	25,224	37,370
	<u>-</u>	<u>-</u>

Notes (continued)

11 Fixed asset investments

	Shares in group undertakings £000
Cost	
At beginning of year	370,584
Additions in the year	146,200
At end of year	516,784
Impairment	
At beginning of year	224,384
Charge in the year	146,200
At end of year	370,584
Net book value	
At 31 December 2009	146,200
At 31 December 2008	146,200

On 17 December 2009, the company received a dividend in specie of £146,200,000 from its subsidiary undertaking, Avecia Group Limited. The dividend in specie represented its shareholding in Avecia Investments Limited and has been reported as an addition to the fixed asset investments. The charge in the year relates to the consequent impairment of the company's shareholding in Avecia Group Limited.

The principal directly owned subsidiary undertakings at the year end are

	Country of incorporation	Principal Activity	Class and Percentage of shares held
Subsidiary undertakings			
Avecia Investments Limited	UK	Intermediate holding	Ordinary – 100
Avecia Group Limited	UK	Dormant	Ordinary – 100

Notes (continued)

11 Fixed asset investments (continued)

The principal indirectly owned subsidiary undertakings at the year end are

	Country of incorporation	Principal Activity	Class and Percentage of shares held
Subsidiary undertakings			
Avecia Limited	UK	Dormant	Ordinary – 100
Avecia UK Holdings Limited	UK	Dormant	Ordinary – 100
Avecia Holdings LLC	USA	Dormant	Ordinary – 100
Avecia LLC	USA	Dormant	Ordinary – 100
Avecia Biotechnology Inc	USA	Chemical manufacture	Ordinary – 100
Avecia Corporation Limited	UK	Dormant	Ordinary – 100
AV No 2 Limited	UK	Dormant	Ordinary – 100
Avecia Biologics Limited	UK	Chemical manufacture	Ordinary – 100
Hexagon Tower Limited	UK	Dormant	Ordinary – 100
Avecia Biologics Inc	USA	Management services	Ordinary – 100

12 Creditors: amounts falling due within one year

	2009 £000	2008 £000
Amounts owed to group undertakings	63,276	64,179

Subsequent to the year end, in February, the company received a dividend of £63 million from Avecia Investments Limited which was used to repay all the intra-group loans outstanding

13 Creditors: amounts falling due after more than one year

	2009 £000	2008 £000
Deep discount notes	837,948	746,959

The deep discount notes are shown net of finance charges of £1,562,134 (2008 £2,603,806) which are being amortised over the period that the debt will be repaid

Analysis of debt:

	2009 £000	2008 £000
Debt can be analysed as falling due		
Between one and two years	837,948	-
Between two and five years	-	746,959
	837,948	746,969

Notes (continued)

13 Creditors: amounts falling due after more than one year (continued)

On 30 June 1999, the company issued unsecured loan notes redeemable no later than 30 June 2011 (the "deep discount notes") to investors in the group as part of the financing of the acquisition of the specialty chemicals business of the AstraZeneca group at that time. The implied rate of interest on the Notes is 12% based on the terminal repayment value of the security and the liability shown above represents amounts payable under the deep discount notes as at 31 December 2009. On 31 March 2006, the holders of all of the deep discount notes entered a solvency preservation agreement with the company, pursuant to which the holders agreed that, in the event of the winding up of the company, they would prove or claim as creditors of the company only if and to the extent that the company had assets available for repayment of the deep discount notes after satisfaction or deduction of all other creditors or liabilities of the company. The agreement provides, inter alia, that the company shall not voluntarily incur liabilities to any person outside the Avecia group in excess of £100,000 per annum in aggregate and that the agreement may not be terminated by the holders until six months after the deep discount notes become payable or after the commencement of the winding up of the company.

In April 2010 the terms of the deep discount notes were amended, with the agreement of the holders of the notes, such that mandatory redemption of the notes on 30 June 2011 is not required which makes the timing of redemption at the discretion of the company.

14 Called up share capital

	2009 Number of shares	2009 Nominal value of shares £000	2008 Number of shares	2008 Nominal value of shares £000
Authorised				
Equity ordinary shares of £1.00 each	100,000,000	100,000	100,000,000	100,000
	<hr/>	<hr/>	<hr/>	<hr/>
Allotted, called up and fully paid				
Equity ordinary shares of £1.00 each	74,100,000	74,100	74,100,000	74,100
	<hr/>	<hr/>	<hr/>	<hr/>

15 Reserves

	Profit and loss reserve £000
At beginning of year	(739,038)
Retained loss for the year	(90,086)
	<hr/>
At end of year	(829,124)
	<hr/>

16 Post balance sheet events

Subsequent to the year end, in February, the company received a dividend from Avecia Investments Limited for £63 million. This was used to repay all the intra-group loans outstanding. Also in February, the company received a second dividend from Avecia Investments Limited for £50 million. The company used this to make a partial redemption of the deep discount notes on 12 February 2010 amounting to £50 million.

Notes *(continued)*

16 Post balance sheet events *(continued)*

In April 2010 the terms of the deep discount notes were amended, with the agreement of the holders of the notes, such that mandatory redemption of the notes on 30 June 2011 is not required which makes the timing of redemption at the discretion of the company

17 Ultimate parent company and parent undertaking of larger group of which the company is a member

The company is a subsidiary undertaking of Avecia Holdings Limited which is incorporated in the United Kingdom. The ultimate parent company is Avecia (Jersey) Limited, a company registered and incorporated in Jersey

The largest and smallest group in which the results of the company are consolidated is that headed by Avecia Holdings Limited which is incorporated in the United Kingdom. The consolidated financial statements of Avecia Holdings Limited can be obtained from Avecia Holdings Limited, PO box 42, Hexagon Tower, Blackley, Manchester M9 8ZS