Avecia Investments Limited

Directors' report and financial statements

Registered number 3768296

Year ended 31 December 2010

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2010

Principal activities

The company is an intermediate holding company and is a wholly owned subsidiary of Avecia Finance Limited The company undertakes activities and incurs costs relating to the management of its principal subsidiaries

Business review

During the year ended 31 December 2010, the company made a profit of £25,795,000 *(2009 loss of £5,836,000)* The directors do not recommend the payment of a final dividend

In December 2009 it was announced that Merck Sharpe & Dohme (Holdings) Limited, a subsidiary of Merck & Co , Inc , had agreed terms for the acquisition of the company's immediate trading subsidiary, Avecia Biologics Limited The disposal was completed on 1 February 2010 for net proceeds of £110 million

During the year, the company paid two dividend to its parent, Avecia Finance Limited totalling £63 million Avecia Finance Limited used one of these dividends, of £63 million, to repay all the intra-group loans outstanding to the company The remaining intra-group loans due from other group undertakings were cleared as part of the disposal of the company's immediate trading subsidiary, Avecia Biologics Limited

Subsequent to the year end, in February, the company sold its entire interest in its immediate trading subsidiary, Avecia Biotechnology Inc , to Nitto Americas Inc , a subsidiary of the Nitto Denko Corporation for net proceeds of $38 million Also in February, the company received a £5m retention in respect of the sale of its Biologics business

In March 2011, the company paid a further dividend to its parent, Avecia Finance Limited, of £63 million and acquired the shares in its indirect wholly owned subsidiary, Avecia Limited, from its direct wholly owned subsidiary, Avecia UK Holdings Limited, for nominal value

Political and charitable contributions

The company made no political or charitable contributions during the year *(2009 £nil)*

Directors

The directors who held office during the year were as follows

AC Buckmaster
D 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 Investments Limited

We have audited the financial statements of Avecia Investments Limited for the year ended 31 December 2010 set out on pages 5 to 14 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 2, 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/private cfm

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 2010 and of its profit 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 Investments 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

17 May 2011

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 2010

	Note	2010 £000	2009 £000
Operating costs		**(1,402)**	(2,074)
Exceptional operating costs	*5*	**(6,295)**	(1,350)
Operating loss	*5*	**(7,697)**	(3,424)
Profit on disposal of business	*8*	**32,479**	-
Loss on disposal of assets	*9*	**-**	(3 113)
Other interest receivable and similar income	*10*	**1,025**	2,931
Interest payable and similar charges	*11*	**(12)**	(2,230)
Profit/(loss) on ordinary activities before taxation		**25,795**	(5,836)
Tax on profit/(loss) on ordinary activities	*12*	**-**	-
Profit/(loss) on ordinary activities after taxation and retained for the year		**25,795**	(5,836)

All activities relate to continuing operations

Statement of total recognised gains and losses
for the year ended 31 December 2010

There were no gains or losses in the current or preceding year other than those shown in the profit and loss account above therefore no separate statement of total recognised gains and losses has been prepared

Balance sheet
as at 31 December 2010
Registered number 3768296

	Note	2010 £000	2010 £000	2009 £000	2009 £000
Fixed assets					
Investments	*13*		25,012		42,173
Current assets					
Trade and other debtors	*14*	5,091		129,194	
Cash at bank and in hand		55,067		23,349	
		60,158		152,543	
Creditors amounts falling due within one year	*15*	(1,450)		(23,711)	
Net current assets			58,708		128,832
Total assets less current liabilities			83,720		171,005
Net assets			83,720		171,005
Capital and reserves					
Called up share capital	*16*		10,000		326,800
Other reserves	*18*		-		44,111
Profit and loss reserve	*18*		73,720		(199,906)
Shareholders' funds			83,720		171,005

These financial statements were approved by the board of directors on 5 May 2011 and were signed on its behalf by

D McLellan
Director

Reconciliation of movements in shareholders' funds
for the year ended 31 December 2010

	2010	2009
	£000	£000
Profit/(loss) for the financial year	**25,795**	(5,836)
Dividend paid (see note 20)	**(113,080)**	-
Net reduction in shareholders' funds	**(87,285)**	(5,836)
Opening shareholders' funds	**171,005**	176,841
Closing shareholders' funds	**83,720**	171,005

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)

2 Going concern

The financial statements have been prepared on the assumption that the group remains a going concern The following paragraphs summarise the issues and basis on which the directors have reached their conclusion

In February 2011, the company sold its entire interest in its immediate trading subsidiary, Avecia Biotechnology Inc , to Nitto Americas Inc , a subsidiary of the Nitto Denko Corporation for net proceeds of $38 million Also in February, the company received a £5 million retention in respect of the sale of its Biologics business in February 2010

In addition to this, the directors have reviewed the company's cash flow forecasts for a period exceeding 12 months from the date of authorisation of these financial statements Following this review, the directors have formed a judgement that, at the time of approval of the financial statements, the company has sufficient resources to continue operating for the foreseeable future For this reason, the directors continue to prepare the financial statements on a going concern basis

3 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

Foreign currencies

Profit and loss accounts in foreign currencies are translated into sterling at average rates for the relevant accounting periods Assets and liabilities are translated at rates prevailing at the balance sheet date Exchange differences on foreign currency borrowings and deposits are included within net interest payable Exchange differences on all other transactions are taken to operating profit

Notes *(continued)*

3 Accounting policies *(continued)*

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

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

4 Auditor's remuneration

Audit services for the company totalled £3,310 *(2009 £3,310)* This amount was borne by the ultimate parent undertaking

5 Operating loss

Operating loss is stated after charging,

	2010	2009
	£000	£000
Admin and other expenses	**1,402**	2,074
Staff restructuring costs	**874**	-
Impairment of the fixed asset investment	**5,421**	1,350

Notes *(continued)*

6 Remuneration of directors

	2010 £000	2009 £000
Directors' emoluments	**2,982**	427

The aggregate emoluments of the highest paid director were £1,974,000 for the year ended 31 December 2010 *(2009 £234,000)* No pension contributions were made on his behalf *(2009 £nil)*

At 31 December 2010 retirement benefits were accruing to the following number of directors under

	2010 £000	2009 £000
Defined benefit schemes	-	1

7 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year was five *(2009 two)* The additional three persons were previously employed by the company's immediate trading subsidiary, Avecia Biologics Limited, which was sold on 31 January 2010

The aggregate payroll costs of these persons were as follows

	2010 £000	2009 £000
Salaries	**3,853**	-
Social security costs	**429**	-
Pension costs	**12**	-
Severance costs	**66**	
Total	**4,360**	-

8 Profit on disposal of business

In December 2009 it was announced that Merck Sharpe & Dohme (Holdings) Limited, a subsidiary of Merck & Co , Inc , had agreed terms for the acquisition of the company's immediate trading subsidiary, Avecia Biologics Limited The disposal was completed on 1 February 2010

	2010 £000	2009 £000
Consideration	**115,413**	-
Less		
Equity investment in Avecia Biologics Limited	**(20,000)**	-
Intra-group loans (incl accrued interest)	**(57,945)**	-
Disposal costs	**(4,989)**	-
Profit on disposal	**32,479**	-

Notes *(continued)*

9 Loss on disposal of assets

In April 2008, the company's immediate trading subsidiary, Avecia Biologics Limited, sold its vaccines business The sale included certain milestone payments The loss on disposal of assets in 2009 relates primarily to an impairment recognised on these milestone payments

10 Interest receivable and similar income

	2010 £000	2009 £000
On bank deposits	**365**	30
Receivable on loans to group undertakings	**172**	2,901
Exchange differences on foreign currency loans	**488**	-
	1,025	2,931

11 Interest payable and similar charges

	2010 £000	2008 £000
Payable on loans from group undertakings	**12**	17
Exchange differences on foreign currency loans	-	2,213
	12	2,230

12 Taxation

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

	2010 £000	2009 £000
Profit/(loss) on ordinary activities before taxation	**25,795**	(5,836)
Current tax at 28%	**7,222**	(1,634)
Effects of		
Group relief (utilised)/surrendered for the current period	**(7,222)**	1,634
	-	-

Notes *(continued)*

13 Fixed asset investments

	Investment in group undertakings £000
Cost	
At beginning of year	87,235
Disposals in the year	(20,000)
Additions in the year	8,260
At end of year	**75,495**
Impairment	
At beginning of year	45,062
Charge in the year	5,421
At end of year	**50,483**
Net book value	
At 31 December 2010	**25,012**
At 31 December 2009	42,173

In February 2010, the company completed the disposal of its immediate trading subsidiary, Avecia Biologics Limited The equity investment in that subsidiary was £20 million In February 2010, the company made a capital contribution to its immediate subsidiary undertaking, Avecia Biotechnology Inc , for £8 2 million

The carrying value of the company's investment is reviewed at each balance sheet date to determine whether there is any indication of impairment Such review revealed that the carrying value was unsustainable given the assessment of business valuations Accordingly, an impairment of £5 4 million was effected The loss has been recognised in the profit and loss account

The directly held companies in which the company's interest at the year end is more than 20% are as follows

	Country of Incorporation	Principal activity	Class and Percentage of shares held
Subsidiary undertakings			
Avecia UK Holdings Limited	UK	Dormant	Ordinary – 100
Avecia Biotechnology Inc	USA	Chemical manufacture	Ordinary – 100
Avecia Holdings LLC	USA	Dormant	Ordinary – 100
Avecia Biologics Inc	USA	Dormant	Ordinary – 100

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 LLC	US	Dormant	Ordinary – 100

Notes *(continued)*

14 Debtors

	2010 £000	2009 £000
Other debtors	5,000	-
Prepayments	91	581
Amounts owed by group undertakings	-	128,613
	5,091	129,194

In January 2010, the company completed the disposal of its immediate trading subsidiary, Avecia Biologics Limited, for net proceeds of £110 million, £5 million of which was placed in escrow in respect of potential warranty claims

During the year, the company paid a dividend to its parent, Avecia Finance Limited of £63 million Avecia Finance Limited used this to repay all the intra-group loans outstanding to the company The remaining intra-group loans were cleared as part of the disposal of the company's immediate trading subsidiary, Avecia Biologics Limited

15 Creditors: amounts falling due within one year

	2010 £000	2009 £000
Trade creditors	-	670
Other payables	638	208
Deferred proceeds relating to disposals	-	22,000
Amounts owed to group undertakings	812	833
	1,450	23,711

16 Called up share capital

	2010 Number of shares	2010 Nominal value of shares £000	2009 Number of shares	2009 Nominal value of shares £000
Authorised				
Equity ordinary shares of £1 00 each	10,000,001	10,000	400.000,001	400,000
Allotted, called up and fully paid				
Equity ordinary shares of £1 00 each	10,000,001	10,000	326,800,001	326,800

17 Contingent liabilities

The company has acted as the principal vendor for a number of business divestments within the Avecia group of companies since 2002 As part of these divestments the company has agreed to provide certain warranties, covenants and undertakings to the purchasers Many of these undertakings have now lapsed as the time period specified in the sale and purchase agreements has elapsed, while others are still in effect There are no material claims outstanding under these agreements

Notes *(continued)*

18 Reserves

	Other Reserves £000	Profit and loss reserve £000
At beginning of year	44 111	(199,906)
Profit for the year	-	25,795
Capital reduction (see note 19)	(44,111)	360,911
Dividend paid (see note 20)	-	(113,080)
	-	73,720

19 Capital reduction

In January 2010, there was a reduction in the company's share capital by way of a cancellation of 316,800,000 of fully paid and issued £1 00 ordinary shares Under the Companies (Reduction of Share Capital) Order 2009, this reduction was supported by a solvency statement and was made with the intention that it be distributable, and therefore has been recognised in the profit and loss reserve

20 Dividend paid

During 2010, the company paid two dividends to its parent, Avecia Finance Limited, totalling £113 million

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

The company is a subsidiary undertaking of Avecia Corporation 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

22 Post balance sheet events

In February 2011, the company sold its entire interest in its immediate trading subsidiary, Avecia Biotechnology Inc , to Nitto Americas Inc , a subsidiary of the Nitto Denko Corporation for net proceeds of $38 million

Also in February 2011, the company received a £5m retention in respect of the sale of its Biologics business in February 2010

In March 2011, the company paid a dividend to its parent, Avecia Finance Limited, of £63 million

Also in March 2011, the company acquired the shares in its indirect wholly owned subsidiary, Avecia Limited, from its direct wholly owned subsidiary, Avecia UK Holdings Limited, for nominal value