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AV No. 2 Limited

Directors' report and financial statements

Registered number: 4284876

Year ended 31 December 2005

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2005.

Principal activities

The company is an intermediate holding company.

Business review

During the period the company made a profit before tax of £43,977,000 *(2004:£nil)*. During the year the group completed the disposal of the NeoResins business to Royal DSM generating a profit of £53,284,000. The directors do not recommend the payment of a dividend *(2004: £nil)*

Political and charitable contributions

The company made no political or charitable contributions during the year *(2004: nil)*.

Directors and directors' interests

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

David Greensmith	(resigned 17 February 2006)
Derrick Nicholson	(resigned 22 March 2006)
Jeremy Scudamore	(resigned 22 March 2006)
Adrian Buckmaster	(appointed 3 October 2005)
Duncan McLellan	(appointed 3 October 2005)

No director had any interest in the ordinary shares of the company. The interests of the directors who held office at the end of the financial year in Avecia Holdings plc are disclosed in the financial statements of that company.

Auditors

In accordance with section 384 Companies Act 1985 a resolution for the reappointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming annual general meeting.

By order of the board

A P Cree
Secretary

Hexagon Tower
Blackley
Manchester
M9 8ZS

22 September 2006

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.

The financial statements are required by law to 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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. 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.

KPMG

KPMG Audit Plc

St James' Square
Manchester
M2 6DS
United Kingdom

Independent auditors' report to the members of AV No. 2 Limited

We have audited the financial statements of AV No. 2 Limited for the year ended 31 December 2005 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Reconciliation of Movements in Shareholders' Funds and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditor's 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 described in the Statement of Directors' Responsibilities on page 2, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent auditors' report to the members of AV No 2 Limited *(continued)*

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its profit for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc 4.10.06

KPMG Audit Plc
Chartered Accountants
Registered Auditor

Profit and loss account
for the year ended 31 December 2005

	Note	**Year ended 31 December 2005 £000**	Year ended 31 December 2004 £000
Operating profit		-	-
Profit on disposal of business	*6*	**53,284**	-
Other interest receivable and similar income	*7*	**996**	-
Interest payable and similar charges	*8*	**(10,303)**	-
Profit on ordinary activities before taxation		**43,977**	-
Tax on profit on ordinary activities	*9*	-	-
Profit on ordinary activities after taxation and retained for the year	*14*	**43,977**	-

Statement of total recognised gains and losses
for the year ended 31 December 2005

	2005 £000	2004 £000
Result for the financial year	**43,977**	-
Exchange differences on the retranslation of foreign currency borrowings and foreign currency investments	**(11,045)**	(1,970)
Total recognised gains and losses relating to the financial year	**32,932**	(1,970)

Balance sheet
at 31 December 2005

	Note	2005	2005	2004	2004
		£000	**£000**	£000	£000
Fixed assets					
Investments	*10*		-		135,044
Current assets					
Debtors: amounts falling due within one year	*11*	**17,002**		-	
Debtors: amounts falling due after one year	*11*	**27,000**		-	
Net current assets			**44,002**		-
Total assets less current liabilities			**44,002**		135,044
Creditors: amounts falling due after more than one year	*12*		**(34)**		(124,008)
Net assets			**43,968**		11,036
Capital and reserves					
Called up share capital	*13*		-		-
Profit and loss account	*14*		**43,968**		11,036
Equity shareholders' funds			**43,968**		11,036

These financial statements were approved by the board of directors on 22 September 2006 and were signed on its behalf by:

Duncan McLellan
Director

Reconciliation of movements in shareholders' funds
for the year ended 31 December 2005

	2005	2004
	£000	£000
Profit for the financial year	**43,977**	-
	43,977	-
Exchange differences on the retranslation of foreign currency borrowings and foreign currency investments (see note 14)	**(11,045)**	(1,970)
Net addition/(reduction) to shareholders' funds	**32,932**	(1,970)
Opening shareholders' funds	**11,036**	13,006
Closing shareholders' funds	**43,968**	11,036

Notes

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 s228 of the Companies Act 1985 from the requirement to prepare group accounts as its results are included in the consolidated financial statements of Avecia Holdings plc. These financial statements present information about the company as an individual undertaking and not about its group.

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 plc, 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 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.

In these financial statements the following new standards have been adopted for the first time:

- FRS 21 'Events after the balance sheet date';
- the presentation requirements of FRS 25 'Financial instruments: presentation and disclosure'; and
- FRS 28 'Corresponding amounts'.

The accounting policies under these new standards are set out below together with an indication of the effects of their adoption. FRS 28 'Corresponding amounts' has had no material effect as it imposes the same requirements for comparatives as hitherto required by the Companies Act 1985.

The corresponding amounts in these financial statements are restated where relevant in accordance with the new policies.

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 receivable/payable. Exchange differences on all other transactions, except relevant foreign currency loans, are taken to operating profit. Differences on relevant foreign currency loans, together with related tax, are taken to reserves via the statement of total recognised gains and losses and offset against the differences on net investments, as they are considered to be a hedge against movements on the net investments. To the extent that foreign currency loans are not considered to be a hedge, the foreign currency difference is booked to the profit and loss account.

Notes *(continued)*

2 Accounting policies *(continued)*

Taxation

The charge for taxation is based on the profits for the period 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.

3 Remuneration of directors

None of the directors received any remuneration for their work as directors of the company.

4 Staff numbers and costs

Other than the named directors, the company has no employees.

5 Auditors' remuneration

The auditors' remuneration was borne by another group undertaking.

6 Profit on disposal of business

In February 2005 the Company completed the sale of the NeoResins business to Royal DSM. The principal effects on the reported results are as follows:

	Year ended 31 December 2005 £000	Year ended 31 December 2004 £000
Assets disposed of	**148,061**	-
Disposal costs	**5,172**	-
Profit on disposal	**53,284**	-
Cash consideration	**206,517**	-

Notes *(continued)*

7 Other interest receivable and similar income

	Year ended 31 December 2005 £000	Year ended 31 December 2004 £000
Receivable from group undertakings	**603**	-
Net exchange gains	**393**	-
	996	-

8 Interest payable and similar charges

	Year ended 31 December 2005 £000	Year ended 31 December 2004 £000
Fees charged by Group undertakings in respect of premiums on early redemption of debt	**10,303**	-

9 Taxation

	Year ended 31 December 2005 £000	Year ended 31 December 2004 £000
Current tax charge for the year	**-**	-

The company has no UK corporation tax charge due to tax losses in the Avecia UK group being available for group relief.

The tax assessed for the period is lower than *(2004: equal to)* the standard rate of corporation tax (30%) *(2004:30%)*. The differences are explained below:

Notes *(continued)*

9 Taxation *(continued)*

	Year ended 31 December 2005 £000	Year ended 31 December 2004 £000
Profit on ordinary activities before taxation	**43,977**	-
Current tax at 30% *(2004: 30%)*	13,193	-
Effects of:		
Group relief for the current period	(13,193)	-
Tax on profit on ordinary activities	-	-

10 Fixed asset investments

	Shares in group undertakings £000
Cost	
At beginning of year	135,044
Additions	23,977
Disposals	(148,061)
Translation adjustments	(10,960)
At end of year	-
Net book value	
At 31 December 2005	-
Net book value	
At 31 December 2004	135,044

Notes *(continued)*

11 Debtors

	2005	2004
	£000	£000
Amounts owed by group undertakings	**44,002**	-

£27,000,000 (*2004: £nil*) of amounts owed by group undertakings are due after more than one year.

12 Creditors: amounts falling due after more than one year

	2005	2004
	£000	£000
Amounts owed to group undertakings	**34**	124,008

13 Called up share capital

	2005	2004
	£	£
Authorised		
Equity: 100 Ordinary shares of £1.00 each	**100**	100
Allotted, called up and fully paid		
Equity: 1 Ordinary share of £1.00 each	**1**	1

14 Reserves

	Profit and loss account
	£000
At beginning of year	11,036
Net translation adjustments	(11,045)
Profit for the year	43,977
At end of year	**43,968**

Notes *(continued)*

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

The company is a subsidiary undertaking of Avecia Investments 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 group in which the results of the company are consolidated is that headed by Avecia Holdings plc which is incorporated in the United Kingdom.

16 Post balance sheet events

During May 2006 the entire net assets of the company were distributed to its parent, Avecia Investments Limited, by way of a dividend in specie.