

Aviagen International Finance Two Limited

**Directors' report and financial
statements**

Registered number 04695437

30 June 2006

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Contents

Directors and advisers	1
Directors' report	2
Statement of directors' responsibilities in respect of the Directors' Report and the financial statements	3
Independent auditors' report to the members of Aviagen International Finance Two Limited	4
Profit and loss account	5
Balance sheet	6
Notes	7

Directors and advisers

Directors	IS Panton CP Hill
Secretary	CP Hill
Auditor	KPMG LLP Saltire Court 20 Castle Terrace Edinburgh EH1 2EG
Bankers	Syndication led by UBS Limited 1 Finsbury Avenue London EC2M 2PP
Solicitors	Freshfields 65 Fleet Street London EC4Y 1HS
Registered office	Grantham Hatchery Gonerby Moor Grantham Lincolnshire NG32 2AB

Directors' report

The directors present the annual report and the audited financial statements for the 18 month period ended 30 June 2006

Principal activities

The principal activity of the company is the holding of investments in subsidiary companies

Business review

On 23 April 2005 89.46% of the share capital of the company's parent, Aviagen International Group Inc, was acquired by Erich Wesjohann AM LP, a wholly owned subsidiary of the ultimate parent Erich Wesjohann Vermögensverwaltungs GmbH and Co KG. The year end was changed to 30 June to align with the parent company's year end. Accordingly these accounts are for the 18 month period to 30 June 2006.

The results for the period are set out on page 5

Directors and directors' interests

The directors who held office during the period were as follows

CP Hill
IS Panton

No director had a beneficial interest in the share capital of the company

The company's ultimate parent company at 30 June 2006, Erich Wesjohann Vermögensverwaltungs GmbH & Co KG, is incorporated outside Great Britain.

Since the company meets the definition in s736(2)(3) of the Companies Act 1985 of a wholly owned subsidiary of a body corporate incorporated outside Great Britain, the company has taken advantage of regulation 3(1)(a) of Statutory Instrument 1985/802 exempting the company from the requirement to disclose directors' shares interests and options in group companies.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming annual general meeting.

By order of the board


CP Hill
Company Secretary

Grantham Hatchery
Gonerby Moor
Grantham
Lincolnshire
NG32 2AB

23 April 2007

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).

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 LLP

Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG
United Kingdom

Independent auditors' report to the members of Aviagen International Finance Two Limited

We have audited the financial statements of Aviagen International Finance Two Limited for the 18 month period ended 30 June 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses 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 3, 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.

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 30 June 2006 and of its loss for the 18 month period then ended, and
- have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP

Chartered Accountants
Registered Auditor

23 April 2007

Profit and loss account
for the 18 month period ended 30 June 2006

	<i>Note</i>	18 month period ended 30 June 2006 \$000	Year ended 31 December 2004 \$000
Administrative expenses		699	-
Operating loss		(699)	-
Interest payable and similar charges	4	(10,650)	(8,488)
Loss on ordinary activities before taxation	2	(11,349)	(8,488)
Tax on loss on ordinary activities	5	-	-
Loss for the financial period	10	(11,349)	(8,488)

Other than the loss for the current period and the previous financial period there are no recognised gains or losses

Balance sheet
at 30 June 2006

	<i>Note</i>	30 June 2006 \$000	31 December 2004 \$000
Fixed assets			
Investments	6	169,794	170,490
		<hr/>	<hr/>
Creditors amounts falling due within one year	7	(194,458)	(115,024)
		<hr/>	<hr/>
Net current liabilities		(194,458)	(115,024)
		<hr/>	<hr/>
Total assets less current liabilities		(24,664)	55,466
		<hr/>	<hr/>
Creditors amounts falling due after more than one year	8	-	(68,781)
		<hr/>	<hr/>
Net liabilities		(24,664)	(13,315)
		<hr/>	<hr/>
Capital and reserves			
Share capital	9	-	-
Profit and loss account	10	(24,664)	(13,315)
		<hr/>	<hr/>
Shareholders' deficit		(24,664)	(13,315)
		<hr/>	<hr/>

These financial statements were approved by the board of directors on 23 April 2007 and were signed on its behalf by



CP Hill
Director

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements. 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'

None of these new accounting standards has a material impact on the financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules. In addition, they are prepared on a going concern basis, which assumes the continued support of the parent company. If this was not the case adjustments would have to be made to restate the assets to their recoverable amounts and accrue for further liabilities that may arise.

The company is exempt by virtue of s228 of the Companies Act 1985 from the requirement to prepare group accounts. The financial statements present information about the company as an individual undertaking and not about its group.

Cash flow statement

The company is exempt from the requirement of FRS1 (revised) to prepare a cash flow statement as it is a wholly owned subsidiary of Aviagen International Finance Limited and its cash flows are included within the consolidated cash flow statement of that company.

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.

Taxation

The charge for taxation is based on the profit 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 is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

2 Loss on ordinary activities before taxation

	18 month period ended 30 June 2006 \$000	Year ended 31 December 2004 \$000
<i>Loss on ordinary activities before taxation is stated after charging:</i>		
Auditors' remuneration		
Audit	-	-
Other services	696	-
	<hr/>	<hr/>

3 Remuneration of directors and staff numbers

No directors' emoluments were paid during the period or the previous financial year. The directors were the only employees of the company.

Notes *(continued)*

4 Interest payable and similar charges

	18 month period ended 30 June 2006 \$000	Year ended 31 December 2004 \$000
On bank loans and overdrafts	5,318	8,488
On loans from parent company	5,332	-
	<u>10,650</u>	<u>8,488</u>

5 Taxation

Analysis of charge in the period

	18 month period ended 30 June 2006 \$000	Year ended 31 December 2004 \$000
<i>Current tax</i>		
Corporation tax payable	-	-
	<u>-</u>	<u>-</u>

Factors affecting the tax charge for the current period

The current tax charge for the period is higher than (2004 equal to) the standard rate of corporation tax in the UK of 30%. The differences are explained below

	18 month period ended 30 June 2006 \$000	Year ended 31 December 2004 \$000
<i>Current tax reconciliation</i>		
Loss on ordinary activities before tax	(11,349)	(8,488)
	<u>(3,405)</u>	<u>(2,546)</u>
Current tax at 30%	(3,405)	(2,546)
<i>Effects of</i>		
Losses utilised overseas	3,405	2,546
	<u>-</u>	<u>-</u>
Total current tax charge (see above)	-	-

Notes (continued)

6 Fixed asset investments

	Shares in group undertakings \$000	Loans to group undertakings \$000	Total \$000
<i>Cost</i>			
At beginning of period	-	170,490	170,490
Repayments during the period	-	(696)	(696)
At end of period	-	169,794	169,794

The principal undertakings in which the company's interest at the year end is more than 20% are as follows

	Country of incorporation	Principal activity	Percentage of shares held
<i>Subsidiary undertakings</i>			
Aviagen International Finance Three Limited	England	Holding company	100%
Aviagen International Finance Four Limited	England	Holding company	100% *
Aviagen Group Limited	Scotland	Holding company	100% *
Aviagen Holdings Limited	Scotland	Holding company	100% *
Aviagen Group Inc	USA	Holding company	100% *
Aviagen Limited	Scotland	Poultry breeding	100% *
Aviagen Inc	USA	Poultry breeding	100% *
Arbor Acres Farm Inc	USA	Poultry breeding	100% *
CWT Farms International Inc	USA	Egg operations	100% *
Arbor Acres BV	The Netherlands	Poultry breeding	100% *
Nicholas Europa Limited	Scotland	Poultry breeding	100% *
Ross - EPI NV	Belgium	Poultry breeding	100% *
Aviagen Kft	Hungary	Poultry breeding	100% *
<i>Joint ventures</i>			
Agroceres Ross Melhoramento Guericco De Aves SA	Brazil	Poultry breeding	49% *
Arbor Acres Thailand Co Limited	Thailand	Poultry breeding	50% *
Ross Breeders Siam Co , Ltd	Thailand	Poultry breeding	50% *
Ross Anddolu Damızlık Tavukculuk Sanayi Veticaret Anonim Sirketi	Turkey	Poultry breeding	50% *
Ross Haymana ana Damızlık Tavukculuk Sanayi ve Ticaret A S	Turkey	Poultry breeding	40% *

* Held through subsidiary undertakings

7 Creditors: amounts falling due within one year

	30 June 2006 \$000	31 December 2004 \$000
Amounts owed to parent undertakings	107,856	107,852
Amounts owed to subsidiary undertakings	86,602	6,794
Accruals and deferred income	-	378
	194,458	115,024

Notes (continued)

8 Creditors amounts falling due after more than one year

	30 June 2006 \$000	31 December 2004 \$000
Bank loan	-	68,781
Analysis of debt		
Due in five years or more	-	68,781

The bank loan was secured by bonds and floating charges over all the assets of the group and by standard securities over certain of the group properties. The bank syndicate also held cross guarantees from the group companies together with a right of offset.

Included within bank loans above is a mezzanine term loan of \$nil (2004 \$70,801,000) repayable by 2013 bearing interest at LIBOR plus 11.5%. This loan was repaid during the period as part of a group re-financing exercise.

9 Called up share capital

	Number of shares	30 June 2006 \$	31 December 2004 \$
<i>Authorised</i>			
Ordinary shares of £0.01 each	10,000	163	163
<i>Allotted, called up and fully paid</i>			
Ordinary shares of £0.01 each	100	2	2

10 Profit and loss account

	Profit and loss account \$000
At beginning of period	(13,315)
Retained loss for the period	(11,349)
At end of period	(24,664)

Notes *(continued)*

11 Contingent liabilities

All the companies within the group have issued unlimited guarantees, and have secured, by a bond and floating charge on their own assets, the overdrafts and other liabilities provided to group companies by a syndicate of banks led by UBS Limited

12 Related party disclosures

The company has taken advantage of the exemption contained in FRS 8 Related Party Disclosures, not to report details of transactions with entities which are more than 90% controlled by a common parent company

There were no other related party transactions during the period

13 Immediate and ultimate parent company

The immediate parent company is Aviagen International Finance One Limited. The smallest group of companies in which the results of the company are consolidated is that headed by Aviagen International Finance Limited, incorporated in England. The consolidated accounts of this group are available from Companies House.

The largest group of companies in which the results of the company are consolidated is that headed by Erich Wesjohann Vermögensverwaltungs GmbH & Co KG, incorporated in Germany. The consolidated accounts of this group are not available to the public.