

Aviagen International Finance Two Limited

**Directors' report and financial
statements**

Registered number 04695437

31 December 2003



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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: The Royal Bank of Scotland plc 36 St. Andrew Square Edinburgh EH2 2YB
Solicitors	Lovells Atlantic House 50 Holborn Viaduct London EC1A 2FG
Registered office	Grantham Hatchery Gonerby Moor Grantham Lincolnshire NG32 2AB

Directors' report

The directors present their first annual report and the audited financial statements for the period from 12 March 2003 to 31 December 2003.

Incorporation and change of name

The company was incorporated on 12 March 2003 as 3314th Single Member Shelf Trading Company Limited. On 28 May 2003 it changed its name to Aviagen International Finance Two Limited.

Principal activities

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

Business review

The results of the company are set out on page 5. On 30 May 2003 the company, through a subsidiary company, acquired the share capital of Aviagen Group Limited.

Directors and directors' interests

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

HW Battcock (appointed 28 May 2003; resigned 9 October 2003)
RCR Pope (appointed 28 May 2003; resigned 9 October 2003)
CP Hill (appointed 30 May 2003)
IS Panton (appointed 30 May 2003)

The directors at incorporation, Serjeants' Inn Nominees Limited and Loviting Limited, resigned on 28 May 2003.

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

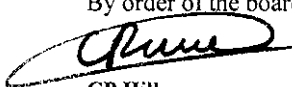
The company's ultimate company, Aviagen International Group Inc, is incorporated outside Great Britain.

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

KPMG LLP were appointed by the directors during the period. 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

Sept 25 2004

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the 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 on pages 5 to 11.

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

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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 transactions with the company is not disclosed.

Basis of opinion

We conducted our audit in accordance with Auditing Standards 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 judgements 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 of the state of the company's affairs as at 31 December 2003 and of its loss for the period from 12 March 2003 (date of incorporation) to 31 December 2003 and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

25 September 2004

Profit and loss account

for the period from 12 March 2003 to 31 December 2003

	<i>Note</i>	Period ended 31 December 2003 \$000
Administrative expenses		-
Other operating income		-
		<hr/>
Operating profit		-
Interest payable and similar charges	4	(4,827)
		<hr/>
Loss on ordinary activities before taxation	2	(4,827)
Tax on loss on ordinary activities	5	-
		<hr/>
Loss on ordinary activities after taxation for the financial year withdrawn from reserves	10	(4,827)
		<hr/>

Balance sheet
at 31 December 2003

	<i>Note</i>	\$000	2003 \$000
Fixed assets			
Investments	6	170,490	
Current assets			
Creditors: amounts falling due within one year	7	(110,739)	
Net current assets			59,751
Total assets less current liabilities			59,751
Creditors: amounts falling due after more than one year	8	(64,578)	
Net assets			(4,827)
Capital and reserves			
Share capital	9	-	
Profit and loss account	10	(4,827)	
Equity shareholders' funds			(4,827)

These financial statements were approved by the board of directors on *Sept 25* 2004 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.

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

2003
 \$000

*Loss on ordinary activities before taxation is stated
 after charging :*

Auditors' remuneration:
 Audit
 Other services

-
 -

3 Remuneration of directors and staff numbers

No directors' emoluments were paid during the period. The directors were the only employees of the company.

Notes *(continued)*

4 Interest payable and similar charges

	2003 \$000
On bank loans and overdrafts	4,827

5 Taxation

Analysis of charge in period

	2003 \$000
<i>Current tax</i>	
Group relief receivable	-
<i>Deferred tax</i>	
Origination/reversal of timing differences	-
Tax on loss on ordinary activities	-

Factors affecting the tax charge for the current period

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

	2003 \$000
<i>Current tax reconciliation</i>	
Loss on ordinary activities before tax	(4,827)
Current tax at 30%	(1,448)
<i>Effects of:</i>	
Losses – deferred tax asset not recognised	1,448
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>			
Loans made during the period	-	170,490	170,490
At 31 December 2003	-	170,490	170,490

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% *
<i>Joint ventures</i>			
Agroceres Ross Melhoramento Guericco De Aves SA	Brazil	Poultry breeding	49% *
Arbor Acres Thailand Co Limited	Thailand	Poultry breeding	50% *
Babolna Baromfitenyestofarm KFT	Hungary	Poultry breeding	44% *
Ross Andadolu Damizlik Tavukculuk Sanayi Veticaret Anonim Sirketi	Turkey	Poultry breeding	50% *

* Held through subsidiary undertakings.

7 Creditors: amounts falling due within one year

	2003 \$000
Amounts owed by subsidiary undertakings	109,989
Accruals and deferred income	750
	<hr/> 110,739 <hr/>

Notes (continued)

8 Creditors: amounts falling due after more than one year

	2003 \$000
Bank loan	64,578
	<hr/> 64,578 <hr/>
Analysis of debt:	
	2003 \$000
In five years or more	64,578
	<hr/> 64,578 <hr/>

The bank loan is 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 holds cross guarantees from the group companies together with a right of offset.

Included within bank loan above is a mezzanine term loan of \$66,839,000 repayable by 2013 bearing interest at LIBOR plus 11.5%. The loan is stated above net of finance costs of \$2,261,000 as required by FRS4 'Capital Instruments'.

9 Called up share capital

	Number of shares	2003 \$
Authorised		
Equity: Ordinary shares of £0.01 each	10,000	163
		<hr/>
Allotted, called up and fully paid		
Equity: Ordinary shares of £0.01 each	100	2
		<hr/>

The share capital on incorporation comprising 100 ordinary shares of £1 each were sub-divided on 30 May 2003 into 10,000 ordinary shares of £0.01 each.

10 Profit and loss account

	Profit and loss account \$000
Retained loss for the period	(4,827)
	<hr/>
At end of period	(4,827)
	<hr/>

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 the Royal Bank of Scotland plc.

12 Related party disclosures

The company is controlled by Aviagen International Group Inc., the ultimate parent company.

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 in which the company's results are consolidated is that headed by the intermediate parent company, Aviagen International Finance Limited, a company incorporated in England. The accounts of this company are available from Companies House.

The largest group in which the company's results are consolidated is that headed by the ultimate parent company, Aviagen International Group Inc., incorporated in the United States of America. The accounts of this company are not available to the public.