Registered number: 05481475

Celtic Pharma Development UK PLC
Annual report and financial statements
for the year ended 31 December 2010

Celtic Pharma Development UK PLC

Annual report and Financial Statements for the year ended 31 December 2010

Company information

Directors

J C Mayo
S R Evans-Freke
S B Parker

Company secretary

J C Mayo

Company registered number

05481475

Registered office

42-44 Portman Road
Readıng
RG30 1EA

Independent audıtors

PrıcewaterhouseCoopers LLP
Chartered Accountants and Statutory Audıtors
Abacus House
Castle Park
Cambrıdge
CB3 0AN

Directors' report for the year ended 31 December 2010

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

Principal activities
The principal activity of the company is that of a holding company It is the parent of a UK-based biopharmaceutical group focused on the development of novel drugs to treat addiction and immune system disorders The group has a focused pipeline of prioritised programmes in clinical development and has a well-established track-record in the identification, development and partnering of innovative products and technologies

Business review and future developments
In 2010 the group, through its subsidiary Xenova Limited ('Xenova'), continued to maintain intellectual property in respect of anti-viral and anti-inflammatory therapeutics, including research and development expenditure of £2,357,000 (2009 £3,540,000)

None of the other subsidiary companies contributed significantly to the group's financial performance in 2010

The 2010 group results have been adversely affected by a weakening in sterling against the US$ which has contributed to a loss on foreign exchange of £1,197,000 (2009 gain of £3,928,000)

The principal risk that the UK group faces is disclosed below within the "Financial risk management" section of this report, under the "Currency risk" sub-heading

The group considers its key performance indicators to be the results contained in the profit and loss account on page 6

The directors expect the expenditure on research and development to reduce in 2011 as the ultimate parent undertaking focuses on consolidating its product portfolio

Research and development
The group incurred research and development expenses in the year of £2,357,000 (2009 £7,380,000) all of which was charged to the profit and loss account Of this amount £2,301,000 (2009 £5,718,000) represents the amortisation and impairment of patents Other research and development costs include salary and other costs incurred specifically in carrying out the development of drugs as described in the group's principal activity as well as overhead costs that are apportioned to the research and development functions within the group

Results and dividends
The group's results for the year are set out in the group profit and loss account on page 6

The consolidated loss for the year after taxation was £5,331,000 (2009 £2,806,000) which was deducted from reserves

The directors do not recommend the payment of a dividend (2009 £nil)

Payment of creditors
The company and its subsidiaries agree terms and conditions for their business transactions with each of their suppliers, including companies which are in the same larger international group Payment is then made on these terms, subject to the terms and conditions being met by the supplier Given that a large proportion of the group's costs are charged by other companies within the larger international group and, thus, amounts owing are disclosed separately from external trade creditors, the directors consider that it would not be of material interest to disclose the average trade creditor days for the company and the group

Directors' report for the year ended 31 December 2010 (continued)

Going concern
The directors believe that preparing the accounts on the going concern basis is appropriate due to the continued financial support of the ultimate parent undertaking, Celtic Pharmaceutical Holdings LP and it's ultimate general partner

Financial risk management
The company's directors are responsible for managing the financial risks that the group faces The group operates a centralised treasury function which is responsible for managing the currency, liquidity and credit risks associated with the UK group's activities

Currency risk
The principal financial risk that the UK group faces is currency risk in respect of its loan note liability which is designated in US$ and which has a fair value of US$54,879,000 (2009 US$50,034,000) at the balance sheet date With the weakening of sterling against the dollar in 2010, the loan note liability when translated into sterling has increased

Further details as to how the loan note liability has been converted into the carrying value of £35,211,000 (2009 £30,897,000) at the balance sheet date are given in note 14 to the financial statements

No hedges are in place with regard to the loan notes (2009 £nil)

Liquidity risk
Although the loan notes are not due to be repaid until August 2011, the directors are conscious of the need to ensure that the group has the ability to defer repayment or have sufficient funds available to make repayment of the amounts due

The directors actively manage the cash position of the group to ensure that there are sufficient liquid resources available to fund the working capital requirements of the group

Credit risk
Financial assets which potentially subject the group to concentrations of credit risk consist of debtors of £17,000 (2009 £714,000) and cash at bank and in hand of £102,000 (2009 £423,000) The group does not hold any collateral as security in this respect

The group only banks with local financial institutions with high quality standing or ratings

Directors
The following directors have held office during the year and up to the date of signing the financial statements

J C Mayo
S R Evans-Freke
S B Parker

Independent auditors
The company has by elective resolution dispensed with the obligation to appoint auditors annually in accordance with section 386(1) of the Companies Act 1985 which continues in force under the Companies Act 2006 Therefore, the auditors, PricewaterhouseCoopers LLP will be deemed to be reappointed for each succeeding financial year

Directors' report for the year ended 31 December 2010 (continued)

Statement of directors' responsibilities
The directors are responsible for preparing the Annual 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 the directors have prepared the group and parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) 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 group and the company and of the profit or loss of the group for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- 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 the group and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Statement on disclosure of information to auditors
The directors, in office at the date of signing this report, have each confirmed that

- so far as they are aware, there is no relevant audit information of which the company's auditors are unaware, and
- each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006

Approved by the board of directors on 29th June 2011 and signed on its behalf by. -

S B Parker
Director

Independent auditors' report to the members of Celtic Pharma Development UK PLC

We have audited the group and parent company financial statements (the "financial statements") of Celtic Pharma Development UK PLC for the year ended 31 December 2010 which comprise the Group profit and loss account, the Company and Group balance sheets, the Group cash flow statement and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Respective responsibilities of directors and auditors
As explained more fully in the directors' responsibilities statement set out on page 4 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 and express an opinion on 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 Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

Scope of audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the group's and parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements

Opinion on financial statements
In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2010 and of the group's loss and cash flows for the year then ended,
- have been properly prepared in accordance with United Kingdom 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

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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company 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

Emphasis of matter

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the Group's and company's ability to continue as a going concern The Group and company expects to have further cash outflows during the next year and, in order to continue trading, will require additional funding from its parent company The parent company itself needs to raise further funds, that are not yet committed, in order to provide additional funds to the UK Group These conditions, along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt over the ability of the Group and company to continue as a going concern The financial statements do not include the adjustments that would result if the Group and company was unable to continue as a going concern

Stuart Newman

Stuart Newman (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cambridge

Date 28 June 2011

Group profit and loss account for the year ended 31 December 2010

	Note	2010 £'000	2009 £'000
Turnover	2	-	4,057
Cost of sales		-	(600)
Gross profit		-	3,457
Research and development expenditure		**(2,357)**	(7,380)
Administrative expenses		**301**	4,937
Other operating income		-	137
Operating (loss)/profit	3	**(2,056)**	1,151
Loss on disposal of subsidiary company		-	(759)
(Loss)/profit on ordinary activities before interest and taxation		**(2,056)**	392
Interest receivable and similar income	7	**84**	86
Interest payable and similar charges	8	**(3,420)**	(3,344)
Loss on ordinary activities before taxation		**(5,392)**	(2,866)
Tax on loss on ordinary activities	9	**61**	60
Loss for the financial year	18	**(5,331)**	(2,806)

There are no recognised gains and losses other than those passing through the profit and loss account for both years and therefore no separate statement of total recognised gains and losses has been prepared

The results are all in respect of the company's continuing operations

There is no material difference between the loss on ordinary activities before taxation and the loss for the financial years stated above and their historical cost equivalents

Celtic Pharma Development UK PLC

Company balance sheet as at 31 December 2010

	Note	2010 £'000	2009 £'000
Fixed assets			
Investments	11	**3,826**	6,477
Current assets			
Debtors	12	**1**	7
Cash at bank and in hand		**7**	315
		8	322
Creditors - amounts falling due within one year	13	**(35,261)**	(48)
Net current (liabilities)/assets		**(35,253)**	274
Total assets less current liabilities		**(31,427)**	6,751
Creditors - amounts falling due after one year	14	**-**	(30,897)
Net liabilities		**(31,427)**	(24,146)
Capital and reserves			
Called-up share capital	17	**21,704**	21,704
Profit and loss account – deficit	18	**(53,131)**	(45,850)
Total shareholders' deficit	19	**(31,427)**	(24,146)

The financial statements on pages 6 to 25 were approved by the board of directors on 28th June 2011 and were signed on its behalf by

S B Parker
Director

Company registration number: 05481475

Celtic Pharma Development UK PLC

Group balance sheet as at 31 December 2010

	Note	2010 £'000	2009 £'000
Intangible fixed assets			
Patents	10	**3,750**	6,051
Negative goodwill	10	**(7,253)**	(8,806)
		(3,503)	(2,755)
Current assets			
Debtors	12	**17**	714
Cash at bank and in hand		**102**	423
		119	1,137
Creditors - amounts falling due within one year	13	**(35,606)**	(897)
Net current (liabilities)/assets		**(35,487)**	240
Total assets less current liabilities		**(38,990)**	(2,515)
Creditors - amounts falling due after one year	14	**-**	(30,897)
Provisions for liabilities and charges	15	**-**	(247)
Net liabilities		**(38,990)**	(33,659)
Capital and reserves			
Called-up share capital	17	**21,704**	21,704
Profit and loss account - deficit	18	**(60,694)**	(55,363)
Total shareholders' deficit	19	**(38,990)**	(33,659)

The financial statements on pages 6 to 25 were approved by the board of directors on 28th June 2011 and were signed on its behalf by

S B Parker
Director

Celtic Pharma Development UK PLC

Group cash flow statement for the year ended 31 December 2010

	Note	2010 £'000	2009 £'000
Net cash outflow from operating activities		**(206)**	(4,765)
Return on investments and servicing of finance			
Interest received	7	**84**	86
Interest paid		**(260)**	-
Net cash (outflow)/inflow from return on investments and servicing of finance		**(176)**	86
Taxation		**61**	305
Acquisitions and disposals			
Sale of subsidiary undertaking		-	(619)
Net cash outflow from acquisitions and disposals		-	(619)
Financing			
Issue of ordinary share capital	19	-	4,119
Net cash inflow from financing		-	4,119
Decrease in cash		**(321)**	(874)

Notes to the group cash flow statement for the year ended 31 December 2010

Reconciliation of group operating (loss)/profit to net cash outflow from operating activities

	Note	2010 £'000	2009 £'000
Operating (loss)/profit		**(2,056)**	1,151
Depreciation and amortisation	3,10	**2,301**	5,771
Release of negative goodwill	3,10	**(1,553)**	(1,553)
Foreign exchange loss/(gain) not relating to operating items		**1,154**	(3,355)
Decrease in debtors		**697**	6,967
Decrease in creditors		**(502)**	(13,110)
Decrease in provision		**(247)**	(636)
Net cash outflow from operating activities		**(206)**	(4,765)

Reconciliation of net cash flow to movement in net debt

	2010 £'000	2009 £'000
Decrease in cash in year	**(321)**	(874)
(Increase)/decrease in loan notes arising from unwinding of discount and foreign exchange movement	**(4,314)**	11
	(4,635)	(863)
Net debt at 1 January	**(30,474)**	(29,611)
Net debt at 31 December	**(35,109)**	(30,474)

Analysis of net debt

	At 1 January 2010 £'000	Cash flow £'000	Other non-cash changes £'000	**At 31 December 2010 £'000**
Cash at bank and in hand	423	(321)	-	**102**
Debt due after one year	(30,897)	-	30,897	**-**
Debt due within one year	-	-	(35,211)	**(35,211)**
	(30,474)	(321)	(4,314)	**(35,109)**

Notes to the financial statements for the year ended 31 December 2010

1 Accounting policies

Basis of preparation

The financial statements have been prepared under the historical cost convention, on the going concern basis and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom The principal accounting policies which have been applied consistently throughout the year are set out below

Going concern

As of December 31, 2010, Celtic Pharmaceutical Holdings L P had an unfunded loan obligation due in December 2011 as well as a projected working capital deficiency These factors raise substantial doubt as of the reporting date about the Partnership's ability to continue as a going concern The General Partner of Celtic Pharmaceutical Holdings L P has taken a series of steps, including asset divestitures in the ordinary course of the life cycle of the Partnership, which are expected to address these shortfalls, and, therefore, the Partnership's financial statements as of December 31, 2010 were presented on a going concern basis

Accordingly, the Group and company believes that it will receive the necessary funding from Celtic Pharmaceutical Holdings L P to continue to operate as a going concern, and the financial statements have, therefore, been prepared on a going concern basis

Basis of consolidation

The consolidated financial statements include

- the assets and liabilities, results and cash flows of the company and its subsidiary undertakings from the date of acquisition and

- the group's share of the net liabilities or assets and results of joint ventures

The financial statements of consolidated undertakings are made up to 31 December

Uniform accounting policies are followed for the group and profits/losses are eliminated on intra-group transactions

The results of subsidiaries acquired are included in the consolidated profit and loss account from the date the control passes

The undertakings in which the group has a material interest and where it exercises dominant influence are accounted for as subsidiaries

In accordance with the exemption allowed under Section 408 of the Companies Act 2006 the company's profit and loss account is not separately presented

Turnover and revenue recognition

Licence fees and milestone income are spread in proportion to the work performed by the group, but are recognised only to the extent of the non-refundable amounts received Where there is no ongoing commitment on behalf of the company the license fees are spread over the term to which they relate, usually the life of the associated patents Amounts recognised exclude value added tax If payment terms are considered extended and outside of the group's usual business practices, no revenue is recognised until cash is received or payment is certain Differences between cash received and amounts recognised are included as deferred revenue where cash received exceeds revenue recognised, and as accrued revenue where revenue has yet to be billed to the customer

Notes to the financial statements for the year ended 31 December 2010 (continued)

1 Accounting policies (continued)

Revenue from development agreements, where under the terms of the agreement, the company is reimbursed for development expenditure incurred, is recognised to match the underlying expenditure that it relates to Contributions received in advance are included within deferred revenue

Revenues from contract manufacturing are recognised in turnover in the year in which the products and services are delivered to and accepted by the customer

Cost of sales

The group has classified fixed and variable costs which are directly attributable to contract manufacturing activities as cost of sales

Research and development

Research and development expenditure is charged to the profit and loss account as incurred

Intangible fixed assets

The negative goodwill arising in respect of the acquisition of the Xenova Group, representing the amount by which the fair value of the net assets acquired exceeded the fair value of the purchase consideration at the time of acquisition is being amortised over 10 years from the date of acquisition which the Directors estimate represents its useful economic life

Intangible fixed assets, including acquired patents, are capitalised at cost and amortised on a straight line basis over the estimated useful economic life of the asset, estimated to be 10 years, having taken into account the risk factors associated with developing a pharmaceutical product

Intangible fixed assets are subject to an impairment review carried out by the directors when events or a change in circumstances indicate that carrying values may not be recoverable If the results of the impairment review indicate that carrying values are not recoverable, the impairment loss calculated as the difference between the carrying value and the recoverable amount, is charged in the profit and loss account

Impairment

An impairment review is carried out for each class of assets if events or changes in circumstances indicate that the carrying amount of the fixed asset or goodwill may not be recoverable

Investments

Investments in subsidiary undertakings are carried at cost less any impairment provision Management perform impairment reviews annually in respect of the valuation of the company's investments and any impairment is charged to the profit and loss account

Operating leases

Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the lease term

Provisions for liabilities

Provisions are recognised when the company has a present obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation The company does not discount provisions

Notes to the financial statements for the year ended 31 December 2010 (continued)

1 Accounting policies (continued)

Other operating income

Other operating income is recognised on the accruals basis It includes monies recoverable from the sub-letting of excess space within a building that is leased by Xenova Limited, a subsidiary company It also includes monies refunded by HM Revenue and Customs in respect of earlier accounting periods

Taxation

The taxation charge or credit in the group profit and loss account consists of current taxation and deferred taxation, as appropriate Current tax comprises the tax payable or recoverable on taxable net income for the year, using rates applicable at the balance sheet date, and adjustments in respect of earlier years

Deferred tax is recognised in respect of timing differences that have originated but not reversed by the balance sheet date, but only when transactions or events that result in a right to pay less tax or an obligation to pay more tax in the future have occurred at the balance sheet date Deferred tax is measured on a non-discounted basis

Foreign currency transactions

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction All differences are taken to the profit and loss account in the year in which they are incurred

Financial instruments

Debt has been valued at its fair value as described further in note 14 Debt is discounted by the group's cost of capital As the discount unwinds, interest is charged to the profit and loss account

2 Turnover

Class of business	**2010 £'000**	2009 £'000
Development fees and pass through income	-	690
Licence fees and milestone income	-	3,367
	-	4,057

Geographical market	**2010 £'000**	2009 £'000
Europe	-	3,436
Rest of World	-	621
	-	4,057

Notes to the financial statements for the year ended 31 December 2010 (continued)

3 Operating (loss)/profit

Operating (loss)/profit is stated after charging.	2010 £'000	2009 £'000
Patent amortisation/impairment	**2,301**	5,718
Research and development costs	**56**	1,662
Depreciation of tangible assets	-	53
Operating lease rentals		
- other than plant and machinery	-	2
Foreign exchange losses	**1,197**	-
And after crediting·		
Release of onerous lease provision	**247**	190
Release of provision for costs of shutting down contract manufacturing facility	-	446
Release of negative goodwill arising on consolidation	**1,553**	1,553
Foreign exchange gains	-	3,928

Auditors' remuneration

	2010 £'000	2009 £'000
Fees payable to the company's auditors for the audit of the parent company and the consolidated financial statements	**16**	13
Fees payable to the company's auditor and its associates for other services		
- The audit of company's subsidiaries pursuant of legislation	**27**	31
- Tax services	**6**	33
	49	77

Notes to the financial statements for the year ended 31 December 2010 (continued)

4 Company financial statements

The loss attributable to the holding company was £7,281,000 (2009 £11,636,000) The loss for the year is stated after making a provision of £2,671,000 (2009 £11,748,000) against the cost of the holding company's investment in Xenova Group Limited In accordance with the exemption allowed under Section 408 of the Companies Act 2006 the company's profit and loss account is not separately presented

5 Directors' emoluments

The directors of Celtic Pharma Development UK PLC received no remuneration in both years under review for their services to the company or the group

6 Employees

The average monthly number of group employees during the year was

	2010	2009
Production, services and research and development	-	11
Administrative	-	2
	-	13

Employee costs	**2010** **£'000**	2009 £'000
Wages and salaries	-	425
Social security costs	-	47
Other pension costs	-	34
	-	506

The company had no employees

7 Interest receivable and similar income

	2010 **£'000**	2009 £'000
Bank interest	**81**	-
Other interest	**3**	86
	84	86

Notes to the financial statements for the year ended 31 December 2010 (continued)

8 Interest payable and similar charges

	2010 £'000	2009 £'000
Unwinding of discount on loan notes	3,420	3,344

9 Tax on loss on ordinary activities

	2010 £'000	2009 £'000
Current year tax		
UK corporation tax on loss for the year	(61)	-
Adjustment to prior years' UK corporation tax	-	(60)
Current year tax credit	(61)	(60)

The tax credit for the year is lower (2009 lower) than the standard rate of corporation tax in the UK 28% (2009 28%)

	2010 £'000	2009 £'000
Factors affecting the tax credit for the year		
Loss on ordinary activities before taxation	(5,392)	(2,866)
Loss on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 28% (2009 28%)	(1,510)	(802)
Effects of		
Non-deductible expenses	523	311
Accelerated capital allowances	-	15
Loss on disposal of subsidiary company	-	212
Research and development tax credit	(61)	-
Adjustment to prior years' UK corporation tax	-	(60)
Tax losses carried forward to future periods	987	264
Current year tax credit	(61)	(60)

The group has UK tax losses of approximately £170 million (2009 £166 million) available for carry forward against future profits

No provision for deferred taxation is required at 31 December 2010 (2009 nil) and there is no unprovided deferred taxation liability at that date Given the uncertainty of the recoverability of the Group's tax losses carried forward, no deferred tax asset has been recognised However, potentially there is a deferred tax asset of £46 million (2009 £46 million) in respect of the losses being carried forward

Notes to the financial statements for the year ended 31 December 2010 (continued)

10 Intangible assets

	Group		
	Patents	Negative Goodwill	Total
	£'000	£'000	£'000
Cost			
At 1 January and 31 December 2010	**46,680**	**(15,585)**	**31,095**
Accumulated amortisation/impairment			
At 1 January 2010	40,629	(6,779)	33,850
Charge/(credit) for the year	2,301	(1,553)	748
At 31 December 2010	**42,930**	**(8,332)**	**34,598**
Net book amount			
At 31 December 2010	**3,750**	**(7,253)**	**(3,503)**
At 31 December 2009	6,051	(8,806)	(2,755)

In 2009 following an impairment review of intangible fixed assets the group booked an impairment provision of £4,302,000 in relation to its addiction products

The company has no intangible fixed assets

Notes to the financial statements for the year ended 31 December 2010 (continued)

11 Investments

Company	Investment in subsidiary undertakings £'000
Cost	
At 1 January 2010	37,808
Addition	20
At 31 December 2010	**37,828**
Provision for diminution in value	
At 1 January 2010	31,331
Increase in provision in the year	2,671
At 31 December 2010	**34,002**
Net book amount	
At 31 December 2010	**3,826**
At 31 December 2009	6,477

The addition relates to an increase in the number of shares held in Xenova Group Limited, a subsidiary company

Principal subsidiary undertakings

Subsidiary undertakings	Country of incorporation	Nature of business	Class of share	Holding
Held directly				
Xenova Group Limited	England & Wales	Holding	Ordinary	100%
Held indirectly				
Xenova Limited	England & Wales	Drug development	Ordinary	100%
Xenova OX-400 Limited	England & Wales	Drug development	Ordinary	100%
Xenova KS Limited	England & Wales	Dormant	Ordinary	100%
Oncocene Limited	England & Wales	Dormant	Ordinary	100%
Xenova Research Limited	England & Wales	Dormant	Ordinary	100%
Xenova Biomedix Limited	England & Wales	Dormant	Ordinary	100%

Notes to the financial statements for the year ended 31 December 2010 (continued)

11 Investments (continued)

The above subsidiaries, all of which are consolidated, operate principally in their countries of incorporation The year end of all subsidiaries is 31 December The results of those companies which contribute significantly to the group financial statements are given below

Company	Loss for the year after tax £'000	Capital and reserves at 31 December 2010 £'000
Xenova Group Limited	(2,671)	3,827
Xenova Limited	(2,262)	(144,377)
Oncocene Limited	-	-
Xenova KS Limited	-	-
Xenova Research Limited	-	(93,452)
Xenova Biomedix Limited	-	(32,490)
Xenova OX-400 Limited	(14)	511

On 4 September 2009 the group disposed of a 100% interest in the ordinary shares of a subsidiary company, Cambridge Biomanufacturing Limited, a company incorporated in England and Wales With the disposal of this company a loss of £759,000 was reflected in the 2009 group profit and loss account

The directors believe that the book value of investments is supported by their underlying assets

Notes to the financial statements for the year ended 31 December 2010 (continued)

12 Debtors

	Group		Company	
	2010	2009	**2010**	2009
	£'000	£'000	**£'000**	£'000
Trade debtors	**-**	27	**-**	-
Amounts owed by group undertakings	**2**	-	**-**	-
Other debtors	**15**	681	**1**	7
Prepayments and accrued income	**-**	6	**-**	-
	17	714	**1**	7

Amounts owed by group undertakings are interest-free, unsecured and are repayable on demand within one year of the balance sheet

13 Creditors – amounts falling due within one year

	Group		Company	
	2010	2009	**2010**	2009
	£'000	£'000	**£'000**	£'000
Trade creditors	**12**	83	**5**	9
Loan notes owed to group undertakings	**35,211**	-	**35,211**	-
Other amounts owed to group undertakings	**308**	711	**12**	11
Accruals	**75**	103	**33**	28
	35,606	897	**35,261**	48

See note 14 for disclosures relating to loan notes owed to group undertakings

Amounts due to group undertakings are interest free, unsecured and repayable on demand

Notes to the financial statements for the year ended 31 December 2010 (continued)

14 Creditors – amounts falling due after one year

	Group		Company	
	2010	2009	**2010**	2009
	£'000	£'000	**£'000**	£'000
Loan notes owed to group undertakings	**35,211**	30,897	**35,211**	30,897
less amounts disclosed within creditors – amounts falling due within one year	**(35,211)**	-	**(35,211)**	-
	-	30,897	**-**	30,897

The interest rate and terms of repayment of the loan notes owed to Celtic Pharma Phinco BV, another subsidiary of Celtic Pharma GP Limited, the ultimate parent undertaking of the group have remained unchanged in the year under review and are detailed further below

The carrying value of the loan notes at 31 December 2010 represents the US$ value of the loan notes in existence at 31 December 2006 of US$28,404,853, the compound interest accrued to 24 January 2007 of US$3,040,202, an additional interest charge of US$3,356,764 arising because the original loan notes were redeemed earlier than originally planned, plus the interest charge accrued for the period from 24 January 2007 to the balance sheet date of US$20,077,380 The US$ value has been retranslated at the exchange rate at 31 December 2010 of US$1 5586/£1 Each loan note has a nominal value of US$1 10 The loan notes earn compound interest at 15% per annum On 1 August 2011 the loan notes, including the compound interest earned, will be repaid to the loan-note holders Therefore, the loan notes will mature within one year from the balance sheet date

The security held against the loan notes following the reorganisation is by way of a charge over any future royalties that may be received by Xenova Limited in respect of the licensing agreement in place with Celtic X Licensee Limited, a limited liability company incorporated in Malta This agreement is for the world-wide development and marketing of Xenova Limited's conjugated therapeutic vaccines, TA-CD and TA-NIC The licence is exclusive for the fields of the treatment of cocaine and nicotine addiction respectively Celtic X Licensee Limited has the right to have further products included within the licence ahead of those rights to other products being licensed to other third parties Celtic X Licensee Limited will be responsible for the conduct of future clinical studies and commercialisation activities with TA-CD and TA-NIC and will pay royalties on the sales of these products Under the terms of the licence agreement Celtic X Licensee Limited was required to make two lump sum payments after the effective date of the licence agreement, one being received in the year ended 31 December 2005 and the other falling due within 48 months of the effective date

Future values for the loan note liabilities will be affected by the unwinding of the discount applied to this transaction and any movement in the exchange rate Should the £ weaken further against the US$, the amount to be paid to settle the loan note liability will increase

Notes to the financial statements for the year ended 31 December 2010 (continued)

15 Provisions for liabilities and charges

Group

	2010 Onerous lease £'000	2009 Onerous lease £'000
At 1 January	**247**	883
Rent charges in the financial year	**(45)**	-
Cost of lease surrender	**(94)**	-
Released during the year	**(108)**	(636)
At 31 December	**-**	247

During the year Xenova Limited made a payment of £93,822 to the landlord of its leasehold property in Slough to enable it to surrender all future lease obligations

The company has no provisions

16 Operating lease commitments

At 31 December 2010 the group had annual commitments under non-cancellable operating leases expiring as follows

	2010 Land and buildings £'000	2009 Land and buildings £'000
Operating leases which expire		
Within one year	**-**	-
Within two to five years	**-**	357
	-	357

Notes to the financial statements for the year ended 31 December 2010 (continued)

17 Called-up share capital

	Group and company 2010 £'000	Group and company 2009 £'000
Authorised		
25,000,000 ordinary shares of £1 each	**25,000**	25,000
Allotted and fully paid		
21,704,420 ordinary shares of £1 each	**21,704**	21,704

18 Reserves

	Group profit and loss account – deficit £'000	Company profit and loss account – deficit £'000
At 1 January 2010	(55,363)	(45,850)
Loss for the financial year	(5,331)	(7,281)
At 31 December 2010	**(60,694)**	**(53,131)**

19 Reconciliation of movements in shareholders' deficit

	Group		Company	
	2010 £'000	2009 £'000	**2010 £'000**	2009 £'000
Loss for the financial year	**(5,331)**	(2,806)	**(7,281)**	(11,636)
Proceeds of ordinary shares issued for cash	-	4,119	-	4,119
(Increase)/reduction in shareholders' deficit	**(5,331)**	1,313	**(7,281)**	(7,517)
Opening shareholders' deficit	**(33,659)**	(34,972)	**(24,146)**	(16,629)
Closing shareholders' deficit	**(38,990)**	(33,659)	**(31,427)**	(24,146)

Notes to the financial statements for the year ended 31 December 2010 (continued)

20 Ultimate parent company and controlling party

The directors regard Celtic X Limited, a company registered in Malta, as the immediate parent company, holding 100% of the company's issued share capital

The ultimate parent undertaking of the company is Celtic Pharmaceutical Holdings LP (the "Partnership"), a limited partnership registered in Bermuda, with its registered office at Cannon's Court, 22 Victoria Street, Hamilton, HM12 Bermuda Celtic Pharmaceutical Holdings LP's general partner is Celtic Pharma General LP, which itself is a limited partnership whose general partner is Celtic Pharma GP Limited, a limited liability company incorporated under the laws of Bermuda

With the exception of Celtic Pharma Development UK PLC, no other entity in the group prepares consolidated financial statements

21 Related party transactions

The company has taken advantage of the exemption available to parent companies under FRS 8 'Related Party Disclosures' not to disclose transactions and balances between group companies which have been eliminated on consolidation

The following related party transactions occurred with other companies which are related by virtue of them ultimately being owned by the same investment fund For all companies, their country of incorporation is England and Wales unless otherwise stated

Within the company financial statements

Creditors – Amounts falling due within one year	2010 £'000	2009 £'000
Loan notes owed to group undertakings		
Owed to Celtic Pharma Phinco BV (The Netherlands)	35,211	-
Other amounts owed to group undertakings		
Owed to Celtic Pharma Development Services Europe Limited	1	-
Owed to Xenova Limited	11	11
	12	11

Creditors – Amounts falling due after more than one year	2010 £'000	2009 £'000
Loan notes owed to group undertakings		
Owed to Celtic Pharma Phinco BV (The Netherlands)	-	30,897

Notes to the financial statements for the year ended 31 December 2010 (continued)

21 Related party transactions (continued)

Within the group financial statements

Balance sheet

Debtors – Amounts recoverable within one year	**2010 £'000**	2009 £'000
Amounts owed by group undertakings		
Owed by Celtic Pharma Development Services Europe Limited	**2**	-

Creditors – Amounts falling due within one year	**2010 £'000**	2009 £'000
Loan notes owed to group undertakings		
Owed to Celtic Pharma Phinco BV (The Netherlands)	**35,211**	-
Other amounts owed to group undertakings		
Owed to Celtic Pharma Development Services Bermuda Limited (Bermuda)	**307**	711
Owed to Celtic Pharma Development Services Europe Limited	**1**	-
	308	711

Creditors – Amounts falling due after more than one year	**2010 £'000**	2009 £'000
Loan notes owed to group undertakings		
Owed to Celtic Pharma Phinco BV (The Netherlands)	**-**	30,897

Profit and loss account	**2010 £'000**	2009 £'000
Turnover		
Celtic X Licensee Limited (Malta)	**-**	3,367
Celtic Pharma Development Services Bermuda Limited (Bermuda)	**-**	257
Research and development expenses		
Celtic Pharma Development Services Bermuda Limited	**97**	8
Overhead expenses		
Celtic Pharma Development Services Bermuda Limited	**1**	758