

**Avecia Group plc**

**Directors' report and consolidated  
financial statements**

**Registered number 3768265**

**31 December 2007**

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## Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2007 for Avecia Group plc (the "company" or the "parent company") and its subsidiary undertakings (the "group").

### Ownership

The company is a subsidiary undertaking of Avecia Finance plc. The ultimate parent company is Avecia (Jersey) Limited.

### Principal activities

The group now operates two main businesses within the Biotechnology segment, Biologics and Oligo Medicines, having completed the disposal of its remaining specialty chemicals business segments during 2005 and 2006. These two businesses provide contract manufacturing and development services to developing Biotech and established Pharmaceutical companies.

The Biologics business is based in Billingham in the North East of England and manufactures medicines based on recombinant proteins using microbial fermentation processes.

The Oligo Medicines business is based in Milford, Massachusetts, USA and makes oligonucleotide based drug substances using solid-phase synthesis. These drug substances are effectively short strands of DNA or RNA.

Both businesses develop and carry out the manufacturing processes on behalf of customers who own the intellectual property to the compounds. The businesses are currently making a number of medicines which are in late stages of clinical trials. It is hoped that the customers will get regulatory approval of their drugs in the next few years and that Avecia will be the selected contract manufacturer for long term commercial supply.

### Business review

The combined sales from the Biotechnology businesses were similar to 2006 partially assisted by high levels of finished goods made in the prior year which were sold early in 2007. During the year there were delays to some customers' projects and also there was an extended manufacturing shutdown to make improvements to the plant in anticipation of a potential Pre Approval Inspection by the U.S. Food and Drug Administration. These factors resulted in profitability of the Biotechnology business falling from break-even in 2006 to an operating loss of £6.6m in 2007. Total sales from continuing operations decreased during the year by some 7%, mainly due to the planned reduction in non trading services provided to divested businesses. The costs associated with supplying these services to former group undertakings, reduced significantly in 2007, resulting in an improvement in profitability for these activities. Including the profits arising on the disposal of surplus assets, the operating loss from continuing operations was reduced from £10.9m in 2006 to £8.6m in 2007. Capital investment in the Biotechnology businesses increased in 2007, with capital expenditure rising to £4.7m for the year.

During the year the group completed the disposal of surplus land yielding net proceeds of £8.4m at a profit of £5.7m and, following the end of the year, completed the sale of its Hexagon Tower property in Manchester for £12m. In April 2008 the group sold the anthrax and plague biodefence vaccines development activity of the Biologics business for an initial consideration of \$17m. This sale to PharmAthene Inc, a specialist US based biodefence company with important skills in the regulatory, vaccine development and US government contracting fields, was a strategic decision to enhance the prospects of success of the related programmes. As Avecia Biologics will continue as the manufacturer of the drug substance for these programmes, it is hoped that the sale will be to the advantage of its core contract manufacturing business. The disposal of the land and buildings and the sale of the defence vaccines business will focus all of the group's activities on its core areas of contract manufacture of microbial biologics and oligonucleotides. The disposed activities did not make a significant contribution to the group's profits or losses during 2007.

Over the last three years, the group's Biotechnology businesses have been successful in winning an increasing number of programmes, particularly from larger pharmaceutical companies, which should improve the utilisation of available capacity and thus of profitability. With these opportunities from a broad spread of customer projects, cash and cash equivalents of over £21m at the balance sheet date, compared with external debt of £16m, and the completion of further divestments as described above early in 2008 which generate £24m in proceeds, the directors feel the group is well placed to exploit the opportunities which lie ahead.

## **Directors' report** *(continued)*

### **Business review** *(continued)*

The key risks and uncertainties facing the business are:

- Most customers are not bound by long term contracts, and future growth is dependent on the ability to retain existing customers, and obtain contracts with new customers.
- All the products are manufactured to a high level of technical specification under rigorous quality standards. The businesses must continue to meet these specifications and standards if they are to retain existing customers and attract new business, and to pass regulatory inspections and audits.
- Since all the current customer programmes are undergoing clinical trials there is significant risk that the trials might fail and programmes be halted at short notice.
- A number of the smaller customers will need to raise new finance in order to fund their continuing programmes. Failure to achieve this could cause programmes to be delayed or cancelled.

The directors monitor the businesses with a number of performance indicators. The principal measures are operating profit and cash generation, but other indicators such as order cover, asset utilisation, and resource efficiency are also considered. In addition the directors monitor indicators and issues relating to safety, health and environment, and compliance with quality assurance standards. The group produces an annual budget, and updates its forecasts on a monthly basis to help monitor and manage business performance.

The directors have considered the appropriateness of the going concern concept in relation to the preparation of the financial statements and more detail in respect of this can be found in note 1 to the accounts.

### **Results and proposed dividend**

During the year the group made a loss of £7.1 million (*2006: profit of £76.0 million*). The directors do not recommend the payment of an equity dividend (*2006: £Nil*).

### **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.

### **Research and development**

The group's research, development and process technology activities for its Biotechnology business are located with its manufacturing facilities at Teeside, UK, and Milford, Massachusetts, USA. Its research, development and process technology efforts are driven by the specific requirements of customers and market trends.

### **Policy and practice on payment of creditors**

Given the international nature of the group's operations, there is no group standard in respect of payments to suppliers. Local operational management are responsible for agreeing terms and conditions for their business transactions when orders for goods and services are placed, ensuring that suppliers are aware of the payment terms and including the relevant terms in contracts where appropriate. These arrangements are adhered to when making payments, subject to the terms and conditions being met by the supplier.

At the year end there were 41 days (*2006: 73 days*) purchases in trade creditors for the group. Creditor days have not been calculated for the company as the company had no trade creditors at 31 December 2007, nor 2006.

## **Directors' report** *(continued)*

### **Financial Instruments**

The group holds or issues financial instruments to finance its operations and to manage the interest rate and currency risks arising from its operations and from its sources of finances. The group now finances its operations by a combination of redeemable preference shares and cash retained from proceeds arising on the disposal of businesses. All derivatives previously used for interest rate management have matured.

The main risks arising from the group's financial instruments are interest rate risk, liquidity risk, foreign currency risk and market price risk.

For further information please refer to Note 18.

### **Market value of land and buildings**

In February 2008, the group disposed of its property Hexagon Tower, in Manchester, for net proceeds of £12.2m. This property had previously been carried at £4.9m. In the opinion of the directors, the current open market value of the group's land and buildings excluding Hexagon Tower does not differ materially from the net book value of £19.5m (2006 excluding Hexagon Tower: £4.3m) shown in the accounts. The increase in net book value between 2006 and 2007 is attributable to a £16.3m re-classification from Plant and Equipment to Land and Buildings.

### **Directors**

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

A Buckmaster

D McLellan

KP Cox

(Resigned 26 November 2007)

### **Employees**

#### *Employee involvement*

The group adopts an approach of being honest and open with employees about matters affecting the business. The group is fully committed to keeping employees informed about the performance, progress and issues relating to their business or work unit, and about wider business issues. Certain formal national and local employee consultation arrangements previously operated by the group have ceased to have application having regard to the reduced business segments, number of locations and employees in the group but the group maintains employee communications through line managers and informal processes, as well as formal structures and processes as required by applicable laws.

#### *Equal opportunities*

The group believes that every employee should be treated with the same respect and dignity. It values the rich diversity and creative potential of people with differing backgrounds and abilities, and encourages a culture of equal opportunities in which personal success depends on personal merit and performance. It is group policy that there should be no discrimination against any person for any reason that is not relevant to the effective performance of their job. All judgements about people for the purposes of recruitment, development and promotion will be made solely on the basis of their ability and potential in relation to the needs of the job. Every manager is responsible for implementing this policy.

#### *Employment of people with disabilities*

It is group policy that people with disabilities should have the same consideration as others with respect to recruitment, retention and personal development. Depending on their skills and abilities, they enjoy the same career prospects as other employees and the same scope for realising potential. The group also takes all reasonable steps to ensure that its working environments can accommodate special needs. The group also makes every effort to continue to employ staff who may become disabled while employed, providing appropriate training and adapting facilities to allow them to continue working wherever possible.

## **Directors' report** *(continued)*

### **Political and charitable contributions**

The group made no political contributions during the year. Donations to UK charities amounted to £1,970 (2006: £9,000).

### **Auditors**

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

[D MCLELLAN]

**D McLellan**  
*Director*

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 group and parent company financial statements, in accordance with applicable laws and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law the directors are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice). The group financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and the performance of the group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The parent company financial statements are required by law to give a true and fair view of the state of affairs of the parent company.

In preparing each of the group and parent company 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;
- for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent 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 parent 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 group and to prevent and detect fraud and other irregularities.

Under applicable law, the directors are also responsible for preparing a Directors' Report that complies with that law.

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

### **Report of the independent auditors to the members of Avecia Group plc**

We have audited the group and parent company financial statements (the "financial statements") of Avecia Group plc for the year ended 31 December 2007 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Recognised Income and Expenses 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**

The directors' responsibilities for preparing the Directors' Report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU, and for preparing the parent company financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 5.

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 whether the financial statements have been properly prepared in accordance with the Companies Act 1985 and, as regards, the group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 group's and 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 group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the group's affairs as at 31 December 2007 and of its loss for the year then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the parent company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 December 2007;
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

[KPMG AUDIT PLC 7 MAY 2008]

**KPMG Audit Plc**  
*Chartered Accountants*  
*Registered Auditor*

**Consolidated Income Statement**  
*for the year ended 31 December 2007*

	<i>Note</i>	<b>2007</b> <b>£m</b>	2006 £m
<b>Continuing operations</b>			
Group revenue	2	<b>65.8</b>	70.6
Operating costs (excluding restructuring costs)	3	<b>(79.5)</b>	(80.8)
Restructuring costs	3	<b>(0.8)</b>	(1.0)
		<b>(80.3)</b>	(81.8)
Gain on sale of assets		<b>5.7</b>	0.1
Other operating income	3	<b>0.2</b>	0.2
		<hr/>	<hr/>
<b>Operating loss</b>		<b>(8.6)</b>	(10.9)
Finance income	8	<b>8.5</b>	4.4
Finance costs	9	<b>(7.0)</b>	(14.8)
		<hr/>	<hr/>
<b>Loss before tax</b>		<b>(7.1)</b>	(21.3)
Taxation	10	-	0.1
		<hr/>	<hr/>
<b>Loss after tax from continuing operations</b>		<b>(7.1)</b>	(21.2)
Profit from discontinued operations and gain on disposal of discontinued operations, net of tax		-	97.2
		<hr/>	<hr/>
<b>(Loss)/Profit for the year</b>		<b>(7.1)</b>	76.0
		<hr/> <hr/>	<hr/> <hr/>
<b>Attributable to equity holders of the parent</b>		<b>(7.1)</b>	76.0
		<hr/> <hr/>	<hr/> <hr/>
<b>Discontinued operations is broken down as follows:</b>			
Group revenue	2	-	8.1
Operating costs		-	(8.6)
Loss on sale of assets		-	(0.7)
	3		(9.3)
Other operating income	3	-	-
		<hr/>	<hr/>
<b>Loss from discontinued operations</b>		-	(1.2)
Share of profit/(loss) of joint ventures		-	0.2
Gain on disposal of discontinued operations		-	98.2
		<hr/>	<hr/>
<b>Profit from discontinued operations &amp; gain on disposal of discontinued operations</b>		-	97.2
		<hr/> <hr/>	<hr/> <hr/>

**Consolidated balance sheet**  
*as at 31 December 2007*

	<i>Note</i>	<b>2007</b> <b>£m</b>	2006 £m
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	<i>12</i>	<b>55.1</b>	63.4
Goodwill	<i>11</i>	<b>20.6</b>	20.6
Intangible assets	<i>11</i>	-	-
Amounts due from parent undertakings		<b>45.2</b>	43.8
<b>Total non current assets</b>		<b>120.9</b>	127.8
<b>Current assets</b>			
Inventories	<i>13</i>	<b>7.4</b>	11.7
Trade and other receivables	<i>14</i>	<b>15.3</b>	16.6
Cash and cash equivalents		<b>21.7</b>	29.4
Assets classified as held for sale	<i>4</i>	<b>4.9</b>	-
<b>Total current assets</b>		<b>49.3</b>	57.7
<b>Total assets</b>		<b>170.2</b>	185.5
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Financial liabilities	<i>17</i>	<b>14.9</b>	15.2
Other payables	<i>16</i>	<b>2.4</b>	2.8
Deferred tax liabilities	<i>20</i>	-	-
Pension liabilities	<i>25</i>	-	-
<b>Total non-current liabilities</b>		<b>17.3</b>	18.0
<b>Current liabilities</b>			
Trade and other payables	<i>15</i>	<b>26.8</b>	33.4
Financial liabilities	<i>17</i>	<b>1.2</b>	1.2
Current tax liabilities		-	0.1
Provisions	<i>19</i>	<b>1.4</b>	1.2
Liabilities classified as held for sale	<i>4</i>	-	-
<b>Total current liabilities</b>		<b>29.4</b>	35.9
<b>Total liabilities</b>		<b>46.7</b>	53.9
<b>Net assets</b>		<b>123.5</b>	131.6
<b>Equity</b>			
Called up share capital	<i>21</i>	<b>179.1</b>	179.1
Capital redemption reserve	<i>22</i>	<b>1.1</b>	1.1
Share premium account	<i>22</i>	<b>23.8</b>	23.8
Retained earnings	<i>22</i>	<b>(60.5)</b>	(52.6)
Other reserves	<i>22</i>	<b>(20.0)</b>	(19.8)
<b>Equity attributable to equity holders of parent</b>		<b>123.5</b>	131.6

These financial statements were approved by the board of directors on 6 May 2008 and were signed on its behalf by:

[D MCLELLAN]

**D McLellan**  
*Director*

## Consolidated cash flow statement for the year ended 31 December 2007

	2007 £m	2006 £m
<b>Cash flows from operating activities</b>		
(Loss)/Profit for the period	(7.1)	76.0
<i>Adjustments for:</i>		
Depreciation, amortisation and impairment charges	8.2	11.2
Finance income	(8.5)	(4.4)
Finance costs	7.0	14.8
Share of profit of jointly controlled entities	-	(0.2)
Gain on disposal of discontinued operations	-	(98.2)
(Profit)/loss on sale of fixed assets	(5.7)	0.6
Tax credit	-	(0.1)
	<hr/>	<hr/>
<b>Operating loss before changes in working capital and provisions</b>	(6.1)	(0.3)
Non cash items	-	3.3
Decrease in provision for pensions and similar obligations	-	(30.1)
Increase/(Decrease) in other provisions	0.3	(7.2)
Decrease/(Increase) in inventory	4.1	(6.4)
Decrease/(Increase) in debtors	3.9	(2.7)
(Decrease)/Increase in creditors	(6.8)	8.5
	<hr/>	<hr/>
<b>Cash generated from operations</b>	(4.6)	(34.9)
Taxation paid	-	-
Interest paid	(2.8)	(21.4)
	<hr/>	<hr/>
<b>Net cash outflow from operating activities</b>	(7.4)	(56.3)
	<hr/>	<hr/>
<b>Cash flows from investing activities</b>		
Dividends from jointly controlled entities	-	0.4
Interest received	1.3	2.3
Purchase of tangible fixed assets	(4.6)	(4.1)
Purchase of intangible fixed assets	-	-
Sale of tangible fixed assets	3.0	0.1
Net cash disposed with subsidiary	-	(0.7)
Acquisition of fixed asset investment	-	-
Proceeds from disposal of subsidiary undertaking	0.1	136.1
	<hr/>	<hr/>
<b>Net cash (outflow)/inflow from investing activities</b>	(0.2)	134.1
	<hr/>	<hr/>
<b>Cash flows from financing activities</b>		
Loan repayable in current year	-	-
Loan repayments	-	(96.0)
Own shares acquired	-	(1.2)
	<hr/>	<hr/>
<b>Net cash outflow from financing activities</b>	-	(97.2)
	<hr/>	<hr/>
<b>Net decrease in cash and cash equivalents</b>	(7.6)	(19.4)
Cash and cash equivalents at 1 January	29.4	49.1
Effect of exchange rate fluctuations on cash held	(0.1)	(0.3)
	<hr/>	<hr/>
<b>Cash and cash equivalents at 31 December</b>	21.7	29.4
	<hr/> <hr/>	<hr/> <hr/>

**Consolidated statement of recognised income and expense**  
*for the year ended 31 December 2007*

	<b>2007</b>	2006
	<b>£m</b>	£m
Foreign exchange translation differences	-	(3.6)
Net gain on hedge of net investment in foreign subsidiary	-	0.2
Exchange loss recycled through income statement	-	0.2
Actuarial (loss)/gain relating to pension liability	<b>(0.3)</b>	7.0
Movement in Pension asset not recognised in the balance sheet	<b>(0.5)</b>	(9.7)
	<hr/>	<hr/>
<b>Net expense recognised directly in equity</b>	<b>(0.8)</b>	(5.9)
<b>(Loss)/profit for the year</b>	<b>(7.1)</b>	76.0
	<hr/>	<hr/>
<b>Total recognised income and expense for the period attributable to equity holders of the parent</b>	<b>(7.9)</b>	70.1
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## Notes

*(forming part of the financial statements)*

### **1 Significant accounting policies**

Avecia Group Plc (the "company") is a company incorporated in Great Britain.

The group financial statements consolidate those of the company and its subsidiaries (together referred to as the "group") and equity account the group's interest in jointly controlled entities. The parent company financial statements present information about the company as a separate entity and not about its group.

#### *Statement of compliance*

The group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). The company has elected to prepare its parent company financial statements in accordance with UK GAAP; these are presented on pages 53 to 59.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these group financial statements.

Avecia's management considers the following to be the most important accounting policies in the context of the Group's operations. In applying these accounting policies management makes certain judgements and estimations. Judgements include classification of transactions between the income statement and balance sheet, whilst estimations focus on areas such as carrying values and estimated lives. Although these estimates are based on management's best knowledge of the amount, events or actions, actual results may differ from those estimates.

The accounting policy descriptions set out the areas where judgement needs exercising, the most significant of which are revenue recognition and post-retirement benefits.

#### *IFRS adopted during the year*

IFRS 7 'Financial Instruments: Disclosures' and the Amendment to IAS 1 "Presentation of Financial Statements – Capital Disclosures" were adopted during the year.

#### *Measurement convention*

The financial statements are prepared on the historical cost basis except for derivative financial instruments which are stated at their fair value. Non-current assets and disposal groups held for sale are stated at the lower of previous carrying amount and fair value less costs to sell.

#### *Functional and presentation currency*

These consolidated financial statements are presented in sterling, which is the Company's functional currency. All financial information presented in sterling has been rounded to the nearest £0.1 million.

#### *Basis of consolidation*

Subsidiaries are entities controlled by the group. Control exists when the group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Jointly controlled entities are those entities over whose activities the group has joint control, established by contractual agreement and requiring unanimous consent for strategic, financial and operating decisions. The consolidated financial statements include the group's share of the total recognised gains and losses of jointly controlled entities on an equity accounted basis, from the date that joint control commences until the date that joint control ceases.

#### *Transactions eliminated on consolidation*

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

## Notes (continued)

### 1. Significant accounting policies (continued)

#### *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.

At 31 December 2007 the Group had \$30m of redeemable preference shares due for repayment in 2010, and cash and cash equivalents of £21.7m.

The directors have reviewed the group's budget for the current year and outline projections for the subsequent year, including cash flows and forecasts of liquidity available. Following this review, the directors have formed a judgement that, at the time of approval of the financial statements, the Group has sufficient resources to continue operating for the foreseeable future, including funding of necessary capital expenditure and research and development. For these reasons the directors continue to prepare the financial statements on a going concern basis.

#### *Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Where parts of an item of property, plant and equipment have different useful lives they are accounted for as separate property, plant and equipment. Assets in the course of construction are not depreciated. Asset acquisitions are funded from cash rather than from borrowings.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. The cost of each item of property, plant and equipment is written off evenly over its estimated remaining useful life. Reviews are made periodically of the estimated remaining lives of individual productive assets, taking account of commercial and technological obsolescence as well as normal wear and tear. Depreciation is charged to the income statement on a straight line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The total asset lives approximate to 15 years for buildings and 10 years for plant and equipment.

#### *Intangible assets and goodwill*

All business combinations are accounted for by applying the purchase method. Goodwill represents the excess of the cost of the acquisition over the net fair value of the identifiable assets, liabilities and contingent liabilities arising on acquisition of subsidiaries and jointly controlled entities. Identifiable intangibles are those which can be sold separately or which arise from legal rights regardless of whether those rights are separable.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment.

In respect of acquisitions prior to 1 January 2004, goodwill is included on the basis of its deemed cost, which represents the amount recorded under UK GAAP. Negative goodwill arising on an acquisition is recognised in the income statement.

Expenditure on research activities is recognised in the income statement as an expense as incurred. Development expenditure is also recognised as incurred. Development expenditure is not recognised as an intangible asset because costs and probable future economic benefits cannot be reliably assessed. Development expenditure previously recognised as an expense is not recognised as an asset in subsequent periods.

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Intangible assets acquired separately, including patents and intellectual property rights are capitalised and amortised on a straight line basis over their estimated useful lives. Intangible assets are stated net of amortisation and accumulated impairment losses. Internally developed intangible assets are not capitalised.

## Notes (continued)

### 1 Significant accounting policies (continued)

#### *Provisions*

A provision is recognised in the balance sheet when the group has a present legal or constructive obligation as a result of a past event, that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate the risks specific to the liability.

#### *Restructuring*

A provision for restructuring is recognised when the group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

#### *Classification of financial instruments issued by the group*

Financial instruments issued by the group 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 group 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 group; 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 finance expenses. Finance payments associated with financial instruments that are classified in equity are dividends and are recorded directly in equity.

#### *Derivative financial instruments*

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the income statement.

#### *Loans and preference shares*

Loans and preference shares in kind are stated at amortised cost less impairment.

#### *Foreign currency*

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates the fair value was determined.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the period where this rate approximates to the foreign exchange rates ruling at the dates of the transactions. Foreign currency differences are recognised directly in equity. Such differences are recognised in the translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount from the translation reserve is transferred to profit or loss.

## Notes (continued)

### 1 Significant accounting policies (continued)

#### *Foreign currency (continued)*

Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in a foreign operation are taken directly to equity (the hedging reserve) to the extent that the hedge is effective. To the extent that the hedge is ineffective, such differences are recognised in profit or loss. They are released into the income statement upon disposal.

#### *Government grants*

Government grants made as a contribution towards revenue expenditure, or for an objective with an associated revenue cost (such as job creation) are included on the balance sheet as deferred income when there is a reasonable assurance that they will be received and that the group will comply with the conditions associated with the grant, and are released to the income statement in line with the costs being incurred.

Capital based government grants are included within accruals and deferred income in the balance sheet and credited to the income statement over the estimated useful economic lives of the assets to which they relate.

Where grants comprise both capital and revenue elements, these elements are split out on a reasonable basis and each element is treated as described above.

#### *Lease payments*

Rentals under operating leases are charged to the income statement on a straight-line basis over the lease term. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

#### *Net financing costs*

Net financing costs comprise interest payable, finance charges on shares classified as liabilities and finance leases, interest receivable on funds invested, dividend income, foreign exchange gains and losses and gains and losses on hedging instruments that are recognised in the income statement (see financial instruments accounting policy) and finance charges with respect to the group's defined benefit pension schemes.

Interest income and interest payable are recognised in the income statement as they accrue, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established.

#### *Post-retirement benefits*

##### *Defined contribution plans*

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

##### *Defined benefit plans*

The group's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) is deducted. The liability discount rate is the yield at the balance sheet date on AA credit rated bonds that have maturity dates approximating to the terms of the group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the group, the asset recognised is limited to the net total of any unrecognised past service cost and the present value of any future refunds from the plan or reductions in future contributions to the plan. No asset was recognised in 2007 or in 2006.

Changes in mortality rates can have a significant impact on the value of liabilities. Demographic assumptions are based on published actuarial tables.

Actuarial gains and losses that arise are recognised in the period they occur directly into equity through the statement of recognised income and expense.

Current service costs and finance charges are recognised in the income statement.

## Notes (continued)

### 1 Significant Accounting policies (continued)

#### *Non-current assets held for sale and discontinued operations*

A non-current asset (or disposal group containing assets and liabilities) is classified as held for sale if its carrying amount will be recovered principally through sale rather than through continuing use, it is available for immediate sale and sale is highly probable within one year.

On initial classification as held for sale, non-current assets and disposal groups are measured at the lower of previous carrying amount and fair value less costs to sell with any adjustments taken to the income statement. The same applies to gains and losses on subsequent remeasurement. Any impairment loss on a disposal group is first allocated to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets or employee benefit assets which continue to be measured in accordance with the group's accounting policies. A discontinued operation is a component of the group's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale, that has been disposed of, has been abandoned or that meets the criteria to be classified as held for sale.

Discontinued operations are presented on a single line in the income statement (including the comparative period).

#### *Inventories*

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle or an average method, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In determining cost, depreciation is included but selling expenses and certain overhead expenses (principally central administration costs) are excluded. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

#### *Trade and other receivables*

Trade and other receivables are recorded initially at fair value. Subsequent to this they are measured at amortised cost less any impairment losses.

#### *Trade and other payables*

Trade and other payables are recorded initially at fair value. Subsequent to this they are measured at amortised cost.

#### *Taxation*

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences arising from the following: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

## Notes (continued)

### 1 Significant Accounting policies (continued)

#### **Revenue**

The company generates revenue through raw material conversion and supply and development contracts. Revenue excludes inter-segment revenue and value added taxes.

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable.

Revenue is recognised when services have been rendered and significant risks and rewards in respect of ownership of the products are passed to the customer. Where multiple-element sales arrangements exist, this entails the company recognizing revenue on individual contract elements for work performed or services rendered during the period. For many contracts, the fair value of the individual elements is readily recognizable or detailed in the contract. Where the contract does not set this out so clearly management must exercise their judgement in attributing fair value to particular elements of a contract.

#### **Cash and cash equivalents**

Cash and cash equivalents, for the purpose of the cash flow statement and the balance sheet, comprises cash in hand and deposits repayable on demand.

#### **Impairment**

##### *Non Financial Assets*

The carrying amounts of the group's non-financial assets other than inventories and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

The recoverable amount of an asset or cash generating unit is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

##### *Financial Assets*

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount of the group's investments in receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

## **Notes** *(continued)*

### **1 Significant Accounting policies** *(continued)*

#### *Reversals of impairment*

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### *Interest-bearing borrowings*

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the initial value and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

#### *Adopted IFRS not yet applied*

The following adopted IFRSs were available for early application but have not been applied by the group in these financial statements :

IFRS 8 'Operating Segments' was issued in November 2006. It requires the identification of operating segments based on internal reporting to the chief operating decision maker and extends the scope and disclosure requirements of IAS 14 'Segmental Reporting'. It is effective for annual periods beginning on or after 1 January 2009. The impact of the adoption of IFRS 8 upon the group's results is being assessed by management.

## **Notes** (continued)

### **2 Segmental information**

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis.

#### ***Business segments***

The group operates solely in the Biotechnology segment. The group's businesses which were disposed of in 2006 are described below under *Discontinued Operations*.

The following is a brief description of each business segment:

*Biotechnology* – manufacturing and process development services for advanced medicines. The group now operates through two main businesses within the Biotechnology segment, Biologics and Oligo Medicines, which report to the central management team. Inter segment sales are minimal.

*Discontinued Operations* – comprises the Inkjet and Electrophotography businesses which were disposed on 17 February 2006 and the Image Polymer business disposed on 31 March 2006.

The following tables analyse certain income statement and net asset items by business segment. No segment allocation has been shown for interest and taxation as they have not been allocated to these businesses. The accounting policies for each segment are the same as those for the consolidated/combined business. Central costs and overheads are not allocated to individual segments. The group's policy is to transfer products internally at external market prices.

#### ***Geographical segments***

The Biotechnology segment operates in two principal geographical areas, UK and America. In the UK, the manufacturing facilities are based in Billingham in the North of England. In America, the manufacturing facilities are based in Milford, Massachusetts.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

**Notes** (continued)

**2 Segmental information** (continued)

Year ended 31 December 2007	Continuing Operations			Discontinued Operations			Total
	Biotechnology	Central and other	Continuing	Electronic Materials	Chemicals	Discontinued	Total
	£m	£m	£m	£m	£m	£m	£m
<b>Revenue</b>							
Total revenue	62.8	3.0	65.8	-	-	-	65.8
Jointly controlled entities revenue	-	-	-	-	-	-	-
Revenue to third parties	62.8	3.0	65.8	-	-	-	65.8
<b>Segment operating (loss)/profit before:</b>	(6.6)	(2.0)	(8.6)	-	-	-	(8.6)
Share of profit in jointly controlled entities	-	-	-	-	-	-	-
Profit on disposal of business	-	-	-	-	-	-	-
<b>Segment (loss)/profit before interest and taxation</b>	(6.6)	(2.0)	(8.6)	-	-	-	(8.6)
<b>Total assets as at 31 December 2007</b>	69.8	100.4	170.2	-	-	-	170.2
<b>Total liabilities at 31 December 2007</b>	27.2	19.5	46.7	-	-	-	46.7
<b>Capital expenditure</b>	4.7	0.5	5.2	-	-	-	5.2
<b>Depreciation &amp; amortisation</b>	5.8	2.4	8.2	-	-	-	8.2
<b>Government grant income</b>	0.4	-	0.4	-	-	-	0.4
<b>Revenue generated from</b>							
Sale of goods	19.6	-	19.6	-	-	-	19.6
Rendering of services	43.2	3.0	46.2	-	-	-	46.2
Total	62.8	3.0	65.8	-	-	-	65.8

The fixed asset impairment charge in 2007 was £Nil (2006: £ Nil).

**Notes** (continued)

**2 Segmental information** (continued)

Year ended 31 December 2006	Continuing Operations			Discontinued Operations			
	Biotechnology	Central and other	Continuing	Electronic Materials	Chemicals	Discontinued	Total
	£m	£m	£m	£m	£m	£m	£m
<b>Revenue</b>							
Total revenue	63.3	7.3	70.6	9.9	-	9.9	80.5
Jointly controlled entities revenue	-	-	-	(1.8)	-	(1.8)	(1.8)
Revenue to third parties	63.3	7.3	70.6	8.1	-	8.1	78.7
<b>Segment operating (loss)/profit before:</b>	-	(10.9)	(10.9)	(0.5)	(0.7)	(1.2)	(12.1)
Share of loss in jointly controlled entities	-	-	-	0.2	-	0.2	0.2
Profit on disposal of business	-	-	-	98.2	-	98.2	98.2
<b>Segment (loss)/profit before interest and taxation</b>	-	(10.9)	(10.9)	97.9	(0.7)	97.2	86.3
<b>Total assets as at 31 December 2006</b>	80.4	105.1	185.5	-	-	-	185.5
<b>Total liabilities at 31 December 2006</b>	31.8	22.1	53.9	-	-	-	53.9
<b>Capital expenditure</b>	3.6	0.5	4.1	0.2	-	0.2	4.3
<b>Depreciation &amp; amortisation</b>	7.4	3.5	10.9	0.3	-	0.3	11.2
<b>Government grant income</b>	1.0	-	1.0	-	-	-	1.0
<b>Revenue generated from</b>							
Sale of goods	18.6	-	18.6	8.1	-	8.1	26.7
Rendering of services	44.7	7.3	52.0	-	-	-	52.0
Total	63.3	7.3	70.6	8.1	-	8.1	78.7

**Notes** (continued)

**2 Segmental information** (continued)

<b>Year ended 31 December 2007</b>	<b>UK £m</b>	<b>Continental Europe £m</b>	<b>The Americas £m</b>	<b>Asia, Africa and Australia £m</b>	<b>Total £m</b>
<i>Revenue by destination</i>					
Revenue to third parties	24.7	6.6	32.7	1.8	65.8
	=====	=====	=====	=====	=====
<i>Revenue by origin</i>					
Revenue to third parties	48.9	-	16.9	-	65.8
	=====	=====	=====	=====	=====
<b>Total assets as at 31 December 2007</b>	150.5	-	19.7	-	170.2
	=====	=====	=====	=====	=====
Capital expenditure	4.1	-	1.1	-	5.2
	=====	=====	=====	=====	=====
<b>Year ended 31 December 2006</b>	<b>UK £m</b>	<b>Continental Europe £m</b>	<b>The Americas £m</b>	<b>Asia, Africa and Australia £m</b>	<b>Total £m</b>
<i>Revenue by destination</i>					
Revenue to third parties	15.2	8.3	51.6	3.6	78.7
	=====	=====	=====	=====	=====
<i>Revenue by origin</i>					
Revenue to third parties	55.0	-	22.7	1.0	78.7
	=====	=====	=====	=====	=====
<b>Total assets as at 31 December 2006</b>	152.0	1.3	32.2	-	185.5
	=====	=====	=====	=====	=====
Capital expenditure	3.0	-	1.3	-	4.3
	=====	=====	=====	=====	=====

**Notes** (continued)

**3 Group operating loss**

	<b>2007</b>	<b>2007</b>	<b>2007</b>	<b>2006</b>	<b>2006</b>	<b>2006</b>
	<b>Continuing</b>	<b>Discontinued</b>	<b>Total</b>	<b>Continuing</b>	<b>Discontinued</b>	<b>Total</b>
	<b>operations</b>	<b>operations</b>	<b>Total</b>	<b>operations</b>	<b>operations</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Operating costs</b>						
Cost of sales	(50.7)	-	(50.7)	(48.7)	(5.5)	(54.2)
Distribution costs	(0.4)	-	(0.4)	(0.9)	(0.1)	(1.0)
Research and development	(7.7)	-	(7.7)	(9.1)	(1.2)	(10.3)
Selling, general and administrative expenses	(21.5)	-	(21.5)	(23.1)	(2.5)	(25.6)
	<u>(80.3)</u>	<u>-</u>	<u>(80.3)</u>	<u>(81.8)</u>	<u>(9.3)</u>	<u>(91.1)</u>
The following are included within selling, general and administrative expenses :						
Restructuring and site closure	(0.8)	-	(0.8)	(1.0)	-	(1.0)
	<u>0.2</u>	<u>-</u>	<u>0.2</u>	<u>0.2</u>	<u>-</u>	<u>0.2</u>
<b>Other operating income</b>						
Licence income	0.2	-	0.2	0.2	-	0.2
	<u>(8.2)</u>	<u>-</u>	<u>(8.2)</u>	<u>(10.9)</u>	<u>(0.3)</u>	<u>(11.2)</u>
Total charge for depreciation and amortisation included above	(8.2)	-	(8.2)	(10.9)	(0.3)	(11.2)

**Notes** (continued)

**4 Non-current assets held for sale and discontinued operations**

On 22 February 2008 the Hexagon Tower building was sold for £12.2m. This asset has therefore been classified as "held for sale" in these accounts, at a historic Net Book Value of £4.9m.

<b>Assets classified as held for sale</b>	<b>2007 £m</b>	<b>2006 £m</b>
Property, plant and equipment	<b>4.9</b>	-
	<hr/>	<hr/>
	<b>4.9</b>	-
	<hr/> <hr/>	<hr/> <hr/>

Liabilities classified as held for sale : £Nil (2006: £Nil)

**Notes** (continued)

**5 Expenses and auditors remuneration**

	<b>2007</b>	2006
	<b>£m</b>	£m
<i>(Loss)/profit for the year (excluding interest and taxation) is stated after charging:</i>		
Auditors' remuneration (see below)	<b>0.1</b>	0.2
Depreciation and other amounts written off tangible fixed assets		
Owned	<b>8.2</b>	10.9
Amortisation of intellectual property rights	-	0.3
Operating leases		
Land and buildings	<b>0.4</b>	0.4
Research and development expenditure	<b>7.7</b>	10.3
 <i>after crediting:</i>		
Government grants	<b>0.4</b>	1.0
	<hr style="border-top: 3px double #000;"/>	<hr style="border-top: 3px double #000;"/>
 <i>Auditors' remuneration:</i>		
	<b>2007</b>	2006
	<b>£000</b>	£000
Audit of these financial statements	<b>76</b>	95
Amounts receivable by auditors and their associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	<b>30</b>	29
Other services pursuant to such legislation	<b>5</b>	14
Other services relating to taxation	<b>66</b>	69
All other services		-
Amounts receivable by auditors and their associates in respect of the Avecia Biologics Limited pension scheme audit	<b>11</b>	21

Amounts paid to the company's auditor in respect of services to the company, other than the audit of the company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis.

**Notes** (continued)

**6 Remuneration of directors**

	<b>2007</b>	2006
	<b>£000</b>	£000
Directors' emoluments	<b>626</b>	1,825
	<hr style="border-top: 3px double #000;"/>	<hr style="border-top: 3px double #000;"/>

The aggregate emoluments of the highest paid director were £234,000 for the year ended 31 December 2007. No pension contributions were made on his behalf. The aggregate emoluments of the highest paid director were £495,211 for the year ended 31 December 2006, and during 2006 company pension contributions of £13,534 were made to a money purchase scheme on his behalf.

	<b>Number of directors</b>	
	<b>2007</b>	2006
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	-	-
Defined benefit schemes	<b>2</b>	2
	<hr style="border-top: 3px double #000;"/>	<hr style="border-top: 3px double #000;"/>
	<b>2007</b>	2006
	<b>£000</b>	£000
Compensation to directors for loss of office	<b>298</b>	-
	<hr style="border-top: 3px double #000;"/>	<hr style="border-top: 3px double #000;"/>

**7 Staff numbers and costs**

The average number of persons employed by the company (including directors) during the year, analysed by business segment, was as follows:

	<b>Number of employees</b>	
	<b>2007</b>	2006
Biotechnology	<b>637</b>	573
Central and Other	<b>16</b>	38
Discontinued	-	43
	<hr style="border-top: 3px double #000;"/>	<hr style="border-top: 3px double #000;"/>
	<b>653</b>	655
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The aggregate payroll costs of these persons were as follows:

	<b>2007</b>	2006
	<b>£m</b>	£m
Wages and salaries	<b>23.8</b>	24.9
Social security costs	<b>5.4</b>	5.1
Other pension costs	<b>2.9</b>	4.4
	<hr style="border-top: 3px double #000;"/>	<hr style="border-top: 3px double #000;"/>
	<b>32.1</b>	34.4
Other employment costs		
Severance costs	<b>0.9</b>	1.0
Post retirement costs	<b>0.2</b>	0.1
	<hr style="border-top: 3px double #000;"/>	<hr style="border-top: 3px double #000;"/>
	<b>1.1</b>	1.1
	<hr style="border-top: 3px double #000;"/>	<hr style="border-top: 3px double #000;"/>
	<b>33.2</b>	35.5
	<hr style="border-top: 3px double #000;"/>	<hr style="border-top: 3px double #000;"/>

**Notes** (continued)

**8 Finance income**

	<b>2007</b>	<b>2006</b>
	<b>£m</b>	<b>£m</b>
Exchange gains	-	-
Interest income on bank deposits	1.7	2.1
Income from parent company	1.3	1.2
Expected return on pension fund assets	5.5	1.1
	8.5	4.4
	8.5	4.4

**9 Finance costs**

	<b>2007</b>	<b>2006</b>
	<b>£m</b>	<b>£m</b>
Exchange losses	0.3	0.9
Interest expense on bank loans and overdrafts	0.1	1.7
Interest expense on all other loans	-	4.1
Amortisation of finance fees	-	1.7
Interest on unwinding discount on pension liabilities	4.2	0.1
Dividends on redeemable preference shares	2.4	6.3
	7.0	14.8
	7.0	14.8

**Notes** (continued)

**10 Taxation**

Analysis of (credit)/charge in year

	<b>2007</b>	2006
	<b>£m</b>	<b>£m</b>
<i>UK corporation tax</i>		
Current tax on income for the year	-	-
Adjustments in respect of prior years	-	-
	<hr/>	<hr/>
Overseas taxation	-	(0.1)
	<hr/>	<hr/>
Total current tax (credit)/charge		(0.1)
Deferred taxation	-	-
	<hr/>	<hr/>
Tax on profit on ordinary activities	-	(0.1)
	<hr/> <hr/>	<hr/> <hr/>

The total tax expense differs from the amount computed by applying the UK rate of 30% to income before tax as a result of the following:

	<b>2007</b>	2006
	<b>£m</b>	<b>£m</b>
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax (including £Nil discontinued profit) (2006: £97.2m)	(7.1)	75.9
	<hr/>	<hr/>
Taxation (credit)/charge at United Kingdom corporation tax rate of 30%	(2.1)	22.8
Overseas tax rates	-	(0.2)
Other	2.1	(22.7)
	<hr/>	<hr/>
Taxes on income from ordinary activities	-	(0.1)
	<hr/> <hr/>	<hr/> <hr/>

At 31 December 2007 there were £228 million of UK tax losses to be carried forward with no expiration date (2006: £87.5 million). In addition, at that date, the group had US\$ 1.4 million of US federal tax net operating losses which expire in 2019 (2006: \$35.0 million) and US\$ 9 million of US federal tax net operating losses which expired at 31 December 2007.

No deferred tax asset was recognised in respect of these losses or unutilised capital allowances.

**Notes** (continued)

**10 Taxation** (continued)

*Factors affecting the tax charge for the current year*

The current tax charge for the period is lower (2006: lower) than the standard rate of corporation tax in the UK 30%. The differences are explained below.

	<b>2007</b>	2006
	<b>£m</b>	£m
<i>Current tax reconciliation</i>		
Profit before tax	<b>(7.1)</b>	75.9
	<hr/>	<hr/>
Current tax at 30%	<b>(2.1)</b>	22.8
<i>Effects of:</i>		
Expenses not deductible for tax:		
Depreciation for the year (lower than)/in excess of capital allowances	<b>(4.5)</b>	3.8
Disallowable items	<b>6.7</b>	1.9
Non taxable income	<b>(8.3)</b>	(11.5)
Generation of additional tax losses in the year	<b>8.5</b>	-
Higher rates on overseas earnings	-	(0.2)
Tax losses utilised	-	(17.2)
State taxes	-	0.1
Profit in inventory	-	0.2
Prior period taxation relating to Stahl Iberica, see note 23	-	-
R&D tax credits	<b>(0.3)</b>	-
	<hr/>	<hr/>
Total current tax charge/(credit) (see above)	-	(0.1)
Deferred tax (credit)/charge for the period	-	-
	<hr/> <hr/>	<hr/> <hr/>
Deferred taxation		
Profit in inventory	-	-
Unremitted earnings	-	-
Other timing differences	-	-
	<hr/> <hr/>	<hr/> <hr/>
Total deferred taxes	-	-
	<hr/> <hr/>	<hr/> <hr/>
Taxes on income from ordinary activities	-	(0.1)
	<hr/> <hr/>	<hr/> <hr/>

All current and deferred income tax expense for 2006 is attributable to foreign operations.

Analysis of loss/(profit) before taxation:

	<b>2007</b>	2006
	<b>£m</b>	£m
UK activities	<b>1.6</b>	71.6
Non UK activities	<b>(8.7)</b>	4.3
	<hr/>	<hr/>
	<b>(7.1)</b>	75.9
	<hr/> <hr/>	<hr/> <hr/>

**Notes** (continued)

**11 Intangible fixed assets**  
**Group**

	<b>Goodwill</b>	<b>Intellectual Property rights</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
<i>Cost</i>			
Balance at 1 January 2006	20.6	1.4	22.0
Additions	-	-	-
Disposals	-	-	-
Balance at 31 December 2006	<b>20.6</b>	<b>1.4</b>	<b>22.0</b>
Balance at 1 January 2007	20.6	1.4	22.0
Additions	-	-	-
Disposals	-	-	-
Balance at 31 December 2007	<b>20.6</b>	<b>1.4</b>	<b>22.0</b>
<i>Amortisation/impairment</i>			
Balance at 1 January 2006	-	1.1	1.1
Charge for year	-	0.3	0.3
Disposals	-	-	-
Balance at 31 December 2006	-	<b>1.4</b>	<b>1.4</b>
Balance at 1 January 2007	-	1.4	1.4
Charge for year	-	-	-
Disposals	-	-	-
Balance at 31 December 2007	-	<b>1.4</b>	<b>1.4</b>
<i>Carrying amounts</i>			
At 1 January 2006	20.6	0.3	20.9
At 31 December 2006	20.6	-	20.6
At 1 January 2007	<b>20.6</b>	-	<b>20.6</b>
At 31 December 2007	<b>20.6</b>	-	<b>20.6</b>

**Notes** *(continued)*

**11 Intangible fixed assets** *(continued)*

The following units have significant carrying amounts of goodwill :

	31 December 2007 £m	31 December 2006 £m
Biotechnology	20.6	20.6

The goodwill has been tested for impairment by comparing carrying values to the recoverable amounts. The recoverable amounts of the units were determined using value in use calculations. The calculations used cashflow projections based upon actual operating results and five year business plans. Cashflows were discounted at a rate of 9%, with an assumed growth rate of 2% beyond the five year plan period. The recoverable amounts exceeded the carrying value of the units. The outcome is relatively insensitive to variations in the assumptions used, as an increase in the discount rate of 5% and a reduction in terminal growth to zero still left recoverable amounts in excess of carrying value.

**Notes** (continued)

**12 Property, plant and equipment**

	<b>Land and buildings</b>	<b>Plant and equipment</b>	<b>Assets in the course of construction</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<i>Cost</i>				
At 1 January 2006	6.1	163.1	3.0	172.2
Additions	-	1.8	2.4	4.2
Disposals	-	(0.9)	-	(0.9)
Transfers	-	2.5	(2.5)	-
Transfers to assets held for sale	-	-	-	-
Translation adjustments	(0.4)	(2.4)	-	(2.8)
At 31 December 2006	<b>5.7</b>	<b>164.1</b>	<b>2.9</b>	<b>172.7</b>
At 1 January 2007	5.7	164.1	2.9	172.7
Reclassifications	16.3	(16.3)	-	-
Additions	0.4	1.4	3.4	5.2
Disposals	(0.2)	(0.4)	-	(0.6)
Transfers	0.2	0.9	(1.1)	-
Transfers to assets held for sale	(1.0)	(8.6)	(0.4)	(10.0)
Translation adjustments	(0.1)	(0.2)	-	(0.3)
At 31 December 2007	<b>21.3</b>	<b>140.9</b>	<b>4.8</b>	<b>167.0</b>
<i>Depreciation and impairment losses</i>				
At 1 January 2006	0.6	99.8	-	100.4
Charge for year	0.6	10.3	-	10.9
Disposals	-	(0.5)	-	(0.5)
Transfers to assets held for sale	-	-	-	-
Translation adjustments	(0.2)	(1.3)	-	(1.5)
At 31 December 2006	<b>1.0</b>	<b>108.3</b>	<b>-</b>	<b>109.3</b>
At 1 January 2007	1.0	108.3	-	109.3
Charge for year	1.5	6.7	-	8.2
Disposals	-	(0.3)	-	(0.3)
Transfers to assets held for sale	(0.7)	(4.4)	-	(5.1)
Translation adjustments	-	(0.2)	-	(0.2)
At 31 December 2007	<b>1.8</b>	<b>110.1</b>	<b>-</b>	<b>111.9</b>
<i>Carrying amounts</i>				
At 1 January 2006	<b>5.5</b>	<b>63.3</b>	<b>3.0</b>	<b>71.8</b>
At 31 December 2006	<b>4.7</b>	<b>55.8</b>	<b>2.9</b>	<b>63.4</b>
At 1 January 2007	4.7	55.8	2.9	63.4
At 31 December 2007	<b>19.5</b>	<b>30.8</b>	<b>4.8</b>	<b>55.1</b>

**Notes** *(continued)*

**12 Property, plant and equipment** *(continued)*

The carrying amounts of land and buildings comprises:

	2007 £m	2006 £m
Freehold	2.4	4.7
Long leasehold	17.1	-
	19.5	4.7
	19.5	4.7

During 2007 the building housing the ABC5000 facility at Billingham was reclassified from Plant and Equipment to Buildings.

On 15 February 2007, the group disposed of surplus land at its site at Blackley, UK to a property development company. £3.9m of proceeds were received on completion, with a further instalment of £4.5m received in February 2008.

The cost of land and buildings include £19.3 million of depreciable assets at 31 December 2007 (2006: £5.5 million).

Depreciation was not charged on land with a cost of £0.2 million included in land and buildings during the year ended 31 December 2007 (2006: £0.2 million).

**13 Inventories**

	2007 £m	2006 £m
Raw materials and consumables	6.2	5.3
Work in progress	1.2	1.1
Finished goods and goods for resale	-	5.3
	7.4	11.7
	7.4	11.7
Inventories stated at fair values less costs to sell	-	0.9
	-	0.9

Inventory costs of £7.4m, and impairment provisions of £0.2m, were charged during the year. No liabilities are secured against the inventory.

**Notes** (continued)

**14 Trade and other receivables**

	2007 £m	2006 £m
Trade receivables	9.2	13.9
Other receivables	5.5	1.0
Prepayments and accrued income	0.6	1.7

	15.3	16.6
	15.3	16.6

**Provision for doubtful debts**

	2007 £m	2006 £m
At 1 January	1.4	1.7
Income statement charge/(credit)	(0.1)	-
Amounts utilised	(0.5)	(0.1)
Exchange and other movements	-	(0.2)

	0.8	1.4
	0.8	1.4

**15 Trade and other payables**

	2007 £m	2006 £m
Trade payables	9.0	9.2
Other taxation and social security	1.0	0.9
Other payables	2.6	3.3
Accruals and deferred income	14.2	20.0

	26.8	33.4
	26.8	33.4

**16 Other payables due in more than one year**

	2007 £m	2006 £m
Non current liabilities		
Other payables	2.4	2.8
Accruals and deferred income	-	-

	2.4	2.8
	2.4	2.8

Included in other payables is deferred government grant income of £2.8m (2006 : £3.3m) of which £0.4m is due within one year (2006 : £0.5m). The grant income received in the year relates to two Regional Selective Assistance Grants that have been awarded to the company. The remaining grant is being amortised over the useful life of the assets to which it relates.

**Notes** (continued)

**17 Financial liabilities**

	2007 £m	2006 £m
<b>Current liabilities :</b>		
Redeemable preference share dividend	1.2	1.2
	_____	_____
<b>Non-current liabilities :</b>		
Redeemable preference shares (see note 21)	14.9	15.2
	_____	_____
<b>Total financial liabilities (see note 18)</b>	<b>16.1</b>	16.4

The above figures include preference shares, the redemption of which is mandatory on 1 July 2010. They may, however, be redeemed at the option of the company on or after 1 January, 2006 at a redemption value equal to the liquidation preference value (\$25 per share) plus all accumulated and unpaid dividends to the date of redemption. On 5 July 2006 the company redeemed 1,822,489 of the preference shares at a total cost of US\$ 48,056,048 (£26.3 million), leaving 1,200,000 of the preference shares in issue.

***Borrowing facilities***

The group had no committed borrowing facilities available to it at 31 December 2007 or at 31 December 2006.

**18 Borrowings, financial instruments and risk management**

The group has exposure to credit risk, liquidity risk, and market risk from its use of financial instruments. The group's finance department manages the group's liquidity and exposure to interest rates and foreign exchange rate risks, while credit risk arising from trade debtors is managed by each of the group's business units.

The group originally financed its operations by a mixture of bank borrowings, high yield bonds and redeemable preference shares. During 2005 and the first three months of 2006 the group repaid all bank borrowings and the high yield bonds from proceeds arising on the disposal of businesses.

The group now finances its operations by a combination of redeemable preference shares and cash retained from proceeds arising on the disposal of businesses.

All derivatives previously used for interest rate management have matured.

***Credit risk***

Credit risk is the risk of financial loss to the group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the group's trade receivables and cash investments.

**Trade and other receivables**

The group's exposure to credit risk is influenced by the individual characteristic of each customer. The group's business units analyse and assess each customer in terms of creditworthiness, and establish and monitor credit limits for each customer. Where collection appears doubtful, specific provisions are made against receivables, although historically write-offs have not been material. Other receivables at 31 December 2007 included £3.9m of deferred proceeds due on the sale of land in 2007. This particular debt was underwritten by a bill of exchange drawn on a major clearing UK bank.

**Notes** (continued)

**18 Borrowings, financial instruments and risk management** (continued)

The aging of trade receivables at the reporting date was :

	<b>2007</b> <b>£m</b>	<b>2006</b> <b>£m</b>
Current	8.6	13.8
More than 30 days overdue	0.6	0.1
	<hr/>	<hr/>
Total trade receivables	9.2	13.9
	<hr/> <hr/>	<hr/> <hr/>

**Cash investments**

The group limits its exposure to credit risk on its cash by only investing in funds where counterparties have a credit rating of AA or better. Given these high credit ratings the group does not expect any counterparty to fail to meet its obligations.

**Liquidity risk**

Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due. The group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions. Cash and cash equivalents are held in current accounts, deposit accounts, and money market funds with immediate or short notice access.

Group borrowings were £14.9m at 31 December 2007 and £15.2m at 31 December 2006, comprising Redeemable Preference shares due in 2010.

At 31 December 2007 and at 31 December 2006, the group had no undrawn committed borrowing facilities.

The following are the contractual maturities of financial liabilities, including interest payments.

<b>2007</b>							
	<b>Carrying Amount</b>	<b>Contracted Cash Flows</b>	<b>6 months or less</b>	<b>6-12 months</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>More than 5 Years</b>
Redeemable preference shares	16.1	22.1	1.2	1.2	2.4	17.3	-
Trade and other payables	12.8	12.8	12.8	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	28.9	34.9	14.0	1.2	2.4	17.3	-
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>2006</b>							
	<b>Carrying Amount</b>	<b>Contracted Cash Flows</b>	<b>6 months or less</b>	<b>6-12 months</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>More than 5 years</b>
Redeemable preference shares	16.4	24.8	1.2	1.2	2.4	20.0	-
Trade and other payables	13.5	13.5	13.5	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	29.9	38.3	14.7	1.2	2.4	20.0	-
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Trade and other payables exclude deferred income of £14.0m (2006: £19.9m).

**Notes** (continued)

**18 Borrowings, financial instruments and risk management** (continued)

**Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the group's income or the value of its holding of financial instruments.

**Interest rate risk**

The group's borrowings, represented by the redeemable preference shares, are fixed interest at 16%. The group's cash is invested in accounts which attract variable market rates of interest. At the balance sheet date these cash balances were earning interest at a net effective rate of 4.6% (2006: 5.9%). A change in interest rates by 100 basis points on the cash held at the balance sheet date over the course of a full year would impact the profit and loss account by £0.2m.

**Currency risk**

The group is exposed to currency risk on sales, purchases, investments, and borrowings that are in currencies other than sterling. All outstanding foreign exchange contracts at the end of 2005 matured during 2006, and no further foreign exchange contracts have been entered into. Consequently sales and purchases in currencies other than sterling are not hedged.

The group's borrowings, represented by the redeemable preference shares, are denominated in US Dollars. An equivalent amount of the group's cash is held in US Dollars to act as a natural hedge for the borrowings.

At 31 December 2007 and 31 December 2006 the group's assets and liabilities denominated in currencies other than sterling were as follows:

	<b>2007</b> <b>US dollar</b> <b>£m</b>	<b>2006</b> <b>US Dollar</b> <b>£m</b>
Net assets of trading subsidiaries	9.8	10.2
UK trade receivables	1.3	4.1
UK trade payables	(0.2)	(0.2)
Cash and cash equivalents	18.2	20.9
Redeemable preference shares	(16.1)	(16.4)
	<hr/>	<hr/>
Net balance sheet exposure	13.0	18.6
	<hr/> <hr/>	<hr/> <hr/>

For the years ended 31 December 2007 and 31 December 2006 the group's income and expenses denominated in currencies other than sterling were as follows:

	<b>2007</b> <b>US dollar</b> <b>£m</b>	<b>2006</b> <b>US Dollar</b> <b>£m</b>
Net profit of trading subsidiaries	1.4	(1.1)
UK estimated revenues	10.0	10.0
UK estimated purchases	(2.4)	(2.4)
Estimated interest income	1.7	3.0
Interest expense	(2.4)	(6.3)
	<hr/>	<hr/>
Net income exposure	8.3	3.2
	<hr/> <hr/>	<hr/> <hr/>

**Notes** *(continued)*

**18 Borrowings, financial instruments and risk management** *(continued)*

The following significant exchange rates between Sterling and the US Dollar applied during the year.

	<b>2007</b>	<b>2006</b>
Average rate for the period	2.00	1.83
Spot rate at reporting date	2.01	1.97

A 10% strengthening of Sterling against the US Dollar would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, including interest rates, remain constant.

	<b>2007</b>	<b>2006</b>
	<b>£m</b>	<b>£m</b>
Equity	(1.2)	(1.7)
Profit & Loss	(0.8)	(0.3)

A 10% weakening of Sterling against the US Dollar would have had an equal and opposite effect to the amounts shown above.

***Fair values of financial assets and financial liabilities***

Set out below is a comparison by category of book values and fair values of all the group's financial assets and financial liabilities as at 31 December 2007 and as at 31 December 2006:

	<b>2007</b>	<b>2007</b>	2006	2006
	<b>Carrying</b>	<b>Fair value</b>	Carrying	Fair value
	<b>amount</b>		amount	
	<b>£m</b>	<b>£m</b>	£m	£m
Redeemable preference shares	<b>(14.9)</b>	<b>(19.6)</b>	(15.2)	(20.9)
Preference share dividend	<b>(1.2)</b>	<b>(1.2)</b>	(1.2)	(1.2)
Trade receivables	<b>9.2</b>	<b>9.2</b>	13.9	13.9
Amounts due from parent undertaking	<b>45.2</b>	<b>43.6</b>	43.8	42.2
Land sale proceeds receivable	<b>3.9</b>	<b>3.9</b>	-	-
Cash and cash equivalents	<b>21.7</b>	<b>21.7</b>	29.4	29.4
Trade payables	<b>(9.0)</b>	<b>(9.0)</b>	(9.2)	(9.2)
	<b>54.9</b>	<b>48.6</b>	61.5	54.2

All financial assets and financial liabilities are held at amortised cost. None are held for the purpose of dealing or other financial instrument trading activities. None of the financial assets or financial liabilities have been reclassified during the year.

Fair values have been calculated by discounting expected future cash flows at 31 December 2007 market interest rates.

Fair value judgements and changes in market conditions and assumptions could significantly affect these estimates. The disclosed values of those which are representative of fair values at the dates indicated.

**Notes** (continued)

**19 Provisions for liabilities and charges**

	<b>Reorganisation and other provisions £m</b>
1 January 2007	1.2
Charge for the year	0.9
Utilised during year	(0.7)
	<hr/>
At 31 December 2007	1.4
	<hr/> <hr/>
Non-current	-
Current	1.4
	<hr/>
	1.4
	<hr/> <hr/>

The reorganisation and other provisions primarily relate to severance costs which are expected to be fully paid out by the end of 2008.

**Notes** (continued)

**20 Deferred taxation**

**Recognised deferred tax assets and liabilities**

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m
Property, plant and equipment	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-
Inventories	-	-	-	-	-	-
Interest-bearing loans and borrowings	-	-	-	-	-	-
Employee benefits	-	-	-	-	-	-
Impairment of investments	-	-	-	-	-	-
Other items	-	-	-	-	-	-
Tax value of loss carry-forwards recognised	-	-	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Tax(assets)/liabilities	-	-	-	-	-	-
Set off of tax	-	-	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net tax liabilities	-	-	-	-	-	-
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**Unrecognised deferred tax assets**

Deferred tax assets have not been recognised in respect of the following items:

	2007 £m	2006 £m
Depreciation in excess of capital allowances	9.7	9.2
Short term timing differences	0.9	0.7
Long term timing differences	5.6	7.4
Tax losses	58.5	42.4
	<hr/>	<hr/>
	74.7	59.7
	<hr/> <hr/>	<hr/> <hr/>

**Movement in temporary differences during the year**

	Balance 1 Jan 07 £m	Recognised in income £m	Recognised in equity £m	Balance 31 Dec 07 £m
Property, plant and equipment	-	-	-	-
Intangible assets	-	-	-	-
Inventories	-	-	-	-
Employee benefits	-	-	-	-
Impairment of investments	-	-	-	-
Other items	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	-	-	-	-
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

## Notes (continued)

### 20 Deferred taxation (continued)

#### Movement in temporary differences during the year

	Balance 1 Jan 06 £m	Recognised in income £m	Recognised in equity £m	Balance 31 Dec 06 £m
Property, plant and equipment	-	-	-	-
Intangible assets	0.3	(0.3)	-	-
Inventories	-	-	-	-
Employee benefits	(0.1)	0.1	-	-
Impairment of investments	-	-	-	-
Other items	(0.1)	0.1	-	-
	0.1	(0.1)	-	-
	0.1	(0.1)	-	-

### 21 Called up share capital

	2007 Number of shares	2007 Nominal value of shares £'000	2006 Number of shares	2006 Nominal value of shares £'000
<i>Authorised</i>				
Equity: ordinary shares of £1 each	400,000,000	400,000	400,000,000	400,000
Non equity – 16% cumulative redeemable preference shares of \$1 each	3,500,000	2,222	3,500,000	2,222
	403,500,000	402,222	403,500,000	402,222
	403,500,000	402,222	403,500,000	402,222
<i>Allotted, called up and fully paid</i>				
Equity: ordinary shares of £1 each	179,100,001	179,100	179,100,001	179,100
	179,100,001	179,100	179,100,001	179,100
	179,100,001	179,100	179,100,001	179,100
Non equity –16% cumulative redeemable preference shares of \$1 each	1,200,000	517	1,200,000	517
	1,200,000	517	1,200,000	517
	1,200,000	517	1,200,000	517

Following a successful petition to the Courts on 17 May 2006, Avecia Group plc reduced its issued share capital from £329,100,001 to £179,100,001 by means of cancellation of 150,000,000 ordinary shares of £1 each. The resulting reserve was credited to the Company's retained earnings.

#### *Redeemable preference shares*

The redemption of preference shares is mandatory on 1 July 2010 but may be redeemed at the option of the company on or after 1 January 2006 at a redemption value equal to the liquidation preference value plus all accumulated and unpaid dividends to the date of redemption. On a winding up they would rank in priority to ordinary shares. Up to 1 July 2004 the company was able to issue further preference shares instead of a cash dividend (based on the liquidated preference amount of \$25 per share). Subsequent to 1 July 2004 this option was no longer available and subsequent dividends became payable in cash. Subject to certain exceptions contained in the articles of association, the preference shares have no voting rights at meetings of the ordinary shareholders. They attract a dividend rate of 16% but, during any period where dividends due are unpaid, a further 2% default rate is also payable. During 2006 the carrying value of the preferred shares was increased to the redemption value of \$25 per share. The accretion for 2006 was £0.9 million. All the preference shares are now held at the redemption value.

## Notes (continued)

### 22 Share capital and reserves

#### Group

	Share capital	Capital redemption reserve	Share premium account	Translation reserve	Hedging Reserve	Reserve for parent company's shares	Retained earnings	Total
	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2006	329.1	-	-	(1.3)	(13.4)	(0.7)	(251.0)	62.7
Total recognised income and expense	-	-	-	(3.6)	0.4	-	73.3	70.1
Own shares acquired	-	-	-	-	-	(1.2)	-	(1.2)
Redemption of preference shares	-	1.1	23.8	-	-	-	(24.9)	-
Share capital reduction	(150.0)	-	-	-	-	-	150.0	-
<b>At 31 December 2006</b>	<b>179.1</b>	<b>1.1</b>	<b>23.8</b>	<b>(4.9)</b>	<b>(13.0)</b>	<b>(1.9)</b>	<b>(52.6)</b>	<b>131.6</b>
At 1 January 2007	179.1	1.1	23.8	(4.9)	(13.0)	(1.9)	(52.6)	131.6
Total recognised income and expense	-	-	-	(0.2)	-	-	(7.9)	(8.1)
<b>At 31 December 2007</b>	<b>179.1</b>	<b>1.1</b>	<b>23.8</b>	<b>(5.1)</b>	<b>(13.0)</b>	<b>(1.9)</b>	<b>(60.5)</b>	<b>123.5</b>

#### *Capital redemption reserve and share premium account*

On 5 July 2006 the company redeemed 1,822,489 of the preference shares at a total cost of US\$ 48,056,048, leaving 1,200,000 of the preference shares in issue. The capital redemption reserve and share premium were credited with the appropriate amounts arising from this redemption.

#### *Translation reserve*

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations that are not integral to the operations of the company.

#### *Hedging reserve*

The hedging reserve comprised the effective portion of the net investment hedge between borrowings and foreign currency net assets. This hedge is no longer in place so there will be no further movement on this reserve, unless the investment to which it relates is disposed of.

#### *Reserve for parent company's shares*

The reserve for the parent company's shares comprises the cost of the parent company's shares held by the group. 1,616,858 preference shares and 11,685,470 ordinary shares were held as at 31 December 2007 and as at 31 December 2006.

### 23 Contingent liabilities and contingent assets

#### *Environmental*

On the acquisition by the group of the speciality chemicals business of the AstraZeneca group in 1999, the group acquired all the sites of that business which were then in operation or use. Sites which were formerly part of the speciality chemicals business but which were not in operation at the date of its acquisition by the group were not transferred to the group. Since the acquisition of the speciality chemicals business in 1999, the group has disposed of its interest in most of its major operational sites, including the group's former sites at St. Clair du Rhone (France), Mount Pleasant (Tennessee), Grangemouth (UK), Huddersfield (UK), Waalwijk (The Netherlands), Newcastle

## Notes (continued)

### 23 Contingent liabilities and contingent assets (continued)

(Delaware) and Parets (Spain). The group now retains only operational sites at Billingham (UK), and Milford (Massachusetts), having also disposed of its interest in its site at Blackley (UK) in February 2008. The group has actual or potential environmental liabilities in respect of its current or former sites and is subject to contingencies pursuant to laws and regulations which in the future may require it to take action to correct the effects on the environment of the prior disposal, release or escape of chemical substances.

An Environmental Deed of Covenant entered into by companies in the AstraZeneca group, notably Zeneca Limited (as a principal seller of the business to the group) and AstraZeneca plc (as guarantor), on the group's acquisition of AstraZeneca's specialty chemicals business, provides certain indemnities to and by group companies for environmental liabilities and costs arising from events or circumstances existing prior to the acquisition. These include liabilities relating to or arising out of pre-acquisition contamination at sites which were transferred to group companies in 1999 but which have subsequently been disposed of. These also include historic liabilities arising on any sites previously owned by companies acquired by the group in the course of the acquisition transaction but where the sites in question were not themselves part of the acquisition transaction. The liability of the AstraZeneca group to indemnify group companies in respect of these matters is, subject to certain exceptions, subject to maximum caps of liability, de minimis levels of liability, time limits for claims to be made and/or contributions by group companies. Where time limits or caps on liability apply, on the expiry of the relevant time limit or if the environmental liabilities and costs exceed the relevant cap, the environmental liabilities and costs, or excess thereof, would be the responsibility of group companies. One of the principal time limits arising under the Environmental Deed of Covenant is in respect of soil and groundwater contamination and expires in July 2009. On the disposal of relevant businesses out of the group, where purchasers have assumed liabilities which may be subject to indemnity from the AstraZeneca group under the Environmental Deed or which may otherwise be the responsibility of group companies under the Environmental Deed, the benefits and obligations under the Environmental Deed have, insofar as they relate to the sold businesses or sites, been assigned to the purchasers subject to appropriate limitations on the maximum amounts which the purchasers may claim under the Environmental Deed. Out of the sites originally acquired by the Group from AstraZeneca in 1999, it now only retains its site at Billingham (UK).

While the outcome of some of these matters cannot be readily foreseen, the directors believe that they will be disposed of without material effect on the financial position as shown in these consolidated financial statements.

The ultimate requirement for remediation work and its cost are difficult to estimate. However, where such costs are not within the scope of the indemnities provided by the deed of covenant referred to above, and where such costs are deemed probable and identifiable, provision has been made in the financial statements.

#### ***Litigation and other claims***

Companies in the group are from time to time parties to legal actions and claims by third parties, regulatory and fiscal authorities. While the outcome of some of these matters cannot be readily foreseen, the directors believe that they will be disposed of without material effect on the financial position as shown in these consolidated financial statements.

## **Notes** *(continued)*

### **23** **Contingent liabilities and contingent assets** *(continued)*

#### ***Corporate Tax Audit, Stahl Iberica, Spain***

Stahl Iberica SL was owned by the group in 1999 at the time it undertook a merger transaction.

During 2003 and 2004 the Spanish tax authority carried out a corporate tax audit at Stahl Iberica. The tax inspector decided that the merger transaction undertaken by the company in 1999 did not have sufficient economic reasons to qualify for the beneficial tax regime for restructuring processes.

On 4 July 2005, the tax inspector issued a final tax assessment arising from the tax audit in an amount €2,474,047 plus delay interest of €648,912.

On 7 July 2005, the current owners of Stahl Iberica made a claim to the group in respect of that assessment.

At the group's request, an appeal against the assessment was submitted in July 2005 to the Spanish Tax Court. As a condition to submitting the appeal, it has been necessary for the group to pay the disputed tax and delay interest totalling €3,122,959: this was paid on 17 August 2005. This means that group will have no further liability arising from the audit.

The Tax Court rejected the appeal, and consequently an appeal against the assessment was lodged with the National Court on 5 December 2007.

**Notes** (*continued*)

**24 Commitments**

(a) Capital commitments of the group at the end of the financial period, for which no provision has been made are as follows:

	<b>2007</b>	2006
	<b>£m</b>	£m
Contracted capital commitments	-	0.2
	<u>          </u>	<u>          </u>

Capital commitments are expected to be settled within one year.

(b) Total commitments under non cancellable operating leases are as follows:

	<b>2007</b>	2006
	<b>Land and Buildings</b>	Land and buildings
	<b>£m</b>	£m
Operating leases which expire: In the second to fifth years inclusive	1.4	1.8
	<u>          </u>	<u>          </u>

The future minimal lease payments under operating and finance leases, including finance charges, were as follows:

	<b>2007</b>	<b>2007</b>	2006	2006
	<b>Operating leases</b>	<b>Finance leases</b>	Operating leases	Finance leases
	<b>£m</b>	<b>£m</b>	£m	£m
Due in one year or less	0.4	-	0.4	-
Due between one and two years	0.4	-	0.4	-
Due between two and three years	0.4	-	0.4	-
Due between three and four years	0.2	-	0.4	-
Due between four and five years	-	-	0.2	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	<b>1.4</b>	-	1.8	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

There were no commitments (*2006: £nil*) under finance leases at the balance sheet date that were due to commence thereafter.

## Notes (continued)

### 25 Employee benefits

The group participates in retirement plans, which cover the majority of its employees. These plans are either defined contribution, where the level of company contribution is fixed at a set level or percentage of employees pay, or defined benefit, where benefits are based on employees' years of service and average final remunerations. In general all plans are funded through separate trustee-administered funds. The pension cost for the main defined benefit plans is established in accordance with the advice of independent qualified actuaries based on valuations undertaken on varying dates.

#### UK

An actuarial valuation was carried out as at 31 March 2006. The assets are taken at market value with the liabilities valued using financial assumptions derived from market yields on AA rated Corporate bonds at the valuation date. The significant assumptions used in this valuation were UK price inflation of 3% pa, investment returns of 5.9% pa, salary increases of 4% pa and pension increases of 2.9 % pa. The market value of the fund's assets was £88.1 million and represented 108% of the accrued liabilities at that date allowing for projected future salary increases. The next valuation will be as at March 2009.

The contribution rate currently payable by the employer is 14.0% of pensionable salaries. Employees pay varying levels of contribution in accordance with the rules and the current average is 4.3% of pensionable salaries.

The trustees investment policy for the UK pension scheme is to consider a full range of asset classes, the risks and rewards of alternative asset allocation strategies, the suitability of each asset class in the planned asset allocation strategy, and the need for appropriate diversification. It is the trustee's policy to delegate all day-to-day decisions about the investments that fall within each investment option to the fund manager.

The cost of defined contribution schemes in 2007 was £ 0.7m (2006: £0.6m).

#### US

Avecia LLC terminated its Qualified Pension Plan with effect from 30 April 2006. Following receipt of a favourable distribution letter from the IRS, Avecia LLC made final funding payments into the Plan and distributed funds in accordance with the instructions of members of the Plan in December 2006.

The cost of defined contribution schemes in 2007 was \$0.3m (2006: \$0.4m).

## Notes (continued)

### 25 Employee benefits (continued)

#### Major assumptions

	2007 UK %	2007 US %	2006 UK %	2006 US %
Rate of general increase in salaries	4.40	-	4.10	4.25
Rate of increase to pensions in payment	3.40	-	3.10	-
Discount rate at 31 December	5.80	-	5.10	5.5
Medical cost trend rate	-	-	-	5.0
Inflation	3.40	-	3.10	3.25

#### Demographic Assumptions

	2007 00 series Year of birth approach Year of birth approach Medium cohort	2006 PMA92/PFA92 2013 2023 Short cohort
Post-retirement mortality		
- projection year, current pensioners		
- projection year, future pensioners		
Future improvements		
Life expectancy for pensioner aged 60 :		
Males	26.3	25.3
Females	28.8	28.2

	2007 UK £m	2006 UK £m	2005 UK £m	2005 USA £m	2005 Other £m
Present value of unfunded obligations	-	-	(45.2)	(4.3)	(4.5)
Present value of funded obligations	(83.3)	(81.7)	(124.0)	(12.7)	-
Fair value of plan assets	93.5	91.4	124.0	12.7	-
Present value of net assets/(obligations)	10.2	9.7	(45.2)	(4.3)	(4.5)
Recognised liability for defined benefit obligations	-	-	(45.2)	(4.3)	(4.5)
Total employee benefits	10.2	9.7	(45.2)	(4.3)	(4.5)

	2007 £m	2006 £m	2005 £m	2004 £m
Difference between expected and actual return on scheme assets				
Amount	4.9	1.6	21.9	6.5
Percentage of scheme assets	5%	2%	16%	3%
Experience gains/(losses) on scheme liabilities				
Amount	(0.6)	3.0	6.3	(2.2)
Percentage of scheme assets	1%	4%	3%	1%

## Notes (continued)

### 25 Employee benefits (continued)

#### Movement in fair value of plan assets

	UK £m	USA £m	Other £m
Assets at 1 January 2006	124.0	9.2	-
Company contributions	30.0	2.7	1.2
Expected return on assets	5.6	(0.3)	-
Actuarial gain/(loss)	0.6	1.0	-
Member contributions	0.7	-	-
Benefits Paid	(13.7)	(0.5)	-
Gain/(loss) due to settlement/curtailment	(55.8)	(11.4)	(1.2)
Gain/(loss) due to exchange	-	(0.7)	-
<b>Assets at 31 December 2006</b>	<b>91.4</b>	<b>-</b>	<b>-</b>
Assets at 1 January 2007	91.4	-	-
Company contributions	2.4	-	-
Expected return on assets	5.5	-	-
Actuarial gain/(loss)	(4.9)	-	-
Member contributions	0.8	-	-
Benefits Paid	(1.7)	-	-
Gain/(loss) due to settlement/curtailment	-	-	-
Gain/(loss) due to exchange	-	-	-
<b>Assets at 31 December 2007</b>	<b>93.5</b>	<b>-</b>	<b>-</b>

The directors have assessed the recoverability of the net asset relating to the UK Defined Benefit scheme and concluded that it would not be appropriate to recognise this asset in the Balance Sheet of the group because the group will not receive a refund from the Pension Scheme, nor is it likely that any benefit will arise in the future from reduced contributions to the scheme. The present value of the net asset not recognised was £10.2m (2006 : 9.7m).

Plan assets are comprised of equities £36.8m (2006: £44.3m), government bonds £35.7m (2006: £35.6m), corporate bonds £12.1m (2006: £10.0m), other £8.9m (2006: £1.5m).

The trustees employ a building block approach in determining the long term rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principals. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund at the accounting date.

The actual return on plan assets was £0.1m for the UK scheme (2006 : £6.2m UK, £0.73m US).

**Notes** *(continued)*

**25 Employee benefits** *(continued)*

**Movement in defined benefit obligations**

	<b>UK £m</b>	<b>USA £m</b>	<b>Other £m</b>
Liabilities at 1 January 2006	(169.2)	(10.5)	(1.9)
Current service cost	(3.1)	(0.1)	-
Past service cost	(1.2)	-	-
Interest cost	(4.5)	(0.2)	(0.1)
Actuarial gain/(loss)	5.1	-	0.6
Member contributions	(0.7)	-	-
Benefits Paid	13.7	0.5	-
Gain/(loss) due to settlement/curtailment	78.2	9.2	1.0
Gain/(loss) due to exchange	-	1.1	0.4
	<hr/>	<hr/>	<hr/>
<b>Liabilities at 31 December 2006</b>	<b>(81.7)</b>	<b>-</b>	<b>-</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Liabilities at 1 January 2007	(81.7)	-	-
Current service cost	(2.8)	-	-
Past service cost	(0.1)	-	-
Interest cost	(4.2)	-	-
Actuarial gain/(loss)	4.6	-	-
Member contributions	(0.8)	-	-
Benefits Paid	1.7	-	-
Gain/(loss) due to settlement/curtailment	-	-	-
Gain/(loss) due to exchange	-	-	-
	<hr/>	<hr/>	<hr/>
<b>Liabilities at 31 December 2007</b>	<b>(83.3)</b>	<b>-</b>	<b>-</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**Notes** *(continued)*

**25 Employee benefits** *(continued)*

**Expense recognised in the income statement**

	Year ended 31 December 2007			Year ended 31 December 2006		
	UK	USA	Other PRB's	UK	USA	Other PRB's
	£m	£m	£m	£m	£m	£m
Current service cost	(2.8)	-	-	(3.1)	(0.1)	-
Past service cost	(0.1)	-	-	(1.2)	-	-
Interest cost	(4.2)	-	-	(4.5)	(0.2)	(0.1)
Expected return on assets	5.5	-	-	5.6	0.2	-
Gain due to curtailments/settlements	-	-	-	22.4	(2.2)	(0.2)
	<u>(1.6)</u>	<u>-</u>	<u>-</u>	<u>19.2</u>	<u>(2.3)</u>	<u>(0.3)</u>
	<u><u>(1.6)</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>19.2</u></u>	<u><u>(2.3)</u></u>	<u><u>(0.3)</u></u>

The expense is recognised in the following lines in the income statement:

	2007 £m	2006 £m
Operating costs	(2.9)	(4.4)
Interest costs	1.3	1.0
Gain on disposal of discontinued business operations	-	20.0
	<u>(1.6)</u>	<u>16.6</u>
	<u><u>(1.6)</u></u>	<u><u>16.6</u></u>

Contributions totalling £2.4m are expected to be made during 2008.

**Notes** (continued)

**26 Post balance sheet events**

On 15 February the group received the deferred disposal receipts and escrow monies of £4.5m in respect of the surplus land at Blackley, Manchester. £3.9m of the amount received was included in other receivables as at 31 December 2007.

On 22 February 2008 the Hexagon Tower building at Blackley, Manchester was sold for £12.2m.

On 2 April 2008 the group completed the disposal of its vaccines development activities to Pharmathene Inc for an initial consideration of \$17m, \$10m of which was received on completion. The remaining \$7m will be received on the earlier of Pharmathene raising \$15m of additional finance or the eighteen month anniversary of completion. This \$7m deferred consideration is backed by a Standby Letter Of Credit. Further consideration, up to a maximum of \$23m (plus potential royalties) is receivable by the group on attainment by Pharmathene of certain milestones relating to further funded development and commercialisation of the vaccines.

The disposed activities noted above did not make a significant contribution to the group's profits or losses during 2007.

**27 Related party disclosures**

In June 1999, Cinven and Investcorp S.A. jointly directed the formation of Avecia, and its acquisition of the Zeneca Specialties business. Cinven and Investcorp S.A. are entitled to receive monitoring fees of up to £400,000 per annum. In January 2002 Avecia completed the sale of its Stahl business to Luxembourg 101 S.A. and its affiliates. The purchase of Stahl from Avecia was managed by Investcorp S.A. on behalf of Luxembourg 101 SA and its affiliates, which under the terms of the Bond Indenture means that Luxembourg 101 SA is considered a related party. The sale of the Stahl business was therefore conducted under the terms of the bond indenture relating to related party transactions.

At December 31, 2007 debtors include £45.2m (2006: £43.8 m) owed by the parent companies of Avecia Group plc, Avecia Holdings plc and Avecia Finance plc, of which £15 million relates to acquisition fees (this amount is interest free) and £27 million relates to a capital contribution, on which interest is charged at 5.57%. Interest of £1.4m was charged during the year and is included in the £45.2m debtor at period end.

Related parties include key management personnel who are the directors. Amounts paid to key management personnel were £626k in respect of short term employee benefits and £51k in respect of post retirement benefits.

The principal undertakings of Avecia Group plc as at 31 December 2007 were as follows:

Subsidiary undertakings	Country of incorporation	Principal activity	Percentage of equity owned %
Avecia Corporation Limited	UK	Holding company	100
Avecia Investments Limited	UK	Holding company	100
Avecia Biologics Limited	UK	Chemical manufacture	100
Hexagon Tower Limited	UK	Property holding	100
Avecia Biotechnology Inc.	USA	Chemical manufacture	100
Avecia Holdings LLC	USA	Dormant	100
Avecia UK Holdings Limited	UK	Holding company	100
Avecia Limited	UK	Dormant	100

**Notes** *(continued)*

**28 Ultimate parent company**

The company is a subsidiary undertaking of Avecia Finance plc which is incorporated in Great Britain. The ultimate parent company is Avecia (Jersey) Limited, a company registered and incorporated in Jersey. The registered number is 74318. The external address of the ultimate parent company is:

Avecia (Jersey) Limited  
Mourant du Feu & Jeune  
22 Grenville Street  
St. Helier  
Jersey  
JE4 8PX

**Company balance sheet under UK GAAP**  
*at 31 December 2007*

	<i>Note</i>	<b>2007</b> <b>£m</b>	<b>2007</b> <b>£m</b>	<b>2006</b> <b>£m</b>	<b>2006</b> <b>£m</b>
<b>Fixed assets</b>					
Investments	3		<b>278.7</b>		278.7
<b>Current assets</b>					
Debtors: amounts due within one year	4	<b>3.0</b>		5.4	
				<u>5.4</u>	
<b>Creditors: amounts falling due within one year</b>	5	<b>(1.2)</b>		(1.2)	
				<u>(1.2)</u>	
<b>Net current assets</b>			<b>1.8</b>		4.2
					<u>4.2</u>
<b>Total assets less current liabilities</b>			<b>280.5</b>		282.9
					<u>282.9</u>
<b>Creditors: amounts falling due after more than one year</b>	6		<b>(14.9)</b>		(15.2)
					<u>(15.2)</u>
<b>Net assets</b>			<b>265.6</b>		267.7
					<u>267.7</u>
<b>Capital and reserves</b>					
Called up share capital	7		<b>179.1</b>		179.1
Capital redemption reserve	8		<b>1.1</b>		1.1
Share premium account	8		<b>23.8</b>		23.8
Profit and loss account	8		<b>61.6</b>		63.7
					<u>63.7</u>
<b>Shareholders' funds</b>			<b>265.6</b>		267.7
					<u>267.7</u>

These financial statements were approved by the board of directors on 6 May 2008 and were signed on its behalf by:

[D MCLELLAN]

**D Mclellan**  
*Director*

### Company reconciliation of movements in shareholders' funds

	<b>2007</b>	2006
	<b>£000</b>	£000
<b>Loss for the year</b>	<b>(2.1)</b>	(24.3)
Other recognised gains and losses	-	-
	<hr/>	<hr/>
<b>Net reduction to shareholders' funds</b>	<b>(2.1)</b>	(24.3)
	<hr/>	<hr/>
Opening shareholders' funds	<b>267.7</b>	292.0
	<hr/>	<hr/>
<b>Closing shareholders' funds</b>	<b>265.6</b>	267.7
	<hr/> <hr/>	<hr/> <hr/>

## Notes to the company accounts

### 1 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.

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

#### *Basis of preparation*

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules.

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 the company is a wholly owned subsidiary of Avecia Finance plc, the company has taken advantage of the exemption contained in FRS 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).

The consolidated financial statements of Avecia Group plc, within which this company is included, are shown in the preceding pages.

#### *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 contracted rate or 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.

#### *Fixed asset investments*

Fixed asset investments are stated at cost less provision for any permanent impairment.

#### *Dividends on shares presented within shareholders' funds*

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

#### *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 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.

## Notes to the company accounts (*continued*)

### 1 Accounting policies (*continued*)

#### *Classification of financial instruments issued by the company*

Following the adoption of FRS 25, 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, are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

### 2 Profit for the year

As permitted by section 230 of the Companies Act 1985 the company has elected not to present its own profit and loss account for the year. Avecia Group plc reported a loss for the financial year of £2.1m (*2006: £24.3m*).

Audit services for the company totalled £3,150 (*2006: £3,000*). The company is exempt from the requirement to disclose remuneration for other services as the group accounts include this disclosure on a group-wide basis.

The company had no employees for the year ended 31 December 2007 (*2006: nil*).

For information on the remuneration of directors, please see note 6 to the Group accounts.

## Notes to the company accounts (*continued*)

### 3 Fixed asset investments

#### Company

	<b>Shares in group undertakings £m</b>
<i>Cost</i>	
At beginning and end of year	328.6
	<hr/>
<i>Impairment</i>	
At beginning and end of year	49.9
	<hr/>
<i>Net book value</i>	
<b>At 31 December 2007</b>	<b>278.7</b>
	<hr/> <hr/>
<b>At 31 December 2006</b>	<b>278.7</b>
	<hr/> <hr/>

The carrying value of the company's investment in the group was reviewed and compared to the estimated recoverable amount. No further impairment was deemed necessary.

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

	<b>Country of incorporation</b>	<b>Principal activity</b>	<b>Class and Percentage of shares held</b>
<i>Subsidiary undertaking</i>			
Avecia Corporation Limited	UK	Intermediate holding	Ordinary – 100

The principal indirectly owned subsidiary undertakings at the year end are:

	<b>Country of incorporation</b>	<b>Principal activity</b>	<b>Class and percentage of shares held</b>
<i>Subsidiary undertakings</i>			
Avecia Investments Limited	UK	Holding company	Ordinary - 100
Avecia Biologics Limited	UK	Chemical manufacture	Ordinary - 100
Hexagon Tower Limited	UK	Property holding	Ordinary - 100
Avecia Biotechnology Inc.	USA	Chemical manufacture	Ordinary - 100
Avecia Holdings LLC	USA	Dormant	Ordinary – 100
Avecia UK Holdings Limited	UK	Holding company	Ordinary - 100
Avecia Limited	UK	Dormant	Ordinary - 100

## Notes to the company accounts *(continued)*

### 4 Debtors

	<b>Company 2007 £m</b>	Company 2006 £m
<b>Debtors due within one year</b>		
Amounts owed by group undertakings	3.0	5.4
	3.0	5.4
	3.0	5.4

### 5 Creditors: amounts falling due within one year

	<b>Company 2007 £m</b>	Company 2006 £m
Accruals and deferred income	1.2	1.2
	1.2	1.2
	1.2	1.2

### 6 Creditors: amounts falling due after more than one year

	<b>Company 2007 £m</b>	Company 2006 £m
Redeemable preference shares	14.9	15.2
	14.9	15.2
	14.9	15.2
<b>Company</b>		
<b>Analysis of debt:</b>		
	<b>2007 £m</b>	<b>2005 £m</b>
Debt can be analysed as falling due:		
Between three and four years	14.9	15.2
	14.9	15.2
	14.9	15.2

## Notes to the company accounts *(continued)*

### 7 Called up share capital

	2007 Number of shares	2007 Nominal value of shares £'000	2006 Number of shares	2006 Nominal value of shares £'000
<b>Authorised</b>				
Equity: ordinary shares of £1 each	400,000,000	400,000	400,000,000	400,000
Non equity –16% cumulative redeemable preference shares of \$1 each	3,500,000	2,222	3,500,000	2,222
	<u>403,500,000</u>	<u>402,222</u>	<u>403,500,000</u>	<u>402,222</u>
<b>Allotted, called up and fully paid</b>				
Equity: ordinary shares of £1 each	179,100,001	179,100	179,100,001	179,100
Non equity –16% cumulative redeemable preference shares of \$1 each	1,200,000	517	1,200,000	517
	<u>180,300,001</u>	<u>179,617</u>	<u>180,300,001</u>	<u>179,617</u>

Following a successful petition to the Courts on 17 May 2006, Avecia Group plc reduced its issued share capital from £329,100,001 to £179,100,001 by means of cancellation of 150,000,000 ordinary shares of £1 each. The resulting reserve was credited to the Company's retained earnings.

#### **Redeemable preference shares**

The redemption of preference shares is mandatory on 1 July 2010 but may be redeemed at the option of the company on or after 1 January 2006 or earlier at a redemption value equal to the liquidation preference value plus all accumulated and unpaid dividends to the date of redemption. On a winding up they would rank in priority to ordinary shares. Up to 1 July 2004 the company was able to issue further PIK preference shares instead of a cash dividend (based on the liquidated preference amount of \$25 per share). Subsequent to 1 July 2004 this option was no longer available and subsequent dividends became payable in cash. Subject to certain exceptions contained in the articles of association, the preference shares have no voting rights at meetings of the ordinary shareholders. They attract a dividend rate of 16% but, during any period where dividends due are unpaid, a further 2% default rate is also payable. During 2006 the carrying value of the preferred shares was increased to the redemption value of \$25 per share. The accretion for 2006 was £0.9 million. All the preference shares are now held at the redemption value.

### 8 Share capital and reserves

#### Company

	Equity share capital £m	Capital redemption reserve	Share premium account	Profit and loss account £m	Total £m
At 1 January 2007	179.1	1.1	23.8	63.7	267.7
Loss for year	-	-	-	(2.1)	(2.1)
	<u>179.1</u>	<u>1.1</u>	<u>23.8</u>	<u>61.6</u>	<u>265.6</u>
At 31 December 2007	<u>179.1</u>	<u>1.1</u>	<u>23.8</u>	<u>61.6</u>	<u>265.6</u>