

**Avecia Investments Limited**

**Directors' report and financial  
statements**

**Registered Number: 3768296**

**Year ended 31 December 2009**

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## Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2009

### Principal activities

The company is an intermediate holding company and is a wholly owned subsidiary of Avecia Finance Limited. The company undertakes activities and incurs costs relating to the management of its principal subsidiaries. The company's immediate trading subsidiary undertakings provide contract manufacturing and development services to drug development companies.

### Business review

During the year the company made a loss of £5,836,000 (2008 profit of £10,262,000)

In December 2009 it was announced that Merck & Co had agreed terms for the acquisition of the company's immediate trading subsidiary undertaking, Avecia Biologics Limited. The disposal of Avecia Biologics Limited was completed on 31 January 2010.

### Political and charitable contributions

The company made no political or charitable contributions during the year (2008 £nil)

### Directors

The directors who held office during the year were as follows

Adrian Buckmaster  
Duncan McLellan

### 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.

### Auditors

Pursuant to a shareholders' resolution, the company is not obliged to reappoint its auditors annually and KPMG Audit Plc will therefore continue in office.

By order of the board



D McLellan  
Director

PO Box 42  
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 financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

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

### **Independent auditors' report to the members of Avecia Investments Limited**

We have audited the financial statements of Avecia Investments Limited for the year ended 31 December 2009 set out on pages 5 to 14. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with chapter 3 of part 16 of the Companies Act 2006. 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's web-site at [www.frc.org.uk/apb/scope/UKNP](http://www.frc.org.uk/apb/scope/UKNP).

#### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its loss for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Opinion on other matter prescribed by the Companies Act 2006**

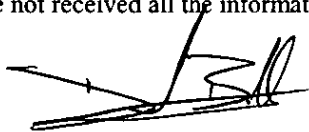
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Independent auditors' report to the members of Avecia Investments Limited**  
*(continued)*

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



27 May 2010

**David Bills (Senior Statutory Auditor)**  
**for and on behalf of KPMG Audit Plc, Statutory Auditor**

*Chartered Accountants*

**Profit and loss account**  
*for the year ended 31 December 2009*

	<i>Note</i>	<b>2009</b> <b>£000</b>	2008 £000
Operating costs		<b>(2,074)</b>	(2,176)
Exceptional operating costs	<i>6</i>	<b>(1,350)</b>	(6,919)
<b>Operating loss</b>	<i>6</i>	<b>(3,424)</b>	(9,095)
Loss on disposal of assets	<i>8</i>	<b>(3,113)</b>	-
Income from shares in group undertakings	<i>11</i>	-	9,939
Other interest receivable and similar income	<i>9</i>	<b>2,931</b>	9,669
Interest payable and similar charges	<i>10</i>	<b>(2,230)</b>	(251)
<b>(Loss)/profit on ordinary activities before taxation</b>		<b>(5,836)</b>	10,262
Tax on (loss)/profit on ordinary activities	<i>12</i>	-	-
<b>(Loss)/profit on ordinary activities after taxation and retained for the year</b>		<b>(5,836)</b>	10,262

All activities relate to continuing operations

**Statement of total recognised gains and losses**  
*for the year ended 31 December 2009*

There were no gains or losses in the current or preceding year other than those shown in the profit and loss account above therefore no separate statement of total recognised gains and losses has been prepared

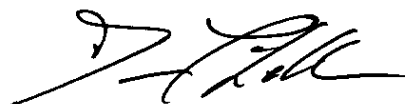
## Balance sheet

as at 31 December 2009

Registered number 3768296

	Note	2009 £000	2008 £000
<b>Fixed assets</b>			
Investments	13	42,173	43,523
<b>Current assets</b>			
Trade and other debtors	14	129,194	131,350
Cash at bank and in hand		23,349	3,432
		<u>152,543</u>	<u>134,782</u>
<b>Creditors, amounts falling due within one year</b>	15	<u>(23,711)</u>	<u>(1,464)</u>
<b>Net current assets</b>		<u>128,832</u>	<u>133,318</u>
<b>Total assets less current liabilities</b>		<u>171,005</u>	<u>176,841</u>
<b>Net assets</b>		<u>171,005</u>	<u>176,841</u>
<b>Capital and reserves</b>			
Called up share capital	16	326,800	326,800
Other reserves	18	44,111	44,111
Profit and loss reserve	18	(199,906)	(194,070)
<b>Shareholders' funds</b>		<u>171,005</u>	<u>176,841</u>

These financial statements were approved by the board of directors on 20 May 2010 and were signed on its behalf by



**Duncan McLellan**  
Director



**Reconciliation of movements in shareholders' funds**  
*for the year ended 31 December 2009*

	2009 £000	2008 £000
(Loss)/profit for the financial year	(5,836)	10,262
Net (reduction in)/addition to shareholders' funds	(5,836)	10,262
Opening shareholders' funds	176,841	166,579
Closing shareholders' funds	171,005	176,841

## Notes

*(forming part of the financial statements)*

### 1 Basis of preparation

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

The company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group accounts as its results are included in the consolidated financial statements of Avecia Holdings Limited. These financial statements present information about the company as an individual undertaking and not about its group. The consolidated financial statements of Avecia Holdings Limited can be obtained from Avecia Holdings Limited, PO Box 42, Hexagon Tower, Blackley, Manchester, M9 8ZS.

Under Financial Reporting Standard 1 (Revised 1996) the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

As 100% of the company's voting rights are controlled within the group headed by Avecia Holdings Limited, the company has taken advantage of the exemption contained in Financial Reporting Standard 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties).

### 2 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.

In December 2009 it was announced that Merck & Co. had agreed terms for the acquisition of the company's immediate trading subsidiary undertaking, Avecia Biologics Limited. The disposal was completed on 31 January 2010 for net proceeds of £110 million.

In February 2010 the company declared a dividend of £63 million to its parent, Avecia Finance Limited and subsequently, Avecia Finance Limited repaid the inter-company loans owed to the company of £63 million.

Also in February 2010 the company declared and paid a further dividend of £50 million to its parent, Avecia Finance Limited.

The directors have reviewed the company's cash flow forecasts for a period exceeding 12 months from the date of authorisation of these financial statements. Following this review, the directors have formed a judgement that, at the time of approval of the financial statements, the company has sufficient resources to continue operating for the foreseeable future. For this reason, the directors continue to prepare the financial statements on a going concern basis.

### 3 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.

#### *Fixed asset investments*

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

#### *Foreign currencies*

Profit and loss accounts in foreign currencies are translated into sterling at average rates for the relevant accounting periods. Assets and liabilities are translated at rates prevailing at the balance sheet date.

## Notes (continued)

### 3 Accounting policies (continued)

Exchange differences on foreign currency borrowings and deposits are included within net interest payable  
Exchange differences on all other transactions are taken to operating profit

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

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 (see dividends policy), are dealt with as appropriations in the reconciliation of movements in shareholders' funds

#### *Dividends*

Dividend distribution to the company's shareholders is recognised as a liability in the company's financial statements in the period in which they are declared and approved. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements. Interim dividends are recognised in the period in which they are paid.

#### *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 assets are recognised to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted.

### 4 Staff numbers and costs

Other than the named directors, the company has no employees (2008 nil)

### 5 Auditor's remuneration

Audit services for the company totalled £3,310 (2008 £3,310). This amount was borne by the ultimate parent undertaking.

### 6 Operating loss

Operating loss is stated after charging/(crediting),

	2009 £000	2008 £000
Admin and other expenses	2,074	2,176
Provision for non-collection of amounts owed by group undertakings	-	(1,367)
Impairment of fixed asset investment	1,350	8,286
	<hr/>	<hr/>

## Notes (continued)

### 7 Remuneration of directors

	2009 £000	2008 £000
Directors' emoluments	427	446

The aggregate emoluments of the highest paid director were £234,000 for the year ended 31 December 2009 (2008 £234,000). No pension contributions were made on his behalf (2008 £nil).

At 31 December 2009 retirement benefits were accruing to the following number of directors under

	2009 £000	2008 £000
Defined benefit schemes	1	1

### 8 Loss on disposal of assets

In April 2008, the company's trading subsidiary undertaking, Avecia Biologics Limited, sold its Vaccines business to PharmAthene Inc. The sale included certain milestone payments contingent upon the achievement of certain milestones relating to further funded development and commercialisation of the vaccines. In September 2009, the company purchased the rights to these future milestone payments from Avecia Biologics Limited for their fair value of £3,002,000. Following a review of the potential to receive funds from these future milestone payments at the balance sheet date, an impairment charge was taken against the cost of these assets of £3,002,000. This cost has been included within 'loss on disposal of assets'.

### 9 Interest receivable and similar income

	2009 £000	2008 £000
On bank deposits	30	278
Receivable on loans to group undertakings	2,901	2,302
Exchange differences on foreign currency loans	-	7,089
	<u>2,931</u>	<u>9,669</u>

### 10 Interest payable and similar charges

	2009 £000	2008 £000
Payable on loans from group undertakings	17	251
Exchange differences on foreign currency loans	2,213	-
	<u>2,230</u>	<u>251</u>

## Notes (continued)

### 11 Income from shares in group undertakings

During 2008, the company received a dividend of £9,939,000 from its subsidiary undertaking, Hexagon Tower Limited

### 12 Taxation

The company has no UK corporation tax credit due to tax losses being surrendered to other members of the Avecia UK group for which no payment is made

	2009 £000	2008 £000
(Loss)/profit on ordinary activities before taxation	(5,836)	10,262
Current tax at 28% (2008 28.5%)	(1,634)	2,925
Effects of		
Group relief surrendered/(utilised) for the current period	1,634	(2,925)
	-	-

### 13 Fixed asset investments

	Investment in group undertakings £000
<b>Cost</b>	
At beginning and end of year	87,235
<b>Impairment</b>	
At beginning of year	43,712
Charge in the year	1,350
At end of year	45,062
<b>Net book value</b>	
At 31 December 2009	42,173
At 31 December 2008	43,523

The carrying value of the company's investment is reviewed at each balance sheet date to determine whether there is any indication of impairment. Such review revealed that the carrying value was unsustainable given the assessment of business valuations. Accordingly, an impairment was effected and the loss has been recognised in the profit and loss account.

## Notes (continued)

### 13 Fixed asset investments (continued)

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

	Country of Incorporation	Principal activity	Class and Percentage of shares held
<i>Subsidiary undertakings</i>			
Avecia UK Holdings Limited	UK	Dormant	Ordinary – 100
AV No 2 Limited	UK	Dormant	Ordinary – 100
Hexagon Tower Limited	UK	Dormant	Ordinary – 100
Avecia Biotechnology Inc	USA	Chemical manufacture	Ordinary – 100
Avecia Biologics Limited	UK	Chemical manufacture	Ordinary – 100
Avecia Holdings LLC	USA	Dormant	Ordinary – 100
Avecia Biologics Inc	USA	Management services	Ordinary – 100

The principal indirectly owned subsidiary undertakings at the year end are

	Country of Incorporation	Principal Activity	Class and Percentage of shares held
<i>Subsidiary undertakings</i>			
Avecia Limited	UK	Dormant	Ordinary – 100
Avecia LLC	US	Dormant	Ordinary – 100

### 14 Debtors

	2009 £000	2008 £000
Amounts owed by group undertakings	128,613	131,316
Prepayments	581	13
Other debtors	-	21
	<u>129,194</u>	<u>131,350</u>

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

	2009 £000	2008 £000
Trade creditors	670	174
Other payables	208	-
Deferred proceeds relating to disposals	22,000	-
Amounts owed to group undertakings	833	1,290
	<u>23,711</u>	<u>1,464</u>

In December 2009 it was announced that Merck & Co had agreed terms for the acquisition of the company's immediate trading subsidiary undertaking, Avecia Biologics Limited. The deferred proceeds relating to disposals has arisen from option fees prepaid to secure the right to purchase Avecia Biologics Limited.

## Notes (continued)

### 16 Called up share capital

	2009 Number of shares	2009 Nominal value of shares £000	2008 Number of shares	2008 Nominal value of shares £000
<b>Authorised</b>				
Equity ordinary shares of £1.00 each	400,000,000	400,000	400,000,000	400,000
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Allotted, called up and fully paid</b>				
Equity ordinary shares of £1.00 each	326,800,001	326,800	326,800,001	326,800
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

### 17 Contingent liabilities

The company has acted as the principal vendor for a number of business divestments within the Avecia group of companies since 2002. As part of these divestments the company has agreed to provide certain warranties, covenants and undertakings to the purchasers. Many of these undertakings have now lapsed as the time period specified in the sale and purchase agreements has elapsed, while others are still in effect. There are no material claims outstanding under these agreements.

### 18 Reserves

	Other reserves £000	Profit and loss reserve £000
At beginning of year	44,111	(194,070)
Retained loss for the year	-	(5,836)
	<u>          </u>	<u>          </u>
At end of year	44,111	(199,906)
	<u>          </u>	<u>          </u>

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

The company is a subsidiary undertaking of Avecia Corporation Limited which is incorporated in the United Kingdom. The ultimate parent company is Avecia (Jersey) Limited, a company registered and incorporated in Jersey.

The largest and smallest group in which the results of the company are consolidated is that headed by Avecia Holdings Limited which is incorporated in the United Kingdom. The consolidated financial statements of Avecia Holdings Limited can be obtained from Avecia Holdings Limited, PO box 42, Hexagon Tower, Blackley, Manchester M9 8ZS.

### 20 Post balance sheet events

In December 2009 it was announced that Merck & Co., had agreed terms for the acquisition of the company's immediate trading subsidiary undertaking, Avecia Biologics Limited. The disposal was completed on 31 January 2010 for net proceeds of £110 million.

## Notes *(continued)*

### 20 Post balance sheet events *(continued)*

In January 2010 there was a reduction in the Company's share capital by way of a cancellation of 316,800,000 of fully paid and issued £1 00 ordinary shares

On 2 February the company declared a dividend of £63 million to its parent, Avecia Finance Limited. Subsequently Avecia Finance Limited repaid the inter-company loans owed to the company of £63 million. On 3 February the company declared and paid a further dividend of £50 million to its parent, Avecia Finance Limited.