KEMFINE

KemFine UK Limited

Directors' report and financial statements

Registered number: 5369235

17 September 2005 to 31 December 2005

Subject:

Contents

Directors and advisers

Directors:
Yrjö Sipilä
Hannu Isohaaro
Matti Packalén
Ulf Björkqvist
Tom Shields

Company Secretary:
Stephen Coombe

Registered Office:
100 Barbirolli Square
Manchester
M2 3AB

Auditors:
PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Kintyre House
209 West George Street
Glasgow

Solicitors:
Dickson Minto
Solicitors
Edinburgh

Bankers:
Royal Bank of Scotland
36 St Andrews Square
Edinburgh

Directors' report

The directors present their annual report and the audited financial statements for the period from 17th September to 31st December 2005

Principal activities

The company manufactures and sells specialty chemical products, and provides industrial services to customers in a range of industries. Specialty chemicals are used in the manufacture of a wide variety of products including, chemical intermediates for pharmaceutical and agrochemical products, disinfectants, sanitisers and additives. The directors do not foresee any change in activities in the foreseeable future.

Business review

The Company submitted its previous Financial Statements for the period from incorporation (18th February 2005) , which included trading from 1st May 2005 to 16th September 2005. On 17th September 2005, Avecia Fine chemicals was acquired by KemFine Group OY, changing its name to KemFine UK Limited, and amending its Accounting *Reference date to 31st December. During the period 17th September 2005 to 31st December 2005, the company made* a profit before tax of £81,000 (Profit before tax for the period 18th February 2005 to 16th September 2005 was £1,332,000).

The directors expect some growth during 2006, although this is highly dependant on securing new business.

The business remains a going concern through the support of its current parent, KemFine Group OY, who have expressed their intention of continued financial support.

The directors do not recommend the payment of a dividend.

Research and development

The company carries out no research. Product development and process technology efforts are driven by the specific requirements of each of our customers. Where appropriate, development and process technology efforts are managed in cross-functional teams which involve commercial and manufacturing personnel. It is believed that this structure supports clear business and customer focus. Process technology groups are located at the site in Grangemouth.

Directors and directors' interests

The directors who were appointed on 16th September 2005 and who held office during the period were as follows:

Yrjö Sipilä
Hannu Isohaaro
Matti Packalén
Ulf Björkqvist
Tom Shields

No director had any interest in the ordinary shares of the company. The interests of the directors who held office at the end of the financial year in the shares of KemFine Group OY are disclosed in the financial statements of that company.

Directors' interests

According to the register of directors' interests, no rights to subscribe for shares in the company were granted to any of the directors or their immediate families during the financial year.

Employees

Employee involvement

The company adopts an approach of being honest and open with employees about matters affecting the business. The company is fully committed to keeping all employees informed about the performance, progress and issues relating to their business or work unit, and about wider business issues. A forum for employee consultation at European level was previously in place in the Avecia group, set up and was chaired by the Chief Executive. The appropriate forum for achieving similar involvement within the KemFine Group is currently still under review.

Equal opportunities

The company 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 company 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 company 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 company also takes all reasonable steps to ensure that its working environments can accommodate special needs. The company also makes every effort to continue to employ staff who may become disabled whilst employed, providing appropriate training and adapting facilities to allow them to continue working where possible.

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that 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. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently with the exception of the changes arising on the adoption of new accounting standards in the period as explained on page 9 under Note 2 'Accounting policies'. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the period ended 16 September 2005 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In respect of each of the Directors serving at the time these accounts were approved:

- So far as they are aware, there has been no relevant audit information of which the company auditors are unaware, and.
- Each has taken all steps that he ought to take as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information

Political and charitable contributions

The company made no political contributions or donations to UK charities during the period.

Auditors

Pursuant to a shareholders' resolution, PricewaterhouseCoopers LLP were appointed as auditors to the company on 17th September 2005.

Tom Shields
Director

20th June 2006

100 Barbirolli Square
Manchester
M2 3AB

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KEMFINE UK LIMITED

We have audited the financial statements of KemFine UK Limited for the period ended 31 December 2005 which comprise the Profit and Loss Account, the Balance Sheet, the Reconciliation of Movement in Shareholders' Funds, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors
As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion
In our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its profit for the period then ended; and

- have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Glasgow
20th June 2006

Profit and loss account
for the period ended 31 December 2005

	Note	17 Sept 2005 to 31 Dec 2005	18 Feb 2005 to 16 Sept 2005
		£000	£000
Turnover	4	15,420	15,827
Cost of sales		(12,530)	(13,578)
Gross profit		2,890	2,249
Distribution costs		(53)	(76)
Administrative costs		(2,047)	(1,624)
R&D/Technical costs		(269)	(326)
Other operating income/(costs)	5	(381)	1,228
Operating profit	6	140	1,451
Interest payable	9	(242)	(119)
Other Finance Costs		183	-
Profit on ordinary activities before taxation	7,8	81	1,332
Tax on profit on ordinary activities	10	-	-
Profit on ordinary activities after taxation and retained for the period		81	1,332

Balance sheet
as at 31 December 2005

	Note	31 December 2005 £000	16 September 2005 £000
Fixed assets			
Goodwill	11	10,601	10,788
Tangible assets	12	21,175	21,567
		31,776	32,355
Current assets			
Stocks	13	3,099	3,315
Debtors: amounts due in less than one year	14	11,516	5,270
Cash at bank and in hand		3,175	0
		17,790	8,585
Creditors: amounts falling due within one year	15	(17,139)	(9,584)
Net current liabilities		6451	(999)
Total assets less current liabilities		32,427	31,356
Creditors: amounts falling due after more than one year	16	(14,449)	(8,696)
Provisions for liabilities and charges	17	(200)	(778)
Net assets excluding pension liabilities		17,778	21,882
Pension liability	22	(3,622)	(17,550)
Net assets		14,156	4,332
Capital and reserves			
Called up share capital	18	14,500	3,000
Profit and loss account	19	(344)	1,332
Equity shareholders' funds		14,156	4,332

These financial statements were approved by the board of directors on 20th June 2006 and were signed on its behalf by:

T Shields
Director

Reconciliation of movements in shareholders funds
as at 31st December 2005

	17 Sept 2005 to 31 Dec 2005 £000	18 Feb 2005 to 16 Sept 2005 £000
Profit for the period	**81**	1,332
Other recognised gains/(losses) relating to the period	**(1,757)**	-
Additional Equity	**11,500**	-
Net increase/(reduction) in shareholders' funds	**9,824**	1,332
Opening shareholders 'funds	**4,332**	3,000
Closing shareholders funds	**14,156**	4,332

Statement of total recognised gains and losses
for the period ended 31st December 2005

	17 Sept 2005 to 31 Dec 2005 £000	18 Feb 2005 to 16 Sept 2005 £000
Profit for the period	**81**	1,332
Actuarial loss relating to pension liability	**(1,757)**	-
Total recognised gains and losses relating to the period	**(1,676)**	1,332

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.

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 KemFine Group OY, 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 Accounting policies

These financial statements are prepared on the going concern basis, under the historical cost convention in accordance with the Companies Act 1985 and applicable accounting standards. The principal accounting policies are set out below.

Goodwill

On the acquisition of the business, values were attributed to the net assets acquired. Goodwill represented the shortfall of the value of the separable net assets over the value of the consideration given, which has been capitalised and is amortised to nil by equal instalments over its estimated useful life.

Goodwill arising on the purchase of intellectual property is amortised over its useful economic life of 10 years.

Fixed asset investments

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

Depreciation and amortisation

The book value of each tangible asset is written off evenly over its estimated remaining 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. Under this policy it becomes impracticable to calculate the average asset lives exactly. However, the total lives approximate to 25 years for buildings and 10 years for plant and equipment. Depreciation of assets qualifying for grants is calculated on their full cost. Intangible assets, including patents, acquired are capitalised and amortised over their estimated useful lives (not exceeding 20 years) in line with the benefits accruing. If related products fail, the remaining unamortised amounts are written off to revenue expense. Internally developed intangible assets are not capitalised.

Environmental liabilities

The company is exposed to environmental liabilities relating to operations, principally in respect of soil and groundwater remediation costs. Provisions for these costs are made when expenditure on remedial work is probable and the cost can be estimated within a reasonable range of possible outcomes.

Notes *(continued)*

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account. Exchange differences on foreign currency borrowings and deposits are included within net interest payable.

Leases

Assets held under finance leases are capitalised and included in tangible fixed assets at fair value. Each asset is depreciated over the shorter of the lease term or its useful life. The obligations related to finance leases, net of finance charges in respect of future periods, are included as appropriate under creditors due within, or creditors due after, one year. The interest element of the rental obligation is allocated to accounting periods during the lease term to reflect a constant rate of interest on the remaining balance of the obligation for each accounting period.

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

Post-retirement benefits

The company operates both Defined Benefit and Defined Contribution schemes. The assets of the pension schemes are held separately from those of the Company. In the case of defined benefit schemes, assets are measured using market values. Liabilities are measured using a projected unit method and discounted at the current rate of return of a high quality corporate bond of equivalent term and currency. Costs and liabilities are assessed in accordance with the advice of independent qualified actuaries. The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses. In the case of Defined Contribution schemes, the amount charged to the profit and loss account represents the contributions payable to the scheme in the period.

Research and development expenditure

Expenditure on research and development is written off against profits in the period in which it is incurred.

Stocks valuation

Finished goods are stated at the lower of cost and net realisable value, and raw materials and other stocks at the lower of cost or replacement price. The first in, first out or an average method of valuation is used. In determining cost, selling expenses and all overhead expenses (principally central administration costs) are excluded. Net realisable value is determined as selling price less costs of disposal.

Taxation

The charge for taxation is based on the profits for the period 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.

Turnover and revenue recognition

Turnover excludes value added taxes. The company generates revenue through sales of specialty chemicals and related services in the open market, through raw material conversion agreements and service contracts. Revenue is recognised when ownership of the products are passed to the customer or when services have been rendered.

Notes *(continued)*

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 and released to the profit and loss account 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 operating profit 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.

4 Analysis of turnover

	17 Sept 2005 to 31 Dec 2005 £000	18 Feb 2005 to 16 Sept 2005 £000
By geographical market		
UK	**6,026**	8,117
Continental Europe	**8,829**	7,015
Americas	**565**	695
Asia, Africa and Australasia	**-**	-
	15,420	15,827

As in the prior period, all of the profit and net assets of the company arose in the UK.

5 Other Operating Income/Costs

Other operating income/costs includes amortisation of goodwill of £187,000, and a provision for costs following exit from a contract of £200,000. (For the period to 16th September 2005, a £16,500,000 write off of a loan from the previous parent company, and impairment of goodwill of £15,294,000 is included).

Notes (continued)

6 Operating profit

	17 Sept 2005 to 31 Dec 2005 £000	18 Feb 2005 to 16 Sept 2005 £000
Operating profit is stated after charging/(crediting)		
Depreciation and other amounts written off tangible fixed assets:		
Owned	**546**	764
Leased	**206**	206
Impairment/Amortisation of goodwill	**187**	15,294
Waiver of loan from parent Avecia Limited	**-**	(16,500)
Operating lease charges for plant & machinery	**109**	152
Auditors fees payable for audit	**77**	35
Auditors fees for other services	**5**	23
Research and development expenditure	**184**	290

7 Remuneration of directors

	17 Sept 2005 to 31 Dec 2005 £000	18 Feb 2005 to 16 Sept 2005 £000
Directors' emoluments	**190**	-

The above emoluments include amounts paid to a director on behalf of other group undertakings for the work performed by that director in relation to other group undertakings. Other companies within the KemFine group paid the emoluments of the remaining Directors' during the period.

The aggregate emoluments of the director were £ 182,000 for the period ended 31st December 2005 and company *pension contributions of £ 8,000 were made to a defined benefit scheme on his behalf.*

For the previous period, other companies within the Avecia group paid the emoluments of the then directors.

	17 Sept 2005 to 31 Dec 2005 £000	18 Feb 2005 to 16 Sept 2005 £000
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	**-**	-
Defined benefit schemes	**1**	-

Notes (continued)

8 Staff numbers and costs

The average number of persons employed by the company during the year, analysed by category, was as follows:

	Number of employees	
	31st Dec 2005	16th Sep 2005
Manufacturing	**261**	262
Research and Development	**10**	10
Management/Administrative	**29**	30
	300	302

The aggregate payroll costs of these persons were as follows:

	17 Sept 2005 to 31 Dec 2005	18 Feb 2005 to 16 Sept 2005
	£000	£000
Wages and salaries	**3,092**	4,022
Social security costs	**319**	410
Other pension costs (see Note 22)	**661**	830
	4,072	5,262

9 Interest payable and similar charges

	17 Sept 2005 to 31 Dec 2005	18 Feb 2005 to 16 Sept 2005
	£000	£000
Finance charges payable in respect of finance leases	**80**	119
Group Interest charges	**162**	-
	242	108

Notes (continued)

10. Taxation

The company has no UK corporation tax charge due to the losses in the Avecia group which are available for group relief.

The tax assessed for the period is lower than the standard rate of corporation tax (30%). The differences are explained below:

	17 Sept 2005 to 31 Dec 2005 £000	18 Feb 2005 to 16 Sept 2005 £000
Profits on ordinary activities before tax	**81**	1,332
Profits on ordinary activities multiplied by the standard rate of corporation tax of 30%	**24**	400
Effects from:		
Depreciation in excess of capital allowances	**131**	(301)
Research and development allowances	**(14)**	(22)
Items not taxable	**-**	(5)
Items not allowable	**54**	4,588
Special pension payments	**(257)**	(11)
Depreciation on leased assets	**62**	62
Losses brought forward utilised in current period	**-**	(4,711)
Current Taxes	**-**	-
Deferred taxes	**-**	-
Tax on profit on ordinary activities	**-**	-

Notes (continued)

11 Goodwill and Intangible assets

	Goodwill £000
Cost or valuation	
As of 16th Sept 2005	**26,082**
Acquisitions	**-**
Disposals	**-**
At 31st Dec 2005	**26,082**
Depreciation	
Aa at 16th Sept 2005	**15,294**
Charge for the period	**187**
Impairment	**-**
Disposals	**-**
At 31st Dec 2005	**15,481**
Net book value	
At 16 September 2005	**10,788**
Net book value	
At 31 December 2005	**10,601**

Notes (continued)

12 Tangible fixed assets

	Land and buildings	Plant and machinery	Assets in the course of construction	Total
	£000	£000	£000	£000
Cost or valuation				
As of 16th Sept 2005	7,963	87,084	306	95,353
Acquisitions	-	-	360	360
Disposals	-	-	-	-
At 31st Dec 2005	7,963	87,084	666	95,713
Depreciation				
Aa at 16th Sept 2005	4,595	69,191	-	73,786
Charge for the period	112	640	-	752
Impairment	-	-	-	-
Disposals	-	-	-	-
At 31st Dec 2005	4,707	69,831	-	74538
Net book value				
At 16 September 2005	3,368	17,893	306	21,567
Net book value				
At 31 December 2005	3,256	17,253	666	21,175

Included in the total net book value of land and buildings and plant and machinery at 31 December 2005 is £303,000 and £2,507,000 respectively (at 16th Sept 2005 is £322,000 and £2,694,000) respectively relating to assets held under finance leases (all Long Term). Depreciation for the period ended 31 December 2005 on these assets was £19,000 and £187,000 respectively (period ended 16th Sept 2005 on these assets was £22,000 and £184,000 respectively).

12 Stocks

	At 31 Dec 2005	At 16 Sept 2005
	£000	£000
Raw materials and consumables	2,217	2,220
Work in progress	365	256
Finished goods and goods for resale	517	839
	3,099	3,315

Notes (continued)

14 Debtors

	At 31 Dec 2005 £000	At 16 Sept 2005 £000
Trade debtors	**11,240**	4,385
Amounts owed by group undertakings	**15**	376
Prepayments and accrued income	**261**	509
	11,516	5,270

15 Creditors: amounts falling due within one year

	At 31 Dec 2005 £000	At 16 Sept 2005 £000
Obligations under finance leases	**635**	709
Trade creditors	**2,929**	1,806
Amounts owed to group undertakings	**8,025**	4,985
Tax and Social Security	**321**	14
Other creditors	**1,246**	550
Accruals and deferred income	**3,983**	1,520
	17,139	9,584

16 Creditors: amounts falling due after more than one year

	At 31 Dec 2005 £000	At 16 Sept 2005 £000
Obligations under finance leases	**3,047**	3,196
Amounts owed to group undertakings	**11,402**	5,500
	14,449	8,696

£4,142,000 of the amount owing to group undertakings was converted to equity in April 2006.

Notes (continued)

The maturity of obligations under finance lease contracts is as follows:

	At 31 Dec 2005 £000	At 16 Sept 2005 £000
Within one year	**186**	186
In the second to fifth years	**-**	-
Over five years	**4,244**	4,554
	4,430	4,740
Less future finance charges	**(748)**	(835)
	3,682	3,905

17 Provisions for liabilities and charges

The provision at 31st December 2005 relates to costs to be incurred following exit from a significant contract. These costs are all expected to be incurred in 2006. (At 16th September, the provision covered severance costs for staff, all of which were paid in the period to 31st December)

	To 31 Dec 2005 £000	To 16 Sept 2005 £000
As at start of period	**778**	-
Acquired at 1st May 2005	**-**	3,103
Charge for the period	**200**	-
Utilised during period	**(778)**	(2,325)
At end of the period	**200**	778

18 Called up share capital

An additional 11,500 ordinary shares of £1 were authorised, allotted and fully paid in the period.

	At 31 Dec 2005 £000	At 16 Sept 2005 £000
Authorised		
Equity: 14,500 Ordinary shares of £1.00 each	**14,500**	3,000
Allotted, called up and fully paid		
Equity: 14,500 Ordinary shares of £1.00 each	**14,500**	3,000

Notes (continued)

19 Profit and loss account

	To 31 Dec 2005 £000	To 16 Sept 2005 £000
At beginning of period	**1,332**	-
	1,332	-
Arising in the period	**81**	1,332
Actuarial Loss	**(1,757)**	-
At end of period	**(344)**	1,332
Pension Deficit	**3,622**	17,550
Profit & loss reserve excluding pension deficit	**3,278**	18,882

20 Contingent liabilities

Environmental matters

The business has contingent liabilities on its Grangemouth site 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 Avecia with companies in the AstraZeneca group, notably Zeneca Limited (as a principal seller of the business to the group) and AstraZeneca plc (as guarantor), on Avecia's acquisition of AstraZeneca's specialty chemicals operations, has been assigned to the business and provides certain indemnities to and by the AstraZeneca group 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 KemFine 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 the business. 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 the business. In addition, certain environmental liabilities identified on the Northern and Northeast boundary of Grangemouth site are subject to legal agreement between the business and the Avecia Group.

Notes (continued)

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

Pension Fund transfer of Protected Rights

Certain assets and liabilities in the Avecia Fine Chemicals Pension fund in respect of members protected rights could not be transferred to the KemFine UK Pension fund when the KemFine Group acquired the Avecia Fine Chemicals business from the Avecia Group. Changes to legislation in April 2006 have meant that a transfer of protected rights is now possible and certain requirements in the KemFine UK Pension Trust deed place an obligation on Kemfine to accept this transfer. It has emerged that an unforeseen deficit between the assets and liabilities represented by the protected rights exists because of the way in which the Trust Deed requires the pension benefits to be paid. A dispute exists between Avecia and KemFine about which company will fund this deficit under the terms agreed when the Avecia Fine Chemicals business was acquired by KemFine.

Whilst the settlement of this dispute is not yet agreed , the directors are confident that the matter will be resolved without material effect on the financial position as shown in these consolidated financial statements

Litigation and other claims

The business is subject to legal actions and claims by third parties. While the outcome of some of these matters cannot be foreseen with accuracy, the directors believe that they will be disposed of without material effect on the net asset position as shown in these financial statements.

21 Commitments

Capital commitments at the end of the period for which no provision has been made, are as follows:

	At 31 Dec 2005	At 16 Sept 2005
	£000	£000
Contracted	**1,067**	408

22 Pension scheme

KemFine UK limited 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.

Notes (continued)

Major assumptions

	To 31 Dec 2005	To 16 Sep 2005
Rate of general increase in salaries	**3.80%**	3.75%
Rate of increase to pensions in payment	**2.70%**	2.69%
Discount rate for scheme liabilities	**4.70%**	4.95%
Inflation	**2.80%**	2.75%

The mortality assumption used in determining the company's expected pension liabilities is based on the standard actuarial tables PA92, projected forward to 2010 for current pensioners and 2020 for future pensioners, with the 'Short Cohort' adjustment applied. Based on these tables, life expectancies for future pensioners from age 60 are estimated as being 25.9 years for males and 28.7 years for females (At 16th Sept 2005 the 'Short Cohort' adjustment was not applied, and life expectancy figures were 24.4 and 27.4 for males and females respectively).

The assets in the schemes and the expected rate of return were :

	Long term rate of return expected 31 December 2005 % pa	**Value as at 31 December 2005 £000**	Long term rate of return expected 16 September 2005 % pa	Value as at 16 September 2005 £000
Equities	**7.5**	**1,396**	7.5	44,224
Government Bonds – index linked	**3.75**	**222**	4.25	7,014
Government Bonds – fixed interest	**4.0**	**3,654**	-	-
Corporate Bonds	**4.4**	**44,876**	5.0	6,909
Structured Equity Product	**7.5**	**20,160**	-	-
Interest Rate & inflation overlay	**0.0**	**731**	-	-
Other	**4.5**	**10,880**	5.0	593
Market value of assets		**81,919**		58,736
Present value of scheme liabilities		**(85,541)**		(76,290)
Deficit		**(3,622)**		(17,550)

The amount of 10,880,000 under 'Other' as at 31 December 2005 includes £6,410,000 in a cash account with Royal London Asset Management, and cash held in Escrow of £4,142,000 (released to the fund in early 2006).

Notes (continued)

Analysis of the amounts charged to operating profit:

	17 Sept 2005 to 31 Dec 2005 £000	18 Feb 2005 to 16 Sept 2005 £000
Current service cost	**(661)**	(830)
Past service cost	**-**	-
	(661)	(830)

Analysis of amount credited to other finance income:

	17 Sept 2005 to 31 Dec 2005 £000	18 Feb 2005 to 16 Sept 2005 £000
Expected return on pension scheme assets	**1,284**	10
Interest on pension scheme liabilities	**(1,101)**	(10)
Net Return	**183**	-

Movement in deficit during the period:

	To 31 Dec 2005 £000	To 16 Sep 2005 £000
Surplus/(Deficit) at beginning of period / acquired	**(17,550)**	(17,940)
Current service cost	**(661)**	(830)
Past service cost	**-**	-
Company contributions	**12,021**	1,220
Cash held in Escrow	**4,142**	-
Other Finance income	**183**	-
Actuarial gain/(loss)	**(1,757)**	-
Surplus / (Deficit) at end of the period	**(3,622)**	(17,550)

The £4,142,000 cash held in Escrow was paid into the pension fund in early 2006.

Notes (continued)

Analysis of amount recognised in Statement of Total Recognised Gains and Losses:

	To 31 Dec 2005 £000	To 16 Sep 2005 £000
Difference between the expected and actual return on scheme assets	**6,261**	-
Percentage of scheme assets	**7.6%**	-
Experience gains and losses on the scheme liabilities	**(803)**	-
Percentage of scheme liabilities	**0.9%**	-
Changes in assumptions underlying the present value of scheme liabilities	**(7,215)**	-
Percentage of scheme liabilities	**8.4%**	-
		-
Total amount recognised in statement of total recognised gains and losses	**(1,757)**	-
Percentage of scheme liabilities	**2.1%**	

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

The company is a subsidiary undertaking of KemFine Group OY (which is incorporated in Finland), The largest and smallest group in which the results of the company are consolidated is that headed by KemFIne Group OY.

24 Post balance sheet events

On 24th April 2006 an additional £4,142,000 ordinary shares of £1 were authorised, allotted and fully paid, representing a conversion of Group Loans.