

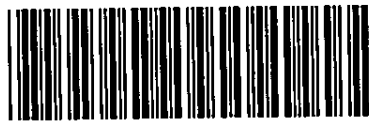
3764421

PATHEON UK LIMITED

Report and Financial Statements

31 October 2011

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COMPANIES HOUSE

Patheon UK Limited

Registered No 3764421

DIRECTORS' REPORT

DIRECTORS

A Mancuso

I Jones

W Wheeler (resigned 1 December 2010)

P Bigelow (appointed 1 December 2010)

(resigned 17 February 2011)

M Lytton (appointed 20 September 2011)

E Evans (appointed 25 January 2011)

J Mullen (appointed 18 February 2011)

SECRETARY

M Quinn

AUDITORS

Ernst & Young LLP

Apex Plaza

Reading

Berkshire

RG1 1YE

BANKERS

Barclays

4th Floor

Apex Plaza

Forbury Road

Reading

RG1 1AX

SOLICITORS

Macfarlanes

20 Cursitor Street

London

EC4A 1LT

REGISTERED OFFICE

Kingfisher Drive

Covingham

Swindon

Wiltshire

SN3 5BZ

Patheon UK Limited

Registered No 3764421

DIRECTORS' REPORT

The directors present their report and financial statements for the year ended 31 October 2011

RESULTS AND DIVIDENDS

The profit for the year, after taxation, is £17,414,000 (2010 £7,773,000) A preference dividend of £120,000 was paid during the year (2010 £60,000)

PRINCIPAL ACTIVITY, REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The principal activity of the company is one of providing commercial manufacturing and development services for prescription and over-the-counter drugs to the international pharmaceutical and biotechnology industry

The company's key financial and other performance indicators during the year were as follows -

	2011 £'000	2010 £'000	Change %
Turnover	76,508	68,215	+12%
Total operating profit	21,574	14,267	+51%
Shareholders' funds	31,014	17,903	+73%
Current assets as % of current liabilities	125%	69%	+56%
Average number of employees	603	625	-4%

Turnover increased by 12% during the year The transfer of the European headquarter operations contributed an additional £3,678,000 or 5% Contract manufacturing services (CMS) revenue increased by £9,572,000 or 14% due to release of deferred contract revenue, while Pharmaceutical Development Services (PDS) revenue decreased by £4,956,000 or 7%

Operating profit increased by £7,307,000 during the year This increase was mainly due to the flow through of the deferred revenues

Profit for the financial year increased by £9,641,000 and the tax charge increased by £4,271,000 Revenue increased £8,293,000 with a £1,108,000 increase in materials due to a change in mix Staff costs reduced by £1,325,000, loan interest payable reduced by £959,000, Foreign exchange was favourable by £1,610,000 and there was other income in relation to insurance proceeds of £2,970,000

Shareholders' funds have increased by 73% as a result of profit in the year of £17,414,000, an actuarial loss of £5,717,000 during the year increasing the company's defined benefit pension scheme liability to £12,569,000, offset by a reduction in the related deferred tax asset of £1,534,000

The company's current asset to liability ratio has increased by 56% in comparison to prior year with net current assets increasing by £17,193,000 Current liabilities have reduced by deferred revenue of £11,007,000, finance lease obligation of £1,287,000 and an intercompany loan of £8,522,000 Current assets have reduced by £3,655,000 due to utilisation of tax losses moving deferred tax to a liability and stock has decreased by £1,011,000

The total average number of employees decreased by 4% during the year

FUTURE DEVELOPMENTS

The company has continued its refurbishment program of key lines during 2011. These refurbishments are part of the site's compliance to good manufacturing practice together with compliance to the various regulatory bodies. In addition the refurbishment now provides our clients with improved facilities and a more conducive working environment while based on site.

Commercial revenue will decline in 2012 as compared to 2011 driven by deferred revenue releases through 2011 of circa £35m. The underlying production revenue is expected to reduce year on year by approx 9% due to planned client repatriation programs. New business quotations for pre-filled syringes and drops production continue to be buoyant with a number of active quotes in the market at this time. Anticipated new business and new technical transfer activity will offset this reduction to provide an underlying growth in revenue estimated at 9% of base business ignoring the impact of deferred revenue during 2011.

The Commercial operation has undertaken a transformation plan for 2012 with the assistance of outside consultants. The transformation plan will reduce expenses year on year by approximately £3.7m. This will be achieved by organisational restructure through the first quarter which is estimated at £2.7m and a third party spend reduction of approx £1.0m.

The Pharmaceutical Development Services unit in 2011 saw a 20% decline in revenue against 2010. This is the first year on year decline since PDS was established in the UK in 2001 and occurred as a result of a significant decrease in volumes of a key project. Prior years have shown consistent growth with 2010 versus 2009 showing growth of 20% and 2009 versus 2008 of 6%. The forecast mix of projects for 2012 are less reliant on a single client, this will significantly reduce the risk of a change in any one project.

Patheon is in the process of transferring its Zug, Switzerland European headquarters operations to Patheon UK Ltd, this activity should complete through the first quarter of 2012. The new business quotes team for both Commercial and the PDS are now co-ordinated through Patheon UK Ltd. All European contracts with clients for new and some existing clients have been transferred to Patheon UK Ltd under contract re-assignment. This will strengthen the financial position of the site through 2012 and beyond.

PRINCIPAL ACTIVITY, REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS
(continued)

The company has a clearly stated policy for caring and protecting the environment, with regular audits and continuous monitoring of its activities to ensure best practices are employed for effective environmental protection. In addition to any site policies the company is also driven by corporate policies to continuously improve its waste generation and management. Patheon, as a whole, takes very seriously its responsibilities with regards being a good corporate citizen and neighbour.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties facing the company are broadly grouped as competitive, legislative, foreign exchange rates, going concern, R&D, economic and other financial risks.

• *Competitive risks*

Client strategies and market trends - As a contract manufacturer and provider of outsourced services to the global pharmaceutical market, Patheon is dependent on our clients outsourcing strategies on global industry trends. Any changes in our client's strategy or changes in global trends regarding outsourcing may have an impact on our activities. These risks are minimised by the Group through development of strategic partnerships with key clients and acquiring niche capabilities.

Competition – within the current competitive global market, we are encountering competition from existing or new entrants in the market. The risk of not remaining competitive is minimised (but not eliminated) through our strategic focus on competitive advantage through capabilities, service and efficiency.

• *Legislative/regulatory risks*

Currently the company is regulated by various national regulatory bodies, with the main ones being MHRA in UK and FDA in the USA. Regulatory changes may raise risks as to Patheon's abilities to service these markets, either impacting the company's capabilities or impacting indirectly through changes to the client's product requirements. Patheon are upgrading capabilities and systems continuously to ensure they meet all current and reasonably foreseen regulatory changes.

• *Foreign currency exposure*

Due to the global nature of the revenues, the company is exposed to financial foreign exchange risk, mainly for its USD and Euro denominated revenues. There are no currency hedges or other financial instruments in place at a company level to protect against exchange rates variations. Such risks are managed by the group's treasury function at a corporate level.

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

• *Going concern*

The company has considered financial resources together with long term contracts with a number of customers and suppliers across different geographic areas. As a consequence the directors believe the company is well placed to manage its business risks successfully despite the current economic outlook.

After making enquiries and reviewing projected results up to 31 October 2016, the directors have a reasonable expectation that the company have adequate resources for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

A parental support letter is also in place covering a period of 12 months from the date of signing the statutory accounts. This letter covers the provision of financial support by Patheon Inc to meet liabilities as they fall due, but only to the extent that money is not otherwise available to meet such liabilities.

• *Research and development*

The company undertakes R&D activities on behalf of its clients as part of the range of services offered through its Pharmaceutical Development Services Business Unit (PDS). These do not include any animal testing activities. The services are on a 'fee for service' basis and billed on completion of agreed milestones. The company does not enter into risk sharing deals with the clients based on the success of client products, therefore the risks are minimised to collection of fees only.

• *Economic risks*

Through the normal course of its activities, the company has exposure to economic risks specifically interest rates. The company borrowings are mainly with its parent company where it pays a variable interest rate.

• *Other financial risks*

Product and services price risks are limited through structured contracts which are based on firm pricing, usually with mechanisms for annual price increases relating to component and/or index-linked increases. The majority of revenues are through long term contracts with large pharmaceutical companies that have a high quality credit score. For smaller clients, usually using the PDS services, Patheon charge a security deposit and structure the contracts for billing on frequent milestones, therefore minimising our exposure for collecting debt.

The cash flow and liquidity is currently dependent on support from the parent company via intercompany loans.

DIRECTORS' QUALIFYING THIRD PARTY INDEMNITY PROVISIONS

The company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

POLITICAL AND CHARITABLE CONTRIBUTIONS

The company made a charitable donation of £200 in the year.

DISABLED EMPLOYEES

The company gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion.

Where existing employees become disabled, it is the company's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim.

EMPLOYEE INVOLVEMENT

The company has adopted the policy of providing employees with information including a quarterly newsletter and employee meetings are conducted through monthly sessions. In addition, regular focus group sessions are conducted between management and employees to allow for a free flow of information and ideas as well as regular meetings of the Company Consultative Group (which is an employee/employer information sharing forum). A discretionary bonus scheme for all employees is in operation that is linked to the financial performance of the company.

DIRECTORS

The directors who served during the year are shown on page 2.

DISCLOSURE OF INFORMATION TO THE AUDITORS

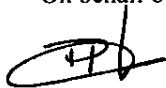
The directors who were members of the board at the time of approving the directors' report are listed on page 2. Having made enquires of fellow directors and of the company's auditors, each of these directors confirm that:

- To the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are not aware, and
- Each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information.

RE-APPOINTMENT OF AUDITORS

Under s487(2) of the Companies' Act 2006, Ernst & Young will be deemed to be re-appointed as auditors, unless the members resolve not to re-appoint in accordance with s488 of the Companies' Act 2006.

On behalf of the Board



Ian Jones

Director

Date 21/12/11

**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF 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 the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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 accounting 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,
- 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 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PATHEON (UK) LIMITED

We have audited the financial statements of Patheon UK Limited for the year ended 31 October 2011 which comprise Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 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

As explained more fully in the Directors' Responsibilities Statement, 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 Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 October 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PATHEON (UK) LIMITED

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

Ernst & Young LLP

Jane Barwell (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

Reading

Date *22 December 2011*

Patheon UK Limited**Registered No 3764421****PROFIT AND LOSS ACCOUNT**
for the year ended 31 October 2011

	<i>Notes</i>	<i>2011</i> <i>£'000</i>	<i>2010</i> <i>£'000</i>
TURNOVER continuing operations	2	76,508	68,215
Raw materials, consumables and change in work in progress		(11,878)	(10,770)
Staff costs	5	(23,712)	(25,037)
Depreciation and amortisation	3	(4,471)	(4,140)
Other operating charges		(14,873)	(14,001)
OPERATING PROFIT : continuing operations	3	21,574	14,267
Interest receivable and other income	6	3,414	11
Interest payable and similar charges	7	(604)	(3,806)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		24,384	10,472
Tax on profit on ordinary activities	8	(6,970)	(2,699)
PROFIT FOR THE FINANCIAL YEAR		17,414	7,773

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 October 2011

	<i>2011</i> <i>£'000</i>	<i>2010</i> <i>£'000</i>
PROFIT FOR THE FINANCIAL YEAR	17,414	7,773
Actuarial (loss)/gain recognised in the pension scheme	(5,717)	2,974
Deferred tax recognised on the pension scheme	1,534	(833)
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR	13,231	9,914

Patheon UK Limited

Registered No 3764421

BALANCE SHEET

as at 31 October 2011

	Notes	2011 £'000	2010 £'000
FIXED ASSETS			
Investments	10	-	-
Intangible assets	11	(9,187)	(9,873)
Tangible assets	12	52,818	56,698
		<u>43,631</u>	<u>46,825</u>
CURRENT ASSETS			
Stocks	13	5,934	6,945
Deferred taxation	18	-	3,655
Debtors	14	13,759	14,224
Cash		3,798	2,848
		<u>23,491</u>	<u>27,672</u>
CREDITORS amounts falling due within one year	15	<u>(18,859)</u>	<u>(40,233)</u>
NET CURRENT ASSETS		<u>4,632</u>	<u>(12,561)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>48,263</u>	<u>34,264</u>
CREDITORS amounts falling due after more than one year			
Bank and other loans	16	(5,675)	(7,983)
Long term deferred revenue	17	(202)	(326)
		<u>(5,877)</u>	<u>(8,309)</u>
PROVISIONS FOR LIABILITIES AND CHARGES			
Deferred taxation	18	(2,633)	-
NET ASSETS EXCLUDING PENSION LIABILITY		<u>39,753</u>	<u>25,955</u>
Pension liability	22	(8,739)	(8,052)
NET ASSETS		<u><u>31,014</u></u>	<u><u>17,903</u></u>
CAPITAL AND RESERVES			
Called-up share capital	19	2,100	2,100
Other reserves	20	26,520	26,520
Profit and loss account	20	2,394	(10,717)
		<u>31,014</u>	<u>17,903</u>

Approved by the Board



Ian Jones

Director

Date 21/12/11

Patheon UK Limited

Registered No. 3764421

NOTES TO THE FINANCIAL STATEMENTS as at 31 October 2011

1 ACCOUNTING POLICIES

Basis of preparation

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards

The financial statements have been prepared on a going concern basis. The ultimate parent company has confirmed to the directors that adequate financial support will continue to be made available to enable the company to meet its liabilities as they fall due, but only to the extent that money is not otherwise available to meet such liabilities.

The financial statements contain information about Patheon UK Limited as an individual company and do not contain consolidated financial statements as it is included by full consolidation in the consolidated financial statements of its ultimate parent company, Patheon Inc, a company fully incorporated in Canada.

Revenue recognition

Revenue is recognised when services are completed in accordance with specific agreements with clients and when all costs connected with these services have been incurred, the price is fixed and determinable and collectability is reasonably assured.

For pharmaceutical development services, revenue is recognised on the achievement of specific milestones in accordance with the relevant service contracts. Client deposits on pharmaceutical development services in progress are included in accounts payable and accrued liabilities.

For commercial manufacturing services, revenue is recognised when services are complete and the risks and rewards of ownership of the goods have passed to the buyer.

Depreciation

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Buildings – Freehold	-	40 years
Buildings – Short leasehold	-	the lower of 20 years and the life of the lease
Computer hardware	-	4 years
Computer software	-	3 years
Plant and equipment	-	15 years
Laboratory equipment	-	5 years
Furniture and fittings	-	10 years
Change parts	-	5 years

Goodwill

Goodwill is the difference between the consideration paid for the acquired entity and the aggregated amount of the fair value of that entity's identifiable assets and liabilities. Negative goodwill up to the fair values of the non-monetary assets acquired is recognised in the profit and loss account in the period in which the non-monetary assets are recovered, whether through depreciation or sale.

Stocks

Stocks are stated at the lower of cost and net realisable value after making due allowance for obsolete and slow moving items.

Cost includes all costs incurred in bringing each product to its present location and condition as follows:

Raw materials, consumables and goods for re-sale	-	purchase cost on a first in first out basis
Work in progress and finished goods	-	cost of direct materials and labour plus attributable overheads based on a normal level of activity

Patheon UK Limited

Registered No 3764421

NOTES TO THE FINANCIAL STATEMENTS

as at 31 October 2011

1. ACCOUNTING POLICIES (continued)

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the exception that deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date

All exchange differences are taken to the profit and loss account

Operating and finance leases

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

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the company, are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of the future obligations under the leases are included as liabilities in the balance sheet. The interest element of the rental obligations are charged to profit and loss account over the periods of the leases and represent a constant proportion of the balance of capital repayments outstanding

Cash flow statement

The company has adopted the exemption provisions under FRS1 (Revised) and has not prepared a cash flow statement

Pension costs

The Patheon UK Pension Plan scheme is a defined benefit scheme which was established by the company following the acquisition by Patheon UK Limited of the HMR Swindon facility. A bulk transfer of assets from the HMR scheme to the Patheon UK Scheme to cover pension liabilities associated with the past service to the date of acquisition of members transferring to the new scheme occurred in the financial year ended 31 October 2006. The assets of the scheme are held separately from those of the company

Pension scheme liabilities are measured on an actuarial basis using a projected unit method and are discounted to their present value using the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. Pension scheme assets are valued at market value at the balance sheet date

The Pension scheme deficit is recognised in full on the balance sheet. The deferred tax relating to the defined benefit liability, to the extent recognised, is set off against the defined benefit liability and not included within other deferred tax assets or liabilities

Increases in the present value of scheme liabilities expected to arise from employee service in the period are charged to operating profit/loss. The expected return on scheme assets less the increase in the present value of liabilities arising from the passage of time is included in interest receivable and other income. Actuarial gains and losses are recognised in the statement of total recognised gains and losses

Patheon UK Limited

Registered No. 3764421

NOTES TO THE FINANCIAL STATEMENTS

as at 31 October 2011

1. ACCOUNTING POLICIES (continued)

Share based payments

Equity-settled transactions

Under FRS 20, the fair value of equity-settled share option transactions are determined at the date of the grant using an appropriate pricing model. At each balance sheet date before vesting, the cumulative expense is calculated. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

Cash-settled transactions

Under FRS 20, the fair value of cash-settled restricted share unit (RSU's) transactions are established initially at the grant date and at each balance sheet date thereafter until the awards are settled. During the vesting period a liability is recognised representing the product of the fair value of the award and the portion of the vesting period expired as at the balance sheet date. From the end of the vesting period until settlement, the liability represents the full fair value of the award as at the balance sheet date. Changes in the carrying amount for the liability are recognised in profit or loss for the period.

During the year no new share options in the company's ultimate parent undertaking were granted to company employees or directors. As the number of unvested share options and RSU's under FRS20 at the balance sheet date are only 83,449 and Nil respectively, the directors consider the related FRS 20 fair values to be expensed over the vesting period are not material and have therefore excluded the impact and further disclosures from the financial statements.

Research and Development

Research and development activities are carried out through clinical research phases 1, 2 and 3. All research is carried out on behalf of customers, and is expensed through the profit and loss account as incurred.

Segmental Analysis

Patheon UK Limited operates in competitive international markets and information on competitor activity is not available. In the opinion of the directors, disclosure of the information required by the Companies Act 2006 and SSAP 25 would be seriously prejudicial to the interests of the company.

2. TURNOVER

Turnover, which is stated net of value added tax, represents revenue recognised from the provision of services which fall within the company's continuing ordinary activities.

The analysis by geographic market is as follows:

	2011 £'000	2010 £'000
United Kingdom	3,121	2,615
Europe	20,928	22,498
USA	9,259	14,341
Rest of World	43,200	28,761
	<u>76,508</u>	<u>68,215</u>

Patheon UK Limited

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NOTES TO THE FINANCIAL STATEMENTS
as at 31 October 2011

3. OPERATING PROFIT

This is stated after charging/ (crediting)

	2011 £'000	2010 £'000
Depreciation of owned fixed assets	5,157	4,992
Amortisation of negative goodwill	(686)	(852)
Depreciation and amortisation	4,471	4,140
Auditors' remuneration - audit of the financial statements	64	69
- tax	14	14
- other services	2	-
Operating lease rentals - land and buildings	127	145
- plant and machinery	408	286
Research and development expenditure	7,045	6,549

4. DIRECTORS' REMUNERATION

The directors did not receive any remuneration for their services during the year to 31 October 2011. None of the directors were members of the pension scheme.

Directors' remuneration has been borne by other group companies. These directors' services to the company do not occupy a significant amount of their time. As such the directors do not consider that they have received any remuneration for their incidental services to the company for the years ended 31 October 2010 and 31 October 2011.

5. STAFF COSTS

	2011 £'000	2010 £'000
Wages and salaries	20,181	21,584
Social security costs	1,866	1,768
Other pension costs	1,665	1,685
	23,712	25,037

The average monthly number of employees during the year was as follows

	2011 No	2010 No
Production and service	361	377
Administration and other	242	248
	603	625

Patheon UK Limited

Registered No 3764421

NOTES TO THE FINANCIAL STATEMENTS

as at 31 October 2011

6. INTEREST RECEIVABLE AND OTHER INCOME

	2011 £'000	2010 £'000
Interest receivable on bank deposits	10	11
Interest on pension scheme liabilities	163	-
Gain on foreign exchange	271	-
Other income – insurance proceeds	2,970	-
	<u>3,414</u>	<u>11</u>

7. INTEREST PAYABLE AND SIMILAR CHARGES

	2010 £'000	2011 £'000
Interest payable to group undertakings	464	1,035
Interest on pension scheme liabilities	-	333
Bank loans and overdrafts	140	1,099
Loss on foreign exchange	-	1,339
	<u>604</u>	<u>3,806</u>

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2011 £'000	2010 £'000
Current tax		
UK corporation tax	-	-
Deferred tax	6,970	2,699
	<u>6,970</u>	<u>2,699</u>

Factors affecting current tax

The tax assessed on the profit/ (loss) on ordinary activities for the year is different from the standard rate of corporation tax in the UK of 26.83% (2010: 28%). The differences are reconciled below:

	2011 £'000	2010 £'000
Profit on ordinary activities before tax	24,384	10,472
Profit on ordinary activities multiplied by standard rate of corporation tax in UK of 26.83%	6,542	2,932
<i>Effect of</i>		
Disallowed expenses and non-taxable income	13	(358)
Capital allowances in excess of depreciation	(131)	(44)
Other timing differences	229	10
Unrelieved tax losses	(6,270)	(2,540)
Pension provision	(383)	-
Total UK corporation tax	<u>-</u>	<u>-</u>

Patheon UK Limited

Registered No 3764421

NOTES TO THE FINANCIAL STATEMENTS

as at 31 October 2011

8. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

	2011 £'000	2010 £'000
<i>Deferred tax</i>		
Prior year adjustment	145	-
Accelerated capital allowances	131	44
Decrease in tax losses	6,270	2,540
Other timing differences	(87)	(10)
Rate change	128	125
Pension provision	383	-
Total deferred tax	6,970	2,699

9. DIVIDENDS

	2011 £'000	2010 £'000
<i>Dividends on preference shares proposed and paid in the financial year</i>		
Interim dividend	60	-
Final dividend	60	60
	120	60

10. INVESTMENTS

						<i>Shares in subsidiary £'000</i>
At 31 October 2010 and 2011						-
Name of subsidiary undertaking	Country of registration	Class of share capital held	Proportion held	Nature of business		
Patheon UK Pension Trustees Limited	United Kingdom	Ordinary	100%	Dormant		

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11. INTANGIBLE ASSETS

	<i>Negative goodwill</i> £'000
<i>Cost</i>	
At 1 November 2010	(19,302)
At 31 October 2011	(19,302)
<i>Amortisation</i>	
At 1 November 2010	9,429
Written back during the year	686
At 31 October 2011	10,115
<i>Net book value</i>	
31 October 2011	(9,187)
1 November 2010	(9,873)

Negative goodwill arising on the acquisition of the trade and assets of Hoechst Marion Roussel (HMR) Swindon is being written back to profit and loss in line with the period in which the non-monetary assets are recovered, whether through depreciation or sale

12. TANGIBLE FIXED ASSETS

	<i>Land and buildings</i> £'000	<i>Plant and machinery</i> £'000	<i>Fixtures and fittings</i> £'000	<i>Total</i> £'000
<i>Cost</i>				
At 1 November 2010	27,917	56,247	2,408	86,572
Additions	315	827	251	1,393
Disposals	-	(320)	-	(320)
Reclassification of assets	263	160	(423)	-
At 31 October 2011	28,495	56,914	2,236	87,645
<i>Depreciation</i>				
At 1 November 2010	4,999	24,365	510	29,874
Provided during the year	659	4,289	209	5,157
Disposals	-	(204)	-	(204)
Reclassification of assets depreciation	11	10	(21)	-
At 31 October 2011	5,669	28,460	698	34,827
<i>Net book value</i>				
At 31 October 2011	22,826	28,454	1,538	52,818
At 1 November 2010	22,918	31,882	1,898	56,698

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12. TANGIBLE FIXED ASSETS (continued)

The net book value of land and buildings include £1,762,000 of freehold land as at 31 October 2011 (2010 £1,762,000)

The net book value of buildings comprises

	<i>2011</i> <i>£'000</i>	<i>2010</i> <i>£'000</i>
Freehold	20,832	21,134
Short leasehold	232	22
	<u>21,064</u>	<u>21,156</u>

The net book value of plant and machinery in 2010 above includes an amount of £4,752,000 in respect of assets held under hire purchase agreements. This hire purchase agreement is no longer a liability in 2011.

13. STOCKS

	<i>2011</i> <i>£'000</i>	<i>2010</i> <i>£'000</i>
Raw materials	3,984	4,497
Engineering stores	1,021	921
Work in progress	307	1,062
Finished goods	622	465
	<u>5,934</u>	<u>6,945</u>

14. DEBTORS

	<i>2011</i> <i>£'000</i>	<i>2010</i> <i>£'000</i>
Trade debtors	9,237	9,217
Amounts due from parent undertaking	1,499	1,471
Prepayments	687	769
Other debtors	1,682	2,509
Other taxes and social security costs	654	258
	<u>13,759</u>	<u>14,224</u>

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15. CREDITORS. amounts falling due within one year

	2011 £'000	2010 £'000
Trade creditors	4,158	4,926
Obligations under finance leases and hire purchase contracts	-	1,287
Amounts due to group undertakings	6,319	3,717
Other taxes and social security costs	879	778
Accruals	6,761	4,939
Deferred income	742	11,749
Other loans	-	4,315
Intercompany loan (Patheon Italy)	-	8,522
	<u>18,859</u>	<u>40,233</u>

The company has a \$10m revolving credit facility in place with JP Morgan. Additionally the letter of credit from JP Morgan also contains guarantees in favour of HMRC for £500,000 and MEPC Milton Park Ltd for £250,000. The total letter of credit is for £750,000.

16. BANK AND OTHER LOANS

	2011 £'000	2010 £'000
Intercompany Loan (Patheon BV)	5,675	7,983

The inter-company loan from Patheon BV has a maturity date of 31 October 2016 with interest payable at LIBO plus 3.68%.

17. LONG TERM DEFERRED INCOME

	2011 £'000	2010 £'000
Contract advances	202	326

Of this amount £24,000 (2010: £136,000) relates to advances received for a long term project. This revenue will be recognised once obligations under the contract have been met.

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18. PROVISIONS FOR LIABILITIES AND CHARGES

Provision for deferred tax

	<i>Deferred tax asset</i> £'000
At 1 November 2010	6,633
Charged to the profit and loss account	(6,970)
Adjusted to STRGL	1,534
As at 31 October 2011	<u>1,197</u>

The components of recognised and unrecognised deferred tax comprise

	<i>Recognised</i>	<i>Not recognised</i>	<i>Recognised</i>	<i>Not recognised</i>
	<i>2011</i>	<i>2011</i>	<i>2010</i>	<i>2010</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Accelerated capital allowances	(4,704)	-	(4,857)	-
Available losses	1,990	-	8,512	-
Other timing differences	81	133	-	-
Total deferred tax assets	<u>(2,633)</u>	<u>133</u>	<u>3,655</u>	<u>-</u>

A deferred tax asset was first recognised in 2009 as the directors are reasonably certain that the losses will be utilised. The deferred tax asset in relation to the pension fund of £3,830,000 (2010: £2,978,000) has been offset against the pension liability as required by FRS17.

With effect from 1 April 2012, the corporation tax rate will reduce from 26% to 25%, this was enacted in July 2010. The UK Budget announcement also set out that this will be reduced annually by 1% until it reaches 24%. This will be enacted year on year. The enacted rate change has been reflected in the closing deferred tax balance and an assessment as to the reversal of deferred tax has been completed, the deferred tax asset amount recognised reflects reversal at 25%.

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19. SHARE CAPITAL

	<i>Authorised</i>		<i>Allotted, called up And fully paid</i>	
	<i>2011 No</i>	<i>2010 No</i>	<i>2011 £'000</i>	<i>2010 £'000</i>
Ordinary shares of £1 each	2,000,000	2,000,000	100	100
6% preference shares of £1 each	8,000,000	8,000,000	2,000	2,000
Total	10,000,000	10,000,000	2,100	2,100

The preference shares were issued at par. They carry a dividend right of 6% per annum payable half yearly in April and October. If at the time the dividends become payable there are insufficient profits the dividend will cease to be due and payable. There are no specific repayment terms except on a winding up of the company where the preference shareholders have the right to receive, in preference to ordinary shareholders, £1 per share plus any accrued dividend. The preference shares carry voting rights at meetings of 1 vote per share whereas the ordinary shares carry 100 votes per share. As there is no foreseeable intention to redeem the preference shares they have been included as part of the equity of the company.

20. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	<i>Share capital £'000</i>	<i>Other reserves £'000</i>	<i>Profit and loss account £'000</i>	<i>Total £'000</i>
At 31 October 2009	2,100	26,520	(20,571)	8,049
Actuarial gain on pension scheme	-	-	2,974	2,974
Profit for the year	-	-	7,773	7,773
Deferred tax recognised on pension scheme	-	-	(833)	(833)
Dividend paid	-	-	(60)	(60)
At 31 October 2010	2,100	26,520	(10,717)	17,903
Actuarial loss on pension scheme	-	-	(5,717)	(5,717)
Profit for the year	-	-	17,414	17,414
Deferred tax recognised on pension scheme	-	-	1,534	1,534
Dividend paid	-	-	(120)	(120)
At 31 October 2011	2,100	26,520	2,394	31,014

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21. OTHER FINANCIAL COMMITMENTS

The company had annual commitments under operating leases as set out below

	<i>Land and buildings</i>		<i>Other</i>	
	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>
			<i>£'000</i>	<i>£'000</i>
<i>Operating leases which expire</i>				
- within one year	-	-	-	-
- in two to five years	138	133	433	512
	<u>138</u>	<u>133</u>	<u>433</u>	<u>512</u>
	<u><u>138</u></u>	<u><u>133</u></u>	<u><u>433</u></u>	<u><u>512</u></u>

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22. PENSIONS

The Patheon UK Pension Plan, a defined benefit scheme, was established by the company following the acquisition by Patheon UK Limited of the HMR Swindon facility. The valuation of the scheme for these financial statements has been based on the most recent full actuarial valuation as at 30 September 2009 rolled forward to 31 October 2011. Scheme assets are stated at their market values at the respective balance sheet dates.

The amount recognised in the Balance Sheet, Profit and Loss account and in the Statement of Total Recognised Gains and Losses for the year are analysed as follows:

Amounts recognized in the balance sheet

	2011 £'000	2010 £'000
<i>Scheme assets at fair value</i>		
Equities	19,071	19,104
Diversified target return funds	11,301	7,761
Bonds	3,178	2,985
Other	1,766	-
Total market value of assets	35,316	29,850
Actuarial present value of liabilities	(47,885)	(40,880)
Deficit in the scheme	(12,569)	(11,030)
Related deferred tax asset	3,830	2,978
Unrecognised liability	-	-
Recognised liability	(8,739)	(8,052)

Analysis of movement in deficit during the year

	2011 £'000	2010 £'000
Deficit in scheme at beginning of the year	(11,030)	(13,970)
<i>Movement in year</i>		
Current service cost (gross of member contributions, incl DIS premiums)	(1,619)	(1,490)
Aggregate contributions paid	5,634	1,789
Other finance expense	163	(333)
Actuarial (loss)/gain recognised in STRGL	(5,717)	2,974
Deficit in scheme at end of the year	(12,569)	(11,030)

	2011 £'000	2010 £'000
<i>Amounts recognised in the profit and loss</i>		
Current service cost (inc DIS premiums)	1,679	1,580
Interest cost	2,170	2,181
Expected return on scheme assets	(2,333)	(1,848)
Total	1,516	1,913

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22. PENSIONS (continued)

	2011 £'000	2010 £'000
<i>Actual return on assets over the period</i>		
Actual return	(246)	3,005
<i>Analysis of amount recognised in the statement of total recognised gains and losses (STRGL)</i>	2011 £'000	2010 £'000
Asset gain	(2,580)	1,156
Liability gain	(896)	1,949
Changes in assumptions for the valuation of liabilities	(2,241)	(131)
Actuarial loss recognised in STRGL	(5,717)	2,974
<i>Principal actuarial assumptions at the balance sheet date</i>	2011	2010
Discount rate	4.9%	5.2%
Price inflation (RPI)	2.8%	3.0%
Price inflation (CPI)	2.3%	N/A
Rate of increase in salaries	3.8%	4.0%
Rate of increase for pensions in payment (LPI)		
Pre 1 September 2009	2.8%	2.9%
Post 31 August 2009	2.5%	2.5%
Post retirement mortality (life expectancy)		
Current pensioners age 65 – males	22.1	22.1
Current pensioners age 65 – females	24.8	25.0
Future pensioners age 65 (currently age 45) – males	25.0	23.1
Future pensioners age 65 (currently age 45) – females	27.7	25.9
Expected return on assets		
Equities	7.2%	7.5%
Diversified target return funds	6.7%	7.0%
Bonds	4.9%	5.2%
Other	2.0%	2.0%
<i>Changes in the present value of scheme liabilities</i>	2011 £'000	2010 £'000
Present value of scheme liabilities at the start of the period	40,880	38,792
Interest cost	2,170	2,181
Current service cost (excl DIS premiums)	1,619	1,490
Member contributions	692	631
DWP rebate	156	160
Actuarial (gain)/loss	3,137	(1,818)
Benefits paid	(770)	(556)
Present value of scheme liabilities at the end of the period	47,884	40,880

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22. PENSIONS (continued)

<i>Changes in the market value of assets</i>	<i>2011</i>	<i>2010</i>
	<i>£'000</i>	<i>£'000</i>
Market value of assets at the start of the period	29,850	24,822
Expected return on scheme assets	2,333	1,848
Actuarial (loss)/gain	(2,580)	1,156
Member contributions	693	631
DWP rebate	156	160
Employer contributions (excl DIS premiums)	5,634	1,789
Benefits paid	(770)	(556)
Market value of assets at the end of the period	<u>35,316</u>	<u>29,850</u>

		<i>(restated)</i>			
<i>History of experience gains and losses</i>	<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
<i>Difference between expected and actual return on scheme assets</i>					
Amount - gain/ (loss)	2,579	1,156	3,604	(9,697)	1,436
Percentage of scheme assets	7%	4%	15%	(53%)	6%
<i>Experience (losses)/gains arising on scheme liabilities</i>					
Amount - gain/ (loss)	(896)	1,949	-	(994)	(1,070)
Percentage of the present value of the scheme liabilities	(2%)	6.5%	0%	(4%)	(4%)
<i>Total actuarial (loss)/gain recognised in the statement of total</i>					
<i>Recognised gains and losses</i>					
Amount - gain/ (loss)	(5,717)	2,974	(7,792)	(4,665)	(915)
Percentage of the present value of the scheme liabilities	(12%)	7%	(20%)	(19%)	(4%)

The cumulative amount of actuarial gains and losses recognised since 1 January 2002 in the statement of total recognised gains and losses is a net loss of £10,905,000 (2010 – net loss of £5,188,000). The company expects to pay approximately £2,700,000 into the pension scheme in the year ended 31 October 2012.

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23. RELATED PARTY TRANSACTIONS

Patheon UK is a 100% owned subsidiary of Patheon Inc and accordingly is not required to disclose related party transactions with companies within the same group. There were no other related party transactions.

24. CAPITAL COMMITMENTS

Amounts contracted for but not provided in the financial statements amounted to £0.3 million as at 31 October 2011 (2010, £0.5 million).

25. IMMEDIATE AND ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The company's immediate parent undertaking is Patheon B.V., a company incorporated in the Netherlands. The ultimate parent company is Patheon Inc., a company incorporated in Canada. The controlling party is JLL Partners, a private equity group based in the US. The smallest and largest group of which the company is a member and for which group financial statements are prepared is Patheon Inc. A copy of the group financial statements can be obtained from the headquarters at the following address -

Patheon Inc
PO Box 110145
Research Triangle Park,
NC 27709-5145