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If you have sold or transferred all of your Ordinary Shares in SkyePharma PLC, please forward this document together with the accompanying Form of Proxy to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or the transfer was effected, for transmission to the purchaser or transferee. If you have sold only part of your Ordinary Shares in SkyePharma PLC, please contact your stockbroker, bank or other agent through whom the sale or transfer was effected immediately.

SKYEPHARMA PLC

(Incorporated and registered in England and Wales No: 107582)

Notice of General Meeting to approve resolutions relating to:

Proposed Share Capital Reorganisation

Placing and Open Offer of 1,401,780,736 New Ordinary Shares

Allotment of relevant securities pursuant to the Bond Proposals

Neither the Open Offer Entitlements nor the Open Offer Shares have been, or will be, registered under the Securities Act or under the applicable securities laws of any State of the United States or under the securities laws of Australia, Canada, Japan, Hong Kong or New Zealand or any jurisdiction outside the United Kingdom. Accordingly, neither the Open Offer Entitlements nor the Open Offer Shares may be taken up, offered, sold, delivered or distributed, directly or indirectly, within, into or from Australia, Canada, Hong Kong, Japan, New Zealand, the United States or any country or territory where to do so would or might contravene local securities laws or regulations.

This Circular does not constitute an offer to sell or issue, or the solicitation of an offer to buy or subscribe for, any Open Offer Shares in any jurisdiction in which such an offer or solicitation is unlawful and any failure to comply with these restrictions may constitute a violation of applicable securities laws in such jurisdictions.

Neither this Circular nor any accompanying document is an offer of securities for sale in the United States. Securities may not be offered or sold in the United States absent registration or an exemption from registration. The Open Offer Entitlements and the Open Offer Shares to be issued pursuant to the Open Offer have not been, and will not be, registered under the Securities Act or the securities laws of any state or other jurisdiction of the United States, and the Open Offer Entitlements and the Open Offer Shares to be issued as part of the Open Offer may not be taken up, offered, sold, delivered or distributed, directly or indirectly, through CREST or otherwise, within, into or from the United States (subject to certain exceptions).

Notice of the General Meeting of the Company to be held at 11.00 a.m. on 19 September 2008 is set out at the end of this document. Please complete, sign and return the accompanying Form of Proxy in accordance with the instructions thereon as soon as possible and in any event so as to arrive at Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU not later than 11.00 a.m. on 17 September 2008. Completion and return of the Form of Proxy will not prevent you from attending and voting at the General Meeting in person, should you so wish. Electronic proxy appointment is available for this General Meeting. This facility enables shareholders to lodge their proxy appointment by electronic means on a website provided by Capita Registrars on www.capitaregistrars.com. Further information on the procedure to be followed is set out in the accompanying Chairman's letter.

PART 1

**LETTER FROM THE CHAIRMAN
SKYEPHARMA PLC**

(Incorporated and registered in England and Wales No. 107582)

The Directors

Jeremy Scudamore (*Non-Executive Chairman*)
Dr Ken Cunningham (*Chief Executive Officer*)⁽¹⁾
Peter Grant (*Finance Director*)
Alan Bray (*Non-Executive Director*)
Frank Condella (*Director*)⁽¹⁾
Dr Argeris (Jerry) Karabelas (*Non-Executive Director*)
Jean-Charles Tschudin (*Non-Executive Director*)

Registered Office
105 Piccadilly
London W1J 7NJ

1 September 2008

To Overseas Shareholders

Dear Shareholder

Notice of General Meeting to approve resolutions in respect of the Placing and Open Offer of 1,401,780,736 New Ordinary Shares (subject to the effect of the Share Capital Reorganisation) and the restructuring of the Convertible Bonds

1. Introduction

SkyePharma announced on 1 September 2008 that it proposes to raise approximately £18.4 million (net of expenses) by means of a fully underwritten Placing and Open Offer of 1,401,780,736 New Ordinary Shares at 1.5 pence per New Ordinary Share (subject to the effect of the Share Capital Reorganisation). The New Ordinary Shares are being offered to Qualifying Shareholders only (being SkyePharma Shareholders on the register of members at the Record Date other than SkyePharma Shareholders who are located in or have registered addresses in the United States, Australia, Canada, Hong Kong, Japan, New Zealand and holders of ADRs (including the ADR depository and its nominee or custodian) pursuant to the Open Offer on the following basis:

172 New Ordinary Shares for every 100 Existing Ordinary Shares

held at the close of business on 27 August 2008 and so in proportion for any other number of Ordinary Shares then held.

As it is not possible as a matter of UK company law to issue shares at a discount to their nominal value, the Company is required to implement the Share Capital Reorganisation prior to the completion of the Placing and Open Offer. As further described below, in addition to reducing the nominal value of the Existing Ordinary Shares and the New Ordinary Shares, the Share Capital Reorganisation will result in a consolidation in order to create a higher trading price per Ordinary Share and thus reduce the share price volatility that results from a lower absolute share price. Although this will reduce the number of shares you hold, it will not, by itself, affect the market value of your holding. Under the Share Capital Reorganisation, Shareholders will receive 1 Consolidated New Ordinary Share for every 100 New Ordinary Shares proposed to be held and will, in fact, pay 150 pence per Consolidated New Ordinary Share rather than 1.5 pence per New Ordinary Share.

The Issue Price of 1.5 pence per New Ordinary Share represents a 62.50 per cent. discount to the Closing Price of an Existing Ordinary Share of 4 pence on 29 August 2008 (being the latest practicable date prior to the announcement of the Transactions).

Credit Suisse and Piper Jaffray have placed 1,401,780,736 New Ordinary Shares (subject to the effect of the Share Capital Reorganisation) pursuant to the Placing (including the Directors' shares) and Open Offer subject to clawback to satisfy valid applications by Qualifying Shareholders under the Open Offer. The

(1) In line with the Board succession plan announced on 21 May 2008, on announcing the Transactions Frank Condella has stepped down from his position as Chief Executive Officer and has been replaced by Dr Ken Cunningham, formerly Chief Operating Officer. Frank Condella is remaining on the Board and will become a Non-Executive Director on 1 November 2008 following a brief hand-over period.

Placing includes New Ordinary Shares and Convertible Non-Voting Shares which will be conditionally placed with HBM. Where there is sufficient take up of the Open Offer, the clawback from HBM's placing commitment will operate to reduce the number of Convertible Non-Voting Share before reducing the New Ordinary Share that are conditionally placed with HBM.

The issue of the New Ordinary Shares under the Placing and Open Offer has been fully underwritten by Credit Suisse and Piper Jaffray, subject to certain conditions as set out in the Placing Agreement, further details of which are set out in paragraph 4 of Part 3 of this document.

The Directors, who in aggregate hold 1,809,349 Ordinary Shares representing approximately 0.22 per cent. of the existing issued ordinary share capital of the Company, have irrevocably undertaken to take up their entitlements in full in respect of an aggregate of 3,112,080 New Ordinary Shares (of aggregate value £46,678.50) and have also agreed to subscribe for New Ordinary Shares up to a value of £93,817.50 (being the Director's Shares) under the Placing, subject to clawback to satisfy valid applications under the Open Offer. In addition, HBM has agreed conditionally to subscribe for New Ordinary Shares and Convertible Non-Voting Shares up to a value of £11.4 million under the Placing, subject to clawback to satisfy valid applications under the Open Offer. The issue of New Ordinary Shares and Convertible Non-Voting Shares to HBM under the Placing is subject to the approval of the Shareholders.

In conjunction with, and interconditionally with, the Placing and Open Offer, SkyePharma (Jersey) Limited is proposing to make certain changes to the 2024 Bond Terms and Conditions and the 2025 Bond Terms and Conditions.

The Bond Proposals involve:

- (i) the 2024 Bond Amendments—certain changes to the 2024 Bond Terms and Conditions to effect (a) the amendment of the conversion price from 95 pence per Initial Ordinary Share to 371 pence per Ordinary Share (with a nominal value of £1.00), being equivalent to 3.71 pence per Initial Ordinary Share and reflecting, amongst other things, the effect of the Share Capital Reorganisation, and (b) the replacement of the put dates falling on 4 May 2009, 4 May 2011, 4 May 2014 and 4 May 2019 with put dates falling on 4 November 2013, 4 November 2015, 4 November 2017 and 4 November 2020; and
- (ii) the 2025 Bond Amendments—certain changes to the 2025 Bond Terms and Conditions to effect (a) the amendment of the conversion price from 58 pence per Initial Ordinary Share to 382 pence per Ordinary Share (with a nominal value of £1.00), being equivalent to 3.82 pence per Initial Ordinary Share and reflecting, amongst other things, the effect of the Share Capital Reorganisation, and (b) the replacement of the put dates falling on 3 June 2010, 3 June 2012, 3 June 2015 and 3 June 2020 with put dates falling on 3 December 2014, 3 December 2016, 3 December 2018 and 3 December 2021.

A meeting of the 2024 Bondholders has been convened on 25 September 2008 at which resolutions to approve the 2024 Bond Amendments will be proposed.

Irrevocable undertakings have been received from holders of 69.9 per cent. of the outstanding 2024 Bonds to vote in favour of the 2024 Bond Resolution. If holders of 75 per cent. or more in principal amount of the 2024 Bonds are represented at the Bondholder Meeting and not less than 75 per cent. of the votes cast are in favour of the 2024 Bond Resolution, the 2024 Bond Resolution will be passed on the first call. In the event that the Bondholder Meeting is not quorate on the first call, it will be adjourned for not less than 14 days and not more than 42 days. In order for the Bondholder Meeting to be quorate at an adjourned meeting, holders of not less than 25 per cent. in principal amount of the 2024 Bonds should be represented at the adjourned Bondholder Meeting. The 2024 Bond Resolution will be passed at an adjourned Bondholder Meeting if not less than 75 per cent. of the votes cast are cast in favour of the 2024 Bond Resolution.

The 2025 Bond Amendments are expected to be implemented by way of written resolution. Irrevocable undertakings have been received from holders of 100 per cent. of the outstanding 2025 Bonds to sign the 2025 Bond Resolution. The 2024 Bond Resolution will be conditional on the 2025 Bond Resolution being passed and vice versa.

The Placing and Open Offer is conditional upon the Bond Resolutions being passed. The Bond Resolutions are conditional upon the Resolutions being passed at the General Meeting and will not be effective until receipt by the Company of the proceeds of the Placing and Open Offer. The Bond Proposals are, *inter alia*, conditional upon Resolution 7 being passed at the General Meeting to approve the issue of Ordinary Shares arising upon conversion of Convertible Bonds taking the Bond Amendments into account.

Funds raised by the Placing and Open Offer will be used to provide working capital to enhance the core oral and inhalation business and in particular to protect shareholders' interests in Flutiform™ and other pipeline products, to enable the Group to become profitable and deliver long-term value for Shareholders, and to meet the expenses of the Bond Proposals and of the Placing and Open Offer.

The Directors believe that Flutiform™ has substantial value as it is poised to enter a large and rapidly growing market with currently limited competition. Without the proceeds of the Placing and Open Offer an alternative solution will need to be found to refinance or renegotiate the Convertible Bonds well before the earliest put date in May 2009, and there is a risk that Shareholders may not be able to benefit from the substantial prospects for the Company's approved products and development projects, in particular Flutiform™.

Due to its size and level of discount, the issue of New Ordinary Shares in connection with the Placing and Open Offer requires the approval of Shareholders of SkyePharma. The issue of Ordinary Shares upon conversion of the 2024 Bonds and the 2025 Bonds, following the implementation of the Bond Amendments also requires the approval of the Shareholders. Shareholders will find at the end of, and forming part of this Circular, a Notice of General Meeting convening a general meeting to be held on 19 September 2008 where Resolutions will be proposed at the General Meeting to authorise the Company to issue New Ordinary Shares and Convertible Non-Voting Shares pursuant to the Placing and Open Offer at the Issue Price and to authorise the issue of Ordinary Shares upon the conversion of the 2024 Bonds and the 2025 Bonds in accordance with the Bond Proposals. The Placing and Open Offer is also conditional on the passing of the Bond Resolutions. Furthermore, Shareholders should note that the Resolutions to be proposed at the General Meeting to approve the Placing and Open Offer are conditional on the Resolutions to approve the Share Capital Reorganisation and the Resolution to increase the Company's authorised share capital being approved and accordingly all the resolutions will need to be passed for the Placing and Open Offer to proceed.

In addition, the Company wishes to create a new class of convertible non-voting ordinary shares of £1.00 each which may, as described below, need to be placed with HBM as part of the Placing and Open Offer in order to ensure that HBM's voting rights (together with those of its concert parties) in the capital of the Company remain below 30 per cent. The Convertible Non-Voting Shares will rank *pari passu* in all respects with the Ordinary Shares of £1.00 each (including as to dividends and rights to return of capital on a winding up) save that the holder(s) of the Convertible Non-Voting Shares, will not be entitled to attend or vote at general meetings of the Company (other than in respect of resolutions to wind up the Company or vary, modify, alter or abrogate any of the rights attaching to the Convertible Non-Voting Shares).

The Convertible Non-Voting Shares will be convertible into Ordinary Shares of £1.00 each (having the rights set out in the Resolutions) on a one-for-one basis and (subject to clause (b) below) the Company will promptly make an application for a listing (on the same market or exchange on which the Ordinary Shares of the Company are then listed) of the ordinary shares arising on conversion: (i) at any time at the option of HBM; or (ii) automatically upon the transfer by HBM of the Convertible Non-Voting Shares to a third party that is not acting in concert with HBM, provided that; (a) immediately following any such conversion, the holder of the Convertible Non-Voting Shares (together with its concert parties) will be interested in shares representing less than 30 per cent. of the voting rights in the capital of the Company; and (b) a notice of conversion shall specify the number of shares to be converted and such conversion shall take effect seven days after service of a valid notice, unless the Company is required to issue a prospectus in connection with the listing of the ordinary shares upon such conversion, when the conversion will only take effect 3 months after the date on which: (A) the notice of conversion is received by the Company; or (B) the transfer of the Convertible Non-Voting Shares takes effect, as applicable, and during that 3-month period the Company will be required to prepare and issue a prospectus in respect of such listing.

Effects of the Transactions on capital structure

The capital structure of the Company will be as follows:

(a) showing the effect of the Placing and Open Offer following the Share Capital Reorganisation:

	Number of Consolidated Ordinary Shares	% Following the Placing and Open Offer
Existing Ordinary Shares in consolidated form	8,149,888	36.76
Consolidated New Ordinary Shares relating to the Placing and Open Offer	14,017,807	63.24
		<u>100.00</u>

(b) showing the effect of the Placing and Open Offer, the Share Capital Reorganisation, and assuming the full conversion of Convertible Bonds, taking into account the Bond Proposals:

	Number of Consolidated Ordinary Shares	% Following the Placing and Open Offer	% Assuming full conversion of Bonds
Existing Ordinary Shares in consolidated form	8,149,888	36.76	17.65
Consolidated New Ordinary Shares relating to the Placing and Open Offer	14,017,807	63.24	30.37
		<u>100.00</u>	
Consolidated Ordinary Shares arising on conversion of 2024 Bonds	18,758,490		40.64
Consolidated Ordinary Shares arising on conversion of 2025 Bonds	5,235,602		11.34
			<u>100.00</u>

This table has been prepared on the basis that no Convertible Non-Voting Shares are required to be issued. In order to ensure that HBM (together with its concert parties) holds less than 30 per cent. of the voting rights in the capital of the Company, Convertible Non-Voting Shares may be issued to HBM under the Placing. The Company anticipates that, depending on the number of shares taken up under the Open Offer, among other things, the maximum number of Convertible Non-Voting Shares that may be required to be issued to HBM will be approximately 3,000,000. The issue of Convertible Non-Voting Shares will be matched by a corresponding decrease in the number of Consolidated New Ordinary Shares issued. The maximum anticipated number of Convertible Non-Voting Shares would represent 13.38 per cent. of the issued share capital following the Placing and Open Offer and 6.42 per cent. of the issued share capital assuming full conversion of the Bonds.

The purpose of this Circular is to provide you with details of the Placing and Open Offer and to explain why the Directors believe that the Placing and Open Offer is in the best interests of SkyePharma and its Shareholders as a whole. A Form of Proxy is also enclosed with this Circular.

The Placing and the Open Offer is conditional, *inter alia*, upon the Bond Resolutions being approved by the 2024 Bondholders and 2025 Bondholders, and the passing of the Resolutions at the General Meeting to be held at the offices of Fasken Martineau Stringer Saul LLP at 17 Hanover Square, London W1S 1HU on 19 September 2008 at 11.00 a.m. A notice convening the General Meeting is set out at the end of this Circular.

2. Board

In line with the Board succession plan announced on 21 May 2008, the Board confirms that Frank Condella has stepped down from his position as Chief Executive Officer concurrent with announcing the Transactions and has been replaced by Dr Ken Cunningham, formerly Chief Operating Officer. Frank Condella will remain on the Board and will become a Non-Executive Director on 1 November 2008 following a brief hand-over period.

3. Background to and reasons for the Placing and Open Offer

Strategy

SkyePharma's business strategy is to become one of the world's leading speciality drug delivery companies using its proprietary technologies and competitive capabilities, particularly in the areas of oral and inhalation drug delivery, to produce new formulations of existing pharmaceutical ingredients that meet market needs and provide benefits to patients. Whilst continuing to benefit from existing approved products, the Group aims to enhance its product pipeline by identifying additional candidate products through its own research as well as collaborations with partner companies.

SkyePharma strives to deliver a clinical benefit for patients by using its multiple delivery technologies to create enhanced versions of existing pharmaceutical products as well as products incorporating new chemical entities.

The Board's plan for achieving these objectives includes the following elements:

- completion of the development and delivery to market of Flutiform™;
- completion of further outlicensing deals including Flutiform™ for Canada and Foradil® Certihaler™ for the United States;
- expansion of collaborative partner funded development programmes;
- improvement of the profitability of manufacturing operations; and
- drive to profitability through growing revenues and containing costs

Financing

The Group's total net debt, based on SkyePharma's unaudited accounts as at 30 June 2008 totalled £109.4 million and comprises the following:

	<u>£ millions</u>
Convertible Bonds (at book value)	(65.0)
Paul Capital funding liabilities (included at net present value)	(20.0)
CRC funding liabilities	(37.7)
Property mortgage	(6.9)
Bank overdraft and borrowings	(1.3)
Finance lease liabilities	(0.1)
Total indebtedness	(131.0)
Less cash and cash equivalents	21.6
Net debt	(109.4)

Including the Convertible Bonds debt at face value of £89.6 million (rather than at the value required by IFRS) net debt was £134.0 million as at 30 June 2008.

Convertible Bonds

The Convertible Bonds comprise £69.6 million 6 per cent. 2024 Bonds and £20.0 million 8 per cent. 2025 Bonds outstanding as at 30 June 2008. At present, the 2024 Bonds may be converted into Ordinary Shares at a 95 pence conversion price, and may be put for repayment by the 2024 Bondholders at par on 4 May 2009, 4 May 2011, 4 May 2014 or 4 May 2019. At present, the 2025 Bonds may be converted into Ordinary Shares at a conversion price of 58 pence per share and may be put for repayment by the 2025 Bondholders at par on 3 June 2010, 3 June 2012, 3 June 2015 or 3 June 2020.

Reasons for the Placing and Open Offer

Given that the SkyePharma share price, which was 4 pence as at 29 August 2008 and has traded at levels of between 2.5 pence and 17.5 pence over the last twelve months is significantly lower than the conversion price of the 2024 Bonds (95 pence) and given the forecast cashflows of the Company, the Board believes that it is likely that the 2024 Bondholders would require repayment on 4 May 2009 and that, in such circumstance, SkyePharma is unlikely to be able to meet such a demand for repayment from cashflows arising from normal trading activities.

On 26 April 2007, the Board announced that it intended to seek to refinance the Convertible Bonds well before May 2009 in order to ensure that the earliest redemption dates were extended to match more closely the Group's expected cash inflows. Furthermore, on 27 March 2008, the Board announced that it had carried out a detailed appraisal of a number of potential approaches to renegotiate or refinance the Convertible Bonds well before the earliest repayment date of May 2009 under the put options. On 8 July 2008, the Company announced that meetings had been held with a number of existing and potential investors and with certain key Bondholders regarding a specific proposal to refinance the Convertible Bonds but, although there had been significant support, in the light of the then current capital market conditions the discussions on the specific proposal were not being pursued at that time.

The Directors have continued to appraise a number of potential approaches to renegotiate or refinance the Convertible Bonds in a timely and cost-effective manner, and also a variety of strategic options for the Company. In this appraisal the Directors have had regard to the Group's working capital requirements, including the cash required to service debt obligations and establish the supply chain for Flutiform™, as well as of the likelihood of success of the potential approaches to renegotiating or refinancing the Convertible Bonds. The Directors have also considered general financial and industry market conditions as well as continued progress with the Group's business, especially the development, approval and launch in the United States and Europe of Flutiform™. Based on these considerations, the Board believes that, in these circumstances, the Placing and Open Offer in conjunction with the Bond Proposals provides the most appropriate, cost-effective and timely method of refinancing the Group.

Funds raised by the Placing and Open Offer will be used to provide working capital to enhance the core oral and inhalation business and in particular to protect shareholders' interests in Flutiform™ and other pipeline products, to enable the Group to become profitable and deliver long-term value for Shareholders and to meet the expenses of the Bond Proposals and of the Placing and Open Offer.

The Directors believe that Flutiform™ has substantial value as it is poised to enter a large and rapidly growing market with currently limited competition. Without the proceeds of the Placing and Open Offer an alternative solution will need to be found to refinance or renegotiate the Convertible Bonds well before the earliest put date in May 2009, and there is a risk that existing Shareholders may not be able to benefit from the substantial prospects for the Company's approved products and development projects, particularly Flutiform™.

The Board believes that the strategy it has now adopted and the measures set out above will protect the interests of all stakeholders and provide the best opportunity to maximise shareholder value and achieve a greater degree of operating and financing flexibility for the Company. The Board therefore believes that the raising of £18.4 million (net of expenses) through the Placing and Open Offer is in the best interests of SkyePharma and its Shareholders as a whole.

4. Amendments to the Convertible Bonds

The Bond Proposals summarised below are conditional on the receipt by SkyePharma of the proceeds of the Placing and Open Offer and the implementation of the Share Capital Reorganisation as described elsewhere in this Circular.

The Bond Proposals are conditional on the passing of Resolution 7 at the General Meeting as set out in the Notice of General Meeting at the end of this Circular.

In conjunction with, and interconditionally with, the Placing and Open Offer SkyePharma (Jersey) Limited is proposing to make certain changes to the 2024 Bond Terms and Conditions and the 2025 Bond Terms and Conditions.

The Bond Proposals involve:

- (i) the 2024 Bond Amendments—certain changes to the 2024 Bond Terms and Conditions to effect
 - (a) the amendment of the conversion price from 95 pence per Initial Ordinary Share to 371 pence per Ordinary Share (with a nominal value of £1.00), being equivalent to 3.71 pence per Initial Ordinary Share and reflecting, amongst other things, the effect of the Share Capital Reorganisation, and
 - (b) the replacement of the put dates falling on 4 May 2009, 4 May 2011, 4 May 2014 and 4 May 2019 with put dates falling on 4 November 2013, 4 November 2015, 4 November 2017 and 4 November 2020; and
- (ii) the 2025 Bond Amendments—certain changes to the 2025 Bond Terms and Conditions to effect
 - (a) the amendment of the conversion price from 58 pence per Initial Ordinary Share to 382 pence per Ordinary Share (with a nominal value of £1.00), being equivalent to 3.82 pence per Initial Ordinary

Share and reflecting, amongst other things, the effect of the Share Capital Reorganisation, and (b) the replacement of the put dates falling on 3 June 2010, 3 June 2012, 3 June 2015 and 3 June 2020 with put dates falling on 3 December 2014, 3 December 2016, 3 December 2018 and 3 December 2021.

A meeting of the 2024 Bondholders has been convened on 25 September 2008 at which resolutions to approve the 2024 Bond Amendments will be proposed.

Irrevocable undertakings have been received from holders of 69.9 per cent. of the outstanding 2024 Bonds to vote in favour of the 2024 Bond Resolution. If holders of 75 per cent. or more in principal amount of the 2024 Bonds are represented at the Bondholder Meeting and not less than 75 per cent. of the votes cast are in favour of the 2024 Bond Resolution, the 2024 Bond Resolution will be passed on the first call. In the event that the Bondholder Meeting is not quorate on the first call, it will be adjourned for not less than 14 days and not more than 42 days. In order for the Bondholder Meeting to be quorate at an adjourned meeting, holders of not less than 25 per cent. in principal amount of the 2024 Bonds should be represented at the adjourned Bondholder Meeting. The 2024 Bond Resolution will be passed at an adjourned Bondholder Meeting if not less than 75 per cent. of the votes cast are cast in favour of the 2024 Bond Resolution.

The 2025 Bond Amendments are expected to be implemented by way of written resolution. Irrevocable undertakings have been received from holders of 100 per cent. of the outstanding 2025 Bonds to sign the 2025 Bond Resolution. The 2024 Bond Resolution will be conditional on the 2025 Bond Resolution being passed and vice versa.

Shareholders will be asked to approve Resolution 7 at the General Meeting to authorise the issue of Ordinary Shares that would arise upon the conversion of the 2024 Bonds and 2025 Bonds following the implementation of the Bond Amendments.

The Placing and Open Offer is conditional upon the Bond Resolutions being passed. The Bond Resolutions are conditional upon the Resolutions being passed at the General Meeting and will not be effective until receipt by the Company of the proceeds of the Placing and Open Offer. The Bond Proposals are, *inter alia*, conditional upon Resolution 7 being passed at the General Meeting to approve the issue of Ordinary Shares arising upon conversion of Convertible Bonds taking the Bond Amendments into account.

Following the Bond Resolutions becoming effective, the Supplemental Trust Deeds will be executed to implement the Bond Amendments.

5. Financial effects of the Transactions

A pro forma statement of net assets is set out in Part 2 of this Circular. This shows that, had the Transactions been completed as at 30 June 2008, net assets would have increased by £29.9 million from net liabilities of £70.4 million to net liabilities of £40.5 million.

The Placing and Open Offer will raise £18.4 million (net of expenses). On a pro forma basis, had the Transactions been completed as at 30 June 2008, the net effect of the Transactions would have been to reduce total net debt (including Convertible Bonds at book value) as at 30 June 2008 from £109.4 million to £79.5 million as follows:

	As at 30 June 2008	Adjustments		Pro Forma as at 30 June 2008
		Placing and Open Offer Proceeds	Bond Proposals	
£ millions				
Convertible Bonds (at book value)	(65.0)		13.9	(51.1)
Other indebtedness	(66.0)			(66.0)
Total Debt	(131.0)	0.00	13.9	(117.1)
Less cash and cash equivalents	21.6	18.4	(2.4)	37.6
Net Debt	(109.4)	18.4	11.5	(79.5)

Including the Convertible Bond debt at face value of £89.6 million (rather than at the value required by IFRS), the net effect of the Transactions would have been to reduce net debt at 30 June 2008 from £134.0 million to £118.0 million.

6. Share Capital Reorganisation

Share split

The current nominal value of 10 pence of each Existing Ordinary Share exceeds the proposed Issue Price of 1.5 pence for each New Ordinary Share. As a matter of UK company law, it is not possible for the Company to issue shares at less than their nominal value and therefore in order to effect the Placing and Open Offer, it is proposed that the Company's share capital be reorganised as follows:

- (1) each of the 814,988,800 Initial Ordinary Shares in issue as at the date of this document (being the Existing Ordinary Shares) will be subdivided into 1 Interim Ordinary Share and 9 "C" Deferred Shares; and
- (2) each of the 373,011,200 Initial Ordinary Shares which, as at the date of this document, are unissued will be subdivided into 10 Interim Ordinary Shares.

The "C" Deferred Shares so created will have no voting or dividend rights and, on a return of capital, the right only to receive the amount paid up thereon after the holders of Ordinary Shares have received £1 million per ordinary share held by them. Subject to the terms of the following paragraph, the "C" Deferred Shares will not be transferable. The "C" Deferred Shares are, therefore, of no value and all of the value that is currently attributable to the Existing Ordinary Shares will be attributable to the Interim Ordinary Shares in issue following the implementation of the share split. The Company therefore may in due course repurchase all of the "C" Deferred Shares without making any payment to the holders thereof. No application will be made for the "C" Deferred Shares to be listed.

The rights of the "C" Deferred Shares will allow a reduction of capital which cancels the "C" Deferred Shares for no consideration or a transfer of all the "C" Deferred Shares to be executed by a person nominated by the Directors on behalf of the beneficial owners. The purpose of this is either to have the "C" Deferred Shares owned by a single person who will assist the Company as necessary or to facilitate the purchase of such "C" Deferred Shares by the Company. Accordingly, the Directors may nominate the Company Secretary as the person to execute a transfer of all of the "C" Deferred Shares in due course.

The proportion of the issued ordinary share capital of the Company held by each Shareholder following the share split will, save for any fractional entitlements, remain unchanged. Aside from the different nominal value, each Interim Ordinary Share of 1 pence will carry the same rights as set out in the Company's articles of association that currently attach to the Existing Ordinary Shares.

Share consolidation

At the levels at which the Company's shares have traded over recent months (averaging 3 pence over the last 30 days and 4 pence over the last 90 days), small absolute movements in the share price represent large percentage movements, resulting in considerable share price volatility. In addition, the Board believes that the bid-offer spread on shares priced at low absolute levels can be disproportionate to the share price, to the detriment of Shareholders.

In order to ensure that, following the Placing and Open Offer and Subdivision described above, the number of shares in issue and likely share price is appropriate for a company of SkyePharma's size in the UK market, the Board considers it desirable to effect a 1 for 100 share consolidation of the Interim Ordinary Shares as set out below:

- (1) every 100 Interim Ordinary Shares in issue following the subdivision of the Initial Ordinary Shares will be consolidated into one Consolidated Ordinary Share; and
- (2) every 100 Interim Ordinary Shares not in issue following the subdivision of the Initial Ordinary Shares will be consolidated into one Consolidated Ordinary Share.

In order for the consolidation of the Interim Ordinary Shares referred to in subparagraphs (1) and (2) above to take place, a small number of Initial Ordinary Shares have been issued so that in each case the consolidations proposed in paragraphs (1) and (2) above will not result in the creation of a fraction of a Consolidated Ordinary Share.

Any individual fractional entitlements arising on the consolidation of the Interim Ordinary Shares will be sold in the market on behalf of the Shareholder so entitled save that where the net proceeds are less than £5.00 per entitled Shareholder, then the net proceeds of such sale will be retained for the benefit of the Company.

The proportion of the issued ordinary share capital of the Company held by each Shareholder following the Share Capital Reorganisation will, save for any fractional entitlements, remain unchanged. Apart from having a different nominal value, each Consolidated Ordinary Share of £1.00 will carry the same rights as set out in the Company's articles of association that currently attach as the Existing Ordinary Shares.

The Board believes that, irrespective of whether the Placing and Open Offer proceeds, the Share Capital Reorganisation will give the Company greater flexibility than it currently has to optimise its share capital structure in the future. Subject to the Shareholders approving the necessary resolutions, the Share Capital Reorganisation will take place irrespective of whether or not the Placing and Open Offer proceeds.

The Share Capital Reorganisation requires the approval of Shareholders in general meeting and thus resolutions will be proposed at the General Meeting to implement the Share Capital Reorganisation.

In addition, in order to implement the Placing and Open Offer and to ensure the availability of sufficient Ordinary Shares to satisfy obligations to allot shares in future, including in particular allotments on conversion of the 2024 Bonds and the 2025 Bonds following the Bond Amendments, the Company is proposing to increase its authorised share capital to £140,000,000 (representing an increase of 16.67 per cent.).

No new certificates will be issued in respect of the Interim Ordinary Shares immediately following the sub-division of the Initial Ordinary Shares. New certificates in respect of both the Consolidated Ordinary Shares and the Consolidated New Ordinary Shares will be issued following the conclusion of the Placing and Open Offer. After dispatch of definitive share certificates, certificates for Existing Ordinary Shares will cease to be valid for any purpose whatsoever.

All Existing Ordinary Shares standing to the credit of CREST accounts will be consolidated into Consolidated Ordinary Shares at 8.00 a.m. on 22 September 2008.

Impact of the share consolidation on the Open Offer

As set out elsewhere in this document the Open Offer is, in effect, being made to Qualifying Shareholders on the basis of 172 New Ordinary Shares for every 100 Existing Ordinary Shares.

Note, however, that under the Share Capital Reorganisation, Shareholders will in fact receive one Consolidated New Ordinary Share for every 100 New Ordinary Shares proposed to be held and will in fact pay 150 pence per Consolidated New Ordinary Share rather than 1.5 pence per New Ordinary Share.

Accounting for the share Consolidation the Open Offer is actually being made on the basis of:

**1.72 Consolidated New Ordinary Shares of £1.00 each per share for every
100 Existing Ordinary Shares of 10 pence each**

and Open Offer Entitlements will be expressed in this form.

Effects of the Transactions upon capital structure

The capital structure of the Company will be as follows:

(a) showing the effect of the Placing and Open Offer following the Share Capital Reorganisation:

	Number of Consolidated Ordinary Shares	% Following the Placing and Open Offer
Existing Ordinary Shares in consolidated form	8,149,888	36.76
Consolidated New Ordinary Shares relating to the Placing and Open Offer	14,017,807	63.24
		<u>100.00</u>

(b) showing the effect of the Placing and Open Offer, the Share Capital Reorganisation, and assuming the full conversion of Convertible Bonds, taking into account the Bond Proposals:

	Number of Consolidated Ordinary Shares	% Following the Placing and Open Offer	% Assuming full conversion of Bonds
Existing Ordinary Shares in consolidated form	8,149,888	36.76	17.65
Consolidated New Ordinary Shares relating to the Placing and Open Offer	14,017,807	<u>63.24</u>	30.37
		<u>100.00</u>	
Consolidated Ordinary Shares arising on conversion of 2024 Bonds	18,758,490		40.64
Consolidated Ordinary Shares arising on conversion of 2025 Bonds	5,235,602		<u>11.34</u>
			<u>100.00</u>

This table has been prepared on the basis that no Convertible Non-Voting Shares are required to be issued. In order to ensure that HBM (together with its concert parties) holds less than 30 per cent. of the voting rights in the capital of the Company, Convertible Non-Voting Shares may be issued to HBM under the Placing. The Company anticipates that, depending on the number of shares taken up under the Open Offer, among other things, the maximum number of Convertible Non-Voting Shares that may be required to be issued to HBM will be approximately 3,000,000. The issue of Convertible Non-Voting Shares will be matched by a corresponding decrease in the number of Consolidated New Ordinary Shares issued. The maximum anticipated number of Convertible Non-Voting Shares would represent 13.38 per cent. of the issued share capital following the Placing and Open Offer and 6.42 per cent. of the issued share capital assuming full conversion of the Bonds.

7 Borrowing powers

The Directors believe that there is uncertainty about the Company's borrowing powers set out in Article 118 of the Articles of Association and that the Article is poorly structured. The enforceability of existing borrowings is not affected by this. To obtain certainty a special resolution is to be proposed at the General Meeting to approve borrowings up to a maximum amount of £250 million. The resolution will also ratify all previous borrowings. The Group's indebtedness as at 30 June 2008 was £131.0 million as measured under IFRS. Including the Convertible Bonds debt at face value of £89.6 million (rather than at the value required by IFRS) and the Paul Capital Financing at its face value of £44.6 million (rather than the discounted value required by IFRS), total indebtedness at 30 June 2008 was £180.2 million.

The Board intends to review and propose amendments to Article 118 in due course.

8. Further information

Your attention is drawn to the further information set out in Parts 2 and 3 of this Circular. Shareholders should read the whole of this Circular and not rely solely on the summary financial information contained within this letter.

9. General Meeting

A General Meeting to approve the Resolutions will be held at the offices of Fasken Martineau Stringer Saul LLP at 17 Hanover Square, London W1S 1HU at 11.00 a.m. on 19 September 2008. The Notice of General Meeting is set out at the end of and forms part of this Circular.

The resolutions dealing with the increase in authorised share capital of the Company and the Placing and Open Offer and the authority to issue Ordinary Shares pursuant to the Bond Proposals are conditional in the first instance on the resolutions dealing with the Share Capital Reorganisation being passed by the Shareholders and the Bond Resolutions being passed by the 2024 Bondholders and the 2025 Bondholders and thereafter are conditional on each preceding resolution being approved. The Resolutions dealing with the Share Capital Reorganisation will take effect whether or not the Placing and Open Offer or the Bond Proposals are implemented.

Resolutions, the full text of which are set out in the Notice of General Meeting, will be proposed:

- (a) to effect the Share Capital Reorganisation as follows:
- (i) by subdividing each of the Initial Ordinary Shares in the capital of the Company in issue as at the close of business on the Record Date (being the Existing Ordinary Shares) into 1 Interim Ordinary Shares having the same rights as the Existing Ordinary Share and 9 “C” Deferred Shares, the Interim Ordinary Shares and the “C” Deferred Shares having the rights set out in the Resolutions;
 - (ii) by subdividing each of the Initial Ordinary Shares in the capital of the Company that are unissued as at the close of business on the Record Date into 10 Interim Ordinary Shares;
 - (iii) by consolidating every 100 Interim Ordinary Shares then in issue into one Consolidated Ordinary Share; and
 - (iv) by consolidating every 100 authorised but unissued Interim Ordinary Shares into one Consolidated Ordinary Share.
- (b) subject to and conditional upon the passing of the preceding resolutions and the passing of the Bond Resolution, to increase the authorised share capital of the Company from £120,000,000 to £140,000,000 by the creation of an additional 11,000,000 Consolidated Ordinary Shares and by the creation of 9,000,000 Convertible Non-Voting Shares having rights set out in the Resolution. This number of additional Consolidated Ordinary Shares and the new Convertible Non-Voting Shares represents an increase of approximately 16.67 per cent. of the authorised share capital of the Company as at 29 August (the latest practicable date prior to the publication of this Circular);
- (c) subject to and conditional upon the passing of the preceding resolutions and the Bond Resolutions, to approve (as required by the Listing Rules) the issue of the New Ordinary Shares at the Issue Price being at a discount of 62.50 of per cent. to the Closing Price;
- (d) subject to and conditional upon the passing of the preceding resolutions and the Bond Resolutions, to authorise the Directors in accordance with section 80 CA 1985 to allot relevant securities (as defined in section 80(2) CA 1985), and to disapply statutory pre-emption rights under section 95 CA 1985, in respect of up to an aggregate nominal amount of £14,017,807 to enable the allotment of the New Ordinary Shares and the Convertible Non-Voting Shares in connection with the Placing and Open Offer;
- (e) subject to and conditional upon the passing of all of the preceding resolutions, to approve the issue of New Ordinary Shares and Convertible Non-Voting Shares to HBM, as a related party (as required by the Listing Rules) pursuant to the Placing; and
- (f) subject to and conditional upon the passing of the preceding resolutions and the Bond Resolutions, to authorise the Directors in accordance with section 80 CA 1985 to allot relevant securities (as defined in section 80(2) CA 1985), and to disapply statutory pre-emption rights under section 95 CA 1985, in respect of up to an aggregate nominal amount of £23,994,092 in connection with the allotment of Consolidated Ordinary Shares upon conversion of 2024 Bonds and 2025 Bonds, taking into account the Bond Amendments.
- (g) to approve, for the purposes of the Articles, borrowings by the Group of up to a maximum of £250 million, and to ratify all previous borrowings.

Resolutions dealing with (a), (b), (c) and (e) will be proposed as ordinary resolutions requiring a simple majority of those voting at the meeting and resolution (d), (f) and (g) will be proposed as special resolutions requiring a majority of not less than 75 per cent. of those voting at the meeting.

The background to the requirement to pass resolutions dealing with (c), (d) and (f) are explained in paragraph 12.

10. Actions to be taken

(i) Non-CREST Shareholders

You will find enclosed a Form of Proxy for use at the General Meeting. Whether or not you intend to be present at the meeting you are requested to complete the Form of Proxy (in accordance with the instructions printed thereon) and return it to the Registrars as soon as possible and in any event so as to

arrive by 11.00 a.m. on 17 September 2008. Completion and return of a Form of Proxy will not preclude you from attending the meeting and voting in person if you so wish.

(ii) CREST Shareholders

CREST Shareholders who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the General Meeting and any adjournment(s) thereof by utilising the procedures described in the CREST Manual. CREST Personal Members or other CREST Sponsored Members, and those CREST Members who have appointed a voting service provider(s), should refer to their CREST Sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a “CREST Proxy Instruction”) must be properly authenticated in accordance with Euroclear’s specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the Registrar by the latest time(s) for receipt of proxy appointments specified in the Notice of Meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Registrar is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

CREST Shareholders should note that Euroclear does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST Member concerned to take (or, if the CREST Member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST Sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST Members and, where applicable, their CREST Sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

11. Importance of the vote

The audit reports on the 2005 Financial Statements, 2006 Financial Statements and 2007 Financial Statements have contained “emphasis of matter” statements, which drew attention to material uncertainties which may cast significant doubt over the Company’s ability to continue as a going concern. In particular, Note 1 to the 2007 Financial Statements made it clear that the financial statements were prepared on a going concern basis on the grounds that the Convertible Bonds can be renegotiated or refinanced in a timely manner. The Directors believe that the Transactions, if consummated, will meet the requirement of refinancing the Group in a timely manner and will enable the Company to continue as a going concern.

If the Resolutions are not passed by the Shareholders, or the Transactions do not proceed for some other reason, then the Directors would immediately look for an alternative solution for refinancing or renegotiating the Convertible Bonds before the likely demand to repay the 2024 Bonds at par value of £69.6 million in May 2009. Any potential alternative refinancing or renegotiation of the Convertible Bonds could involve putting the Company up for sale, substantial asset sales (including the Company’s core inhalation and/or oral businesses, manufacturing facilities and/or other property assets and/or royalty rights over the Company’s approved, unapproved and/or pipeline products), a debt for equity swap with holders of the Convertible Bonds and senior creditors or another refinancing solution for example raising sufficient funds through the issue of convertible or non-convertible debt to meet the 2024 Bond repayment.

Implementation of any alternative solution would be made difficult by the climate created by the Transactions having failed, and by the likely requirement for the support of Bondholders and/or the principal secured lenders. Whilst the Directors would seek an alternative solution before the likely demand to repay the 2024 Bonds in May 2009 falls due, the timing of the implementation of such an alternative solution is uncertain at the current time and the public failure to complete the Transactions could have a detrimental effect on the ability of the business to enter into new licensing agreements and obtain normal supplier credit. The Directors believe that whilst it is possible that an alternative could be available, the likelihood of success of any such

alternative is by no means certain and any such alternative would be likely to involve a very significant direct or indirect dilution of interests of Shareholders beyond that envisaged if the Transactions are concluded.

Moreover, if an alternative solution were not to be found within a few months, it is likely that the Directors would be forced to seek the protection of a formal insolvency process, likely to be administration. In such circumstances, it would be most likely that any outcome would be very significantly prejudicial to the interests of Shareholders.

On this basis, the Directors are doubtful that it would be possible to implement an alternative solution which preserves much, if any, value for existing Shareholders.

12. Shareholder support for the Placing and Open Offer and the Related Party Transaction

HBM has agreed to subscribe at the Issue Price for New Ordinary Shares and Convertible Non-Voting Shares with a value of £11.4 million. As at 29 August 2008 (being the last practicable date prior to the publication of this Circular) and accordingly prior to the Placing and Share Capital Reorganisation being implemented, HBM held 91,800,000 Ordinary Shares, comprising approximately 11.26 per cent. of the Existing Ordinary Shares.

Due to the size of the holding over which HBM exercises control, such participation in the Placing is classified by the UK Listing Authority as a related party transaction for the purposes of the Listing Rules. As such, it requires the approval of Shareholders.

An ordinary resolution will be put to Shareholders at the General Meeting to enable them to consider and, if thought fit, approve the Related Party Transaction. HBM will not vote, and has undertaken to take all reasonable steps to ensure that its respective associates will not vote, in relation to those shares over which it can exercise or influence the voting rights, on the resolution in the Notice of General Meeting, which relates to their participation in the Placing and Open Offer.

13. Recommendations

The Board, which has been so advised by Credit Suisse considers that the Related Party Transaction is fair and reasonable so far as the Shareholders of the Company are concerned. In providing advice to the Board Credit Suisse has taken into account the Directors' commercial assessment of the Related Party Transaction.

The Board, which has received financial advice from Credit Suisse, believes that the Resolutions and the Transactions are in the best interests of the Company and its Shareholders as a whole. In providing advice to the Board, Credit Suisse has taken into account the commercial assessment of the Directors. Accordingly, the Board unanimously recommends that Shareholders vote in favour of each of the Resolutions to be proposed at the General Meeting, as those Directors who are Shareholders intend to do in respect of their own shareholding, in aggregate, 1,809,349 Ordinary Shares, representing approximately 0.22 per cent. of the issued share capital of the Company as at 29 August 2008, (being the latest practicable date prior to publication of this Circular). The Directors who are Shareholders have also irrevocably undertaken to take up their entitlements under the Open Offer in full in respect of an aggregate of 3,112,080 New Ordinary Shares (of aggregate value of £46,678.50) and have also agreed to subscribe for New Ordinary Shares up to an aggregate value of £93,817.50 (being the Directors' Shares) under the Placing, subject to clawback to satisfy valid applications under the Open Offer.

Jeremy Scudamore
Non-Executive Chairman
SkyePharma PLC

PART 2

PRO FORMA FINANCIAL INFORMATION

Unaudited pro forma financial information

The unaudited pro forma statement of net assets of SkyePharma PLC set out below has been prepared to illustrate the effect of the Placing and Open Offer on the Group's Net Assets as if it, and the inter-conditional Bond Proposals, had taken place on 30 June 2008. This unaudited pro forma Statement of Net Assets has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and, therefore, do not represent the Group's actual financial position or results.

This unaudited pro forma statement of Net Assets has been prepared on the basis set out in the notes below and is based on the unaudited Balance Sheet of the Group as at 30 June 2008.

	As at 30 June 2008 (Note 1)	Adjustments		Pro Forma as at 30 June 2008
		Placing and Open Offer Proceeds (Note 2)	Bond Proposals (Note 4, 5)	
(£ millions)				
ASSETS				
Non-current assets				
Goodwill and intangible assets	35.5			35.5
Property, plant and equipment	28.8			28.8
Investments in associates	—			—
Available-for-sale financial assets	0.1			0.1
	64.4			64.4
Current assets				
Inventories	1.0			1.0
Trade and other receivables	14.8			14.8
Financial assets at fair value through profit	0.2			0.2
Cash and cash equivalents	21.6	18.4	(2.4)	37.6
	37.6	18.4	(2.4)	53.6
Total Assets	102.0	18.4	(2.4)	118.0
LIABILITIES				
Current Liabilities				
Trade and other payables	(25.7)			(25.7)
Other borrowings	(7.9)			(7.9)
Deferred income	(3.1)			(3.1)
	(36.7)			(36.7)
Non-current liabilities				
Convertible bonds	(65.0)		13.9	(51.1)
Other borrowings	(58.1)			(58.1)
Deferred income	(10.2)			(10.2)
Other non-current liabilities	—			—
Provisions	(2.4)			(2.4)
	(135.7)		13.9	(121.8)
Total Liabilities	(172.4)		13.9	(158.5)
Net Assets/(Liabilities)	(70.4)	18.4	11.5	(40.5)

Notes:

- (1) The financial information has been extracted, without material adjustments, from the unaudited Interim Results of SkyePharma PLC, which have been prepared under the basis required by IFRS.
- (2) Adjustments to reflect the proceeds of the Placing and Open Offer of £21.0 million, net of costs associated with the Placing and Open Offer of £2.6 million.
- (3) No account has been taken of any trading or other transactions of the Group since 30 June 2008.

- (4) Under IFRS, the carrying value of the Convertible Bonds is shown in non-current liabilities and the value of the conversion option is shown in share premium. The adjustment to the fair value of the Convertible Bonds of £13.9 million has been assessed to reflect the revisions to the put date, strike price and deemed effective interest rate of the debt which provides a lower fair value of the Convertible Bond value and a higher fair value of the share premium in accordance with IFRS. The resulting fair values of the £69.9 million and £20.0 million bonds is £39.4 million and £11.7 million respectively. No cash payment was made to achieve this reduction in the convertible bond value.

The Group's total net debt as at 30 June 2008 totalled £109.4 million. On a pro forma basis, had the Transactions been completed as at 30 June 2008, the net effect of the Transactions would have been to reduce total net debt as at 30 June 2008 from £109.4 million to £79.5 million as follows:

	As at 30 June 2008	Adjustments		Pro Forma as at 30 June 2008
		Placing and Open Offer Proceeds	Bond Proposals	
		(£ millions)		
Convertible Bonds (at book value)	(65.0)	—	13.9	(51.1)
	(65.0)	—	13.9	(51.1)
Other borrowings—Current liabilities	(7.9)	—	—	(7.9)
Other borrowings—Non-current liabilities	(58.1)	—	—	(58.1)
	(66.0)	—	—	(66.0)
Total Debt	(131.0)	—	13.9	(117.1)
Less cash and cash equivalents	21.6	18.4	(2.4)	37.6
Net Debt	(109.4)	18.4	11.5	(79.5)

- (5) Adjustments to reflect the net costs associated with negotiating the bonds of £2.4 million.

The Directors
SkyePharma PLC
105 Piccadilly
London
W1J 7NJ

1 September 2008

Dear Sirs

We report on the pro forma financial information (the “Pro Forma Financial Information”) set out in Part 2 of the Circular dated 1 September 2008, which has been prepared on the basis described in the notes to the Pro Forma Financial Information, for illustrative purposes only, to provide information about how the transaction might have affected the financial information presented on the basis of the accounting policies adopted by SkyePharma PLC in preparing the financial statements for the period ended 30 June 2008. This report is required by Listing Rule 13.3.3R and is given for the purpose of complying with that rule and for no other purpose.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have to ordinary shareholders as a result of the inclusion of this report in the Circular, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Listing Rule 13.6.1R(9), consenting to its inclusion in the Circular.

Responsibilities

It is the responsibility of the directors of SkyePharma PLC to prepare the Pro Forma Financial Information in accordance with Listing Rule 13.3.3.R.

It is our responsibility to form an opinion, as required by item 7 of Annex II of the PD Regulations, as to the proper compilation of the Pro Forma Financial Information and to report that opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro Forma Financial Information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the directors of SkyePharma PLC.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro Forma Financial Information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of SkyePharma PLC.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

- (a) the Pro Forma Financial Information has been properly compiled on the basis stated; and
- (b) such basis is consistent with the accounting policies of SkyePharma PLC.

Yours faithfully

Ernst & Young LLP

PART 3

ADDITIONAL INFORMATION FOR RELATED PARTY INFORMATION

1. Share Capital

1.1 The authorised and issued share capital of the Company as at 29 August 2008 (the latest practicable date prior to publication of this Circular) is as follows:

	Authorised		Issued and fully paid	
	No.	Amount (£)	No.	Amount (£)
Ordinary Shares of 10 pence each	1,188,000,000	118,800,800	814,988,636	81,498,863
“B” Deferred Shares of 10 pence each	12,000,000	1,200,000	12,000,000	1,200,000

1.2 The authorised and issued share capital of the Company as it is expected to be immediately following Admission, the Share Capital Reorganisation and the Placing and Open Offer is as follows:

	Authorised share capital		Issued and fully paid	
	No.	Amount (£)	No.	Amount (£)
Ordinary Shares of £1.00 each	56,451,008	56,451,008	19,201,547	19,201,547
“B” Deferred Shares of 10 pence each	12,000,000	1,200,000	12,000,000	1,200,000
“C” Deferred Shares of 1 pence each	7,334,899,200	73,348,992	7,334,899,200	73,348,992
Convertible Non-Voting Shares of £1.00 each	9,000,000	9,000,000	2,966,148	2,966,148

* These figures reflect the maximum number of Convertible Non-Voting Shares which it is anticipated that may be held by HBM. The actual number of such shares to be issued to HBM will be dependent, among other things, on the number of shares taken up under the Open Offer. Any increase or decrease in the number of Convertible Non-Voting Shares actually issued will be matched by a corresponding decrease or increase in the number of Ordinary Shares in issue.

2. Directors’ Interests

2.1 The interests, all of which are beneficial (except to the extent noted below), of each Director and their immediate families which (i) are required pursuant to section 809 CA 2006 to be entered in the register referred to therein or (ii) are interests of persons connected (within the meaning of section 252-255 CA 2006) with such Directors which, if the connected person were a Director, would be required to be disclosed under (i) or (ii) above, and the existence of which was known to or could with reasonable diligence be ascertained by that Director, as at the close of business in London on 29 August 2008 (the latest practicable date prior to the publication of this Circular) and as they are expected to be (assuming no clawback under the Open Offer) immediately following the Placing and Open Offer are as follows:

	At 29 August 2008			Upon Completion of the Placing and Open Offer		
	Ordinary Shares Pre-consolidation ⁽¹⁾	Percentage of Issued Share Capital	Convertible Bonds	Consolidated Ordinary Shares ⁽¹⁾	Percentage of Issued Share Capital	Convertible Bonds
Executive Directors						
Dr Ken Cunningham ⁽²⁾ . . .	284,279	0.035	—	7,731	0.035	—
Peter Grant ⁽³⁾	119,897	0.015	—	7,927	0.036	—
Frank Condella ⁽⁴⁾	628,506	0.077	—	33,761	0.152	—
Non-Executive Directors						
Jeremy Scudamore	—	—	—	33,333	0.150	—
Alan Bray ⁽⁵⁾	170,000	0.021	—	8,370	0.038	—
Jean-Charles Tschudin ⁽⁶⁾ . . .	400,000	0.049	—	15,013	0.068	—
Dr Jerry Karabelas	206,667	0.025	—	5,620	0.025	—
Totals	1,809,349	0.222	—	111,755	0.504	—

(1) Including partnership shares held under the Share Purchase Plan (see below).

(2) The Ordinary Shares beneficially owned by Dr Ken Cunningham are registered in the name of Nortrust Nominees Limited.

- (3) The Ordinary Shares beneficially owned by Peter Grant are registered in the name of Nortrust Nominees Limited.
- (4) 578,506 of the Ordinary Shares beneficially owned by Frank Condella are registered in the name of Nortrust Nominees Limited and 50,000 in the name of NY Nominees Limited.
- (5) The Ordinary Shares beneficially owned by Alan Bray are registered in the name of Strand Nominees Limited.
- (6) The Ordinary Shares beneficially owned by Jean-Charles Tschudin are registered in the name of HSBC Global Custody Nominee UK Limited.

All interests are beneficial unless otherwise stated in the notes to the table.

The Directors intend to acquire an aggregate of 62,545 Consolidated New Ordinary Shares under the Placing, subject to clawback to satisfy valid applications under the Open Offer. The number of Consolidated New Ordinary Shares taken by Jeremy Scudamore means that his transaction with the Company falls within the requirements for a smaller related party transactions under the Listing Rules.

2.2 At the close of business in London on 29 August 2008 (being the latest practicable date prior to the publication of this Circular), certain of the Directors held the following share awards:

2.2.1 **Share Purchase Plan**

Name	Partnership Shares	Conditional Matching Shares
Frank Condella	23,583	23,583
Peter Grant	19,897	19,897

2.2.1.1 The Matching Shares will be released to the relevant individual three years from the date of award provided that individual is still employed by the Group and the original shares for which the Matching Shares were awarded have not been sold.

2.2.1.2 Frank Condella will forfeit his conditional Matching Shares awarded under the share purchase plan following his move from Executive to Non-Executive Director later this year.

2.2.2 **CoInvestment Agreements**

2.2.2.1 The following is a table setting out details of a special share arrangement implemented for Frank Condella, Dr Ken Cunningham and Peter Grant under CoInvestment Agreements on joining the Company. Under the terms of the arrangement the relevant Director purchased Ordinary Shares, with the Company granting a matching award of 2 Ordinary Shares for each share purchased. Provided that the relevant Director remains employed by the Company and the Ordinary Shares purchased have not been sold, 50 per cent. of the matching award will be released on the first anniversary of the date of award with the balance being released on the second anniversary.

Name	Shares Purchased by the Executive		Matching Shares			
			First Tranche		Second Tranche	
	Number	Share Price	Number	Date Eligible for Release	Number	Date Eligible for Release
Frank Condella	350,000	40.9p	350,000	27 February 2007	350,000	27 February 2008
Dr Ken Cunningham	179,300	44.5p	179,300	1 March 2007	179,300	1 March 2008
Peter Grant	100,000	24.0p	100,000	26 January 2008	100,000	26 January 2009

2.2.2.2 The agreements provide that the earliest date of release is as set out above. The actual date of release will be the later of these dates and the date the Remuneration Committee determines that awards are released. The Remuneration Committee determined that the first tranche of Matching Shares awarded to Frank Condella and Dr Ken Cunningham was released on 3 May 2007 at a price of 23 pence.

2.2.2.3 The Remuneration Committee has determined that the first tranche of Matching Shares for Peter Grant and the second tranche of Matching Shares for Frank Condella and Dr Ken Cunningham will be released as soon as practicable following completion of the Placing and Open Offer.

2.2.3 *Long Term Incentive Plan*

2.2.3.1 The following is a table setting out details of awards of conditional rights to acquire Ordinary Shares, at the prevailing market rates at time of grant. Eligible employees are awarded rights to acquire a maximum number of Ordinary Shares at the beginning of a three year period, a proportion of which they will be entitled to receive at the end of that period depending on the extent to which the challenging performance conditions set by the Remuneration Committee at the time the allocation is made are satisfied.

Name	Number of Ordinary Shares Conditionally awarded	Price at which awarded	Date of award
Frank Condella	1,184,210	38p	24 April 2006
	5,869,565	22.75p	4 May 2007
Dr Ken Cunningham	657,894	38p	24 April 2006
	3,260,869	22.75p	4 May 2007
Peter Grant	2,739,130	22.75p	4 May 2007

2.2.3.2 The LTIPs awarded to Frank Condella will be subject to pro-rating following his move from Executive to Non-Executive Director later this year. The pro-rated amount will be subject to the usual performance conditions at the end of the holding period.

2.2.4 Save as disclosed in this paragraph 2.2, no interest exists which the Company is required to enter in the register maintained pursuant to section 809 CA2006.

2.3 *Service Contracts and non-executive letters of appointment*

2.3.1 *Executive Directors*

Dr Ken Cunningham's service agreement with the Company (effective 24 April 2006) is terminable by the Company with one year's written notice and by Dr Cunningham with six months' written notice. Under his service agreement, Dr Cunningham receives a salary of £300,000 per annum plus car allowance and is eligible to participate in the Company's annual performance related bonus and the Company's Share Incentive Schemes, subject to the rules of such schemes. He participates in the Company's medical expenses insurance plan and the Company contributes 17.5 per cent. of his basic annual salary into an approved pension plan. There is provision for early termination of the agreement by payment in lieu of notice and a garden leave clause. There is no provision for compensation in addition to the contractual notice period. Following his appointment as Chief Executive Officer by way of a letter agreement dated 1 September 2008, Dr Cunningham's salary has been increased to £350,000 per annum.

Peter Grant's service agreement with the Company as Finance Director was effective 14 November 2006, having joined as an employee on 1 November 2006, and is terminable by the Company with one year's written notice and by Mr Grant with six months' written notice. Under his service agreement, Mr Grant receives a salary of £240,000 per annum plus car allowance and is eligible to participate in the Company's annual performance related bonus and the Company's Share Incentive Schemes, subject to the rules of such schemes. He participates in the Company's medical expenses insurance plan and the Company contributes 17.5 per cent. of his basic annual salary into an approved pension plan. There is provision for early termination of the agreement by payment in lieu of notice and a garden leave clause. There is no provision for compensation in addition to the contractual notice period.

Frank Condella's service agreement with the Company (effective 1 March 2006) is terminable by the Company with one year's written notice and by Mr Condella with 6 months' written notice. Under his service agreement, Mr Condella receives a salary of £480,000 per annum plus car allowance and is eligible to participate in the Company's annual performance related bonus and the Company's Share Incentive Schemes, subject to the rules of such schemes. He participates in the Company's medical expenses

insurance plan, receives a living allowance of £40,000 and the Company contributes 17.5 per cent. of his annual salary into an approved pension plan. There is provision for early termination of the agreement by payment in lieu of notice and a garden leave clause. There is no provision for compensation in addition to the contractual notice period.

By way of a letter agreement dated 1 September 2008 the terms of the above service agreement were varied to confirm that Mr Condella would stand down as Chief Executive Officer on 1 September 2008. It also provides that the service agreement will terminate by mutual consent on 31 October 2008, subject to no event occurring prior to that date, which would or may result in the Transactions failing to proceed to be finalised or the current executive management of the Company to be required to stand down. The Remuneration Committee has determined that, subject to completion of the Transactions, Mr Condella should be awarded a pro-rata bonus of £120,000 on 31 October 2008 in relation to achieving certain performance related objectives during the period from 1 January 2008 to 31 October 2008. Subject to the service agreement terminating by mutual consent on 31 October 2008, on 1 November 2008 Mr Condella will be appointed a Non-Executive Director of the Company. At that point, Mr Condella will be provided with a Non-Executive Director's letter of appointment for an initial term of three years, subject to retirement by rotation, terminable by either party on one month's written notice. He will receive an annual fee of £33,000, plus committee fees on an agreed scale depending upon the committees on which he serves and/or for which is appointed chairman of.

Other than as described above, no service contract of any of the Directors has been entered into or amended in the last six months.

2.3.2 *Non-Executive Directors*

Jeremy Scudamore has a letter of appointment effective 15 October 2007 for an initial term of three years, subject to retirement by rotation, expiring on 15 October 2010, terminable by either party at any time on one month's written notice. He receives an annual fee of £80,000 and reasonable expenses.

Dr Jerry Karabelas has a letter of appointment effective 2 February 2006 for a term of three years, subject to retirement by rotation, expiring on 2 February 2009. He receives an annual fee of £33,000 plus committee fees of £5,000 and reasonable expenses.

Alan Bray has a letter of appointment effective 29 September 2007 for a term of three years, subject to retirement by rotation, expiring on 29 September 2010, terminable by either party at any time on one month's written notice. He receives an annual fee of £36,000 plus committee fees of £11,000, and reasonable expenses.

Jean-Charles Tschudin has a letter of appointment effective 1 July 2007 for an initial term of three years, subject to retirement by rotation, expiring on 1 July 2010, terminable by either party at any time on one month's written notice. He receives an annual fee of £33,000 plus committee fees of £4,500, and reasonable expenses.

Other than as described above, no non-executive directors' letter of appointment has been entered into or amended in the last six months.

3. Material Contracts

The following contracts, not being entered into in the ordinary course of business, have been entered into by members of the Group within the two years immediately preceding the date of this Circular and may be material or have been entered into at any time by members of the Group and contain provision(s) under which a member of the Group has an obligation or entitlement which is material to the Group as at the date of this Circular:

3.1 *CRC Loan*

On 22 December 2006 SkyePharma PLC, SkyePharma AG, Jagotec AG, SkyePharma Holding AG, SkyePharma Production SAS, Jago Holding AG and SkyePharma Management AG entered into a facility agreement and associated documentation with a specialist lending entity, now called CRC European Loan Origination Platform Ltd., domiciled in Ireland, advised by CRC, for a 10 year secured amortising loan facility to provide general purpose working capital to SkyePharma AG and Jagotec AG.

The transaction included the following elements:

- (i) initial commitments of U.S.\$35.0 million and €26.5 million are repayable over 10 years based on a minimum amortisation schedule. Such schedule was based on expected receipts from milestone payments and royalties in respect of Coruno[®], Lodotra[™] and Requip[®] Once-a-day; in the event that the cumulative milestone payments and royalties from these products exceed the minimum principal and interest payments, the excess will be applied to repay principal early without penalty;
- (ii) interest was charged on a quarterly basis at the respective three month U.S.\$ LIBOR and EURIBOR rates plus a 5.85 per cent. margin;
- (iii) the loan facility was secured by a comprehensive security package, including: pledges of shares of certain key subsidiaries, charges over certain bank accounts, charges over certain intra-group debts, a floating charge over the assets of SkyePharma PLC and an assignment (once certain consents are obtained) of receivables in respect of Coruno[®], Lodotra[™] and Requip[®] Once-a-day. *Flutiform*[™] is not directly included in the security package;
- (iv) there is a comprehensive covenant package, including a negative pledge, so further security over the Group's assets may not be granted, nor may certain other transactions that could affect CRC's security and risk be entered into, without the prior consent of CRC;
- (v) a change of control clause in respect of SkyePharma PLC and any of the borrowers which allows CRC, among other things, to request that the outstanding balance of the principal should be repaid together with a make whole amount to compensate for loss of future margin; and
- (vi) provision for the facility to be increased by a further U.S.\$15.0 million subject to due diligence and progress with a specific product development.

The facility agreement was amended on 23 March 2007 to include the following additional elements:

- (i) the interest rate on the first €7.5 million of the Euro facility was increased to three month EURIBOR plus 10.85 per cent.;
- (ii) charges over receivables in respect of Coruno[®], Lodotra[™] and Requip[®] Once-a-day until assignments over these receivables were implemented;
- (iii) an assignment or charge over receivables in respect of the new formulation of Sular[®] and ZYFLO CR[®];
- (iv) charges over bank accounts into which receivables of Coruno[®], Lodotra[™], Requip[®] Once-a-day, Sular[®] and ZYFLO CR[®] are paid;
- (v) the loan must be prepaid in certain circumstances, including 50 per cent. of any milestone payments for any *Flutiform*[™] licence agreements or 50 per cent. of any signing fees with respect to *Flutiform*[™] licence agreements entered into with regard to any unlicensed territory, in each case received after 1 January 2009 (or on FDA approval if earlier), in an amount up to U.S.\$10.0 million. Any such repayment would be part principal and part a make-whole amount based on a pre-agreed calculation designed to compensate for loss of future margin;
- (vi) a number of additional covenants and consents that are in line with the Paul Capital Refinancing;
- (vii) a royalty-free, fully-paid up and worldwide licence or sublicense, as applicable, subject to third party rights, in favour of CRC limited to the right to grant sublicences (through multiple tiers) under the intellectual property in Coruno[®], Lodotra[™] and Requip[®] Once-a-day, which becomes operable following an event of default and certain other circumstances.

Half of the committed principal on each loan was drawn down in January 2007 and a further U.S.\$11.5 million and €9.0 million were drawn down in March 2007. The balance of approximately £6.5 million was drawn down in December 2007 to give an outstanding balance as of 31 December 2007 of approximately £36.2 million (net of £0.9 million of costs).

- 3.2 On 8 January 2007, the Company (1) and Credit Suisse (2) entered into a placing agreement (the “2007 Placing Agreement” in respect of a non pre-emptive placing of Ordinary Shares, raising approximately £14.8 million (net of expenses) (the “2007 Placing”). Under the 2007 Placing Agreement, Credit Suisse as agent for the Company used its reasonable endeavours to procure places for the Ordinary Shares which were the subject of the 2007 Placing. Under the 2007 Placing Agreement the Company agreed to pay Credit Suisse a commission fee of £100,000 (together with VAT, where applicable). In addition, the Company agreed to pay all the costs and expenses of and incidental to the 2007 Placing (together with VAT on such costs and expenses). The Company agreed to pay Credit Suisse a fee of £400,000 (plus VAT as applicable) for its services in connection with the publication of the shareholder circular to which the 2007 Placing related.
- 3.3 On 8 January 2007 the Company’s subsidiaries, SkyePharma Holding, Inc. (1), SkyePharma Inc (2) and the Blue Acquisition Corp (3) entered into the sale and purchase agreement for the sale, subject to certain conditions, of its Injectable Business (the “Disposal”). The Disposal largely consisted of the sale of the shares in SkyePharma, Inc. with the assets and liabilities which related to the Injectable Business but excluding debts owed from and to other subsidiaries within the Group. The then employees of SkyePharma, Inc. remained with the business as did long-term property leases and liability for part of the Group’s PCRf royalty-based financing obligations.
- 3.4 On 8 January 2007, the Company entered into a parent guaranty agreement (the “Guaranty”) with Blue Acquisition Corp in connection with the Disposal, pursuant to which the Company absolutely, unconditionally and irrevocably guaranteed to Blue Acquisition Corp the complete and timely performance by and all duties, liabilities and obligations of SkyePharma Holding Inc and the Company under the sale and purchase agreement and the ancillary agreements in connection with the Disposal.
- 3.5 On 5 January 2007, each of the Directors and the Company entered into deeds of undertaking pursuant to which each of the Directors agreed to vote in favour of the resolutions proposed at the extraordinary general meeting held on 8 February 2007 in connection with the Disposal.

3.6 ***Paul Capital Finance***

The Group entered into two transactions with PCRf, formerly known as PCRAF, in 2000 and 2002. Under these transactions PCRf provided a total of U.S.\$60 million in return for the sale of a portion of the potential future royalty and revenue streams on Solaraze®, Xatral® OD/ Uroxatral®, Triglide®, Pulmicort® HFA, Foradil® Certihaler™ and Paxil CR™ and certain other minor or early stage products (“Products”). Royalties paid to PCRf were treated as repayment of the liabilities and notional interest was charged on the liabilities using the effective interest rate at inception of each agreement. The estimated payments to PCRf were discounted using each contract’s original effective interest rate, which were 24.5 per cent. and 29.8 per cent. respectively. The PCRf debt was restructured in March 2007 as described below.

On 23 March 2007, SkyePharma plc and its subsidiary, Jagotec AG entered into a Private Note Purchase and Exchange of Interests Agreement (the “Note Purchase Agreement”) with Royalty Securitization Group I, a Delaware statutory trust and subsidiary of PCRf (“RST”), and, with respect to certain sections therein, PCRf, pursuant to which each of PCRf and RST assigned its interests in the royalty and revenue streams described in the preceding paragraph in respect of certain products in exchange for a fixed amortisable senior note (the “Note”) in the amount U.S.\$105.0 million (£52.5 million) issued by Jagotec to RST. Under the terms of the Note Purchase Agreement, minimum amortization payments are U.S.\$92.5 million (£46.3 million) and these payments are increased by U.S.\$12.5 million (£6.3 million) beginning 31 March 2011 if worldwide sales of DepoDur™ reach certain thresholds. The Note is repayable on a quarterly basis in accordance with an amortisation schedule from 31 March 2007 to 31 December 2015. The outstanding amount under the Note as of 31 December 2007 is U.S.\$94.3 million (£47.2 million).

The Note must be prepaid in certain circumstances, including 50 per cent. of any milestone payments for any *Flutiform*™ licence agreements or 50 per cent. of any signing fees with respect to *Flutiform*™ license agreements entered into with regard to any unlicensed territory, in each case received after 1 January 2009 (or on FDA approval if earlier), in an amount up to U.S.\$10.0 million. Jagotec AG must also prepay the Note in an amount equal to 50 per cent. of the proceeds received upon the disposal of any of the intellectual property related to the Products. The Injectable Business was sold on the basis that it retains its obligations to RST to share royalties received in respect of DepoCyt® and DepoDur™ and to the extent that payments are

made in satisfaction of such obligations, the liability of SkyePharma PLC and Jagotec AG under the Note is reduced accordingly. SkyePharma PLC and Jagotec AG have the option to prepay the Note by providing 10 days' prior written notice. Such prepayment amount will be calculated at a discount to the remaining scheduled amortisation payments due more than 12 months after the date of prepayment at a rate of LIBOR plus 75 basis points.

The Note Purchase Agreement contains representations and warranties and covenants customary for agreements of this type, including, among others, covenants relating to financial reporting, compliance with material contracts and laws, preservation of existence, books and records, limitations on liens, restrictions on mergers and restrictions on transfers of intellectual property. The Note Purchase Agreement provides for customary events of default, including, among other things, the non-payment of a scheduled amortisation payment, the failure of a representation or warranty to be true when made, the failure by SkyePharma PLC and Jagotec AG to perform or observe covenants, a cross-default to other indebtedness of a specified amount, declaration of bankruptcy or insolvency and the occurrence of a change of control of SkyePharma PLC. There is also a covenant (negative pledge) not to grant security over *Flutiform*[™] intellectual property, and the requirement for prior consent from RST for certain transactions that could affect RST's security and risk. The Note is secured primarily by milestone payments and royalty receipts receivable by Jagotec AG under licence agreements related to the Products. SkyePharma PLC has guaranteed all of the obligations of Jagotec AG under the Note Purchase Agreement pursuant to a guarantee, dated 23 March 2007, by SkyePharma PLC to the noteholders of the Note (as defined in the Note Purchase Agreement).

In connection with the Note Purchase Agreement, Jagotec AG granted RST a royalty-free, fully-paid up and worldwide, licence or sublicense, as applicable, limited to the right to grant sublicences (through multiple tiers) under the intellectual property in the Products, which becomes operable following an event of default and certain other circumstances, pursuant to a Licence Agreement dated as of 23 March 2007 (the "Licence Agreement"). The Licence Agreement terminates upon the payment in full of all the obligations under the Note Purchase Agreement.

3.7 On 1 September 2008, Dr Ken Cunningham, Peter Grant, Alan Bray, Frank Condella, Dr Jerry Karabelas and Jean-Charles Tschudin each entered into a separate deed of undertaking with the Company and Credit Suisse and Piper Jaffray, pursuant to which each of Dr Ken Cunningham, Peter Grant, Alan Bray, Frank Condella, Dr Jerry Karabelas and Jean-Charles Tschudin undertook to take up shares in the Open Offer.

4. Placing and other agreements

4.1 On 27 August 2008, the Company received irrevocable undertakings from the Directors (who hold Ordinary Shares in the Company), who hold in aggregate 1,809,349 Ordinary Shares representing approximately 0.222 per cent. of the Existing Ordinary Shares, to vote in favour of the Resolutions.

4.2 On 1 September 2008, the Company (1), Credit Suisse (2) and Piper Jaffray (3) entered into a Placing Agreement under which the Banks have agreed, subject to the conditions referred to below, as agents for the Company to use their reasonable endeavours to procure placees for 1,401,780,736 New Ordinary Shares at the Issue Price, which are being placed pursuant to the Placing and Open Offer subject to clawback to satisfy valid applications from Qualifying Shareholders and to make an Open Offer of the New Ordinary Shares to Qualifying Shareholders. In the event that a placee fails to make payment for any New Ordinary Shares allocated to it pursuant to the Placing and such New Ordinary Shares are not taken up pursuant to the Open Offer, the Banks shall subscribe and pay for such shares on a several basis. The Company has confirmed the appointment of Credit Suisse as Sponsor in connection with its application for Admission and has appointed Credit Suisse and Piper Jaffray as joint underwriters and joint brokers in connection with the Placing and Open Offer.

The Company has agreed to pay the Banks a total commission of 3.5 per cent. on the aggregate value at the Issue Price of the New Ordinary Shares payable only if Admission takes place out of which commission may be payable to placees.

The Company will pay all other costs, charges and expenses of, or incidental to, the Placing and Open Offer and the issue of the New Ordinary Shares, including the listing fees payable to the UK Listing Authority, fees payable to the London Stock Exchange, printing costs, the Registrars' fees,

the Company's legal expenses, the Banks' reasonable legal and out-of-pocket expenses, and all related irrevocable VAT, if applicable.

The obligations of the Banks are conditional, among other things on:

- (i) Admission becoming effective at or before 8.00 am on 26 September 2008 (or such later date as the Company and the Banks may agree being not later than 23 October 2008;
- (ii) the passing of the Resolutions to be proposed at the General Meeting;
- (iii) the passing of the Bond Resolutions;
- (iv) there having been no material adverse change or any development reasonably likely to lead to a material adverse change, in the business, assets, operations, prospects or financial condition of the Group taken as a whole.

The Placing Agreement confers on the Banks, among other things, the right to terminate their obligations prior to Admission in the event of breach of warranty or undertaking and/or certain "force majeure" events relating to the occurrence of adverse market conditions or material disruption in settlement, payment or clearance services or economic or political events.

The Placing Agreement also contains certain customary representations and warranties by the Company as to the accuracy of the information contained in this document and in relation to other matters relating to the Group and its businesses; and an indemnity from the Company in favour of each of the Banks and the Sponsor, which is usual for an agreement of this nature. The Company has also given certain undertakings to the Banks and the Sponsor.

In addition, under the terms of the engagement letter with Credit Suisse, the Company has agreed to pay Credit Suisse £1 million for acting as sole Sponsor.

- 4.3 On 1 September 2008 the Company, SkyePharma (Jersey) Limited and Credit Suisse entered into a solicitation agency agreement (the "Solicitation Agency Agreement"), whereby SkyePharma (Jersey) Limited and the Company appointed Credit Suisse as solicitation agent for the purposes of the Bond Proposals.

The Solicitation Agency Agreement contains certain customary representations and warranties by the Company and SkyePharma (Jersey) Limited and an indemnity from the Company and SkyePharma (Jersey) Limited in favour of Credit Suisse, which is usual for an agreement of this nature. Each of the Company and SkyePharma (Jersey) Limited has also given certain undertakings to Credit Suisse.

- 4.4 On 1 September 2008, Jeremy Scudamore, Frank Condella, Peter Grant, Alan Bray and Jean-Charles Tschudin each entered into a placing letter with the Company, Credit Suisse and Piper Jaffray pursuant to which each of Jeremy Scudamore, Frank Condella, Peter Grant, Alan Bray and Jean-Charles Tschudin conditionally agreed to subscribe at the Issue Price for 33,333, 16,666, 4,667, 3,746 and 4,133 Placing Shares respectively.

- 4.5 On 1 September 2008, the Company entered into a placing letter with HBM whereby HBM conditionally agreed to subscribe at the Issue Price for Placing Shares and Convertible Non-Voting Shares to a value of £11.4 million.

- 4.6 On 19 June 2008 the Company entered into an engagement letter with NM Rothschild & Sons Limited ("Rothschild") confirming the terms of Rothschild's engagement to act as an independent financial adviser to the Board of Directors on the financing options presented by management and the Company's other advisers, Credit Suisse and KPMG LLP. Rothschild's standard terms and conditions of business apply to the engagement (the Rothschild's terms of business). The period of engagement expires on 18 July 2008.

The Company agreed to pay Rothschild a total fee of £175,000 for the provision of its services. In addition, the Company agreed a discretionary fee of up to £100,000, payable at the election of the Company. The Company will pay all out-of-pocket expenses properly incurred in the course of the engagement, together with any VAT properly chargeable.

The Rothschild's terms of business contain certain provisions in relation to the exclusion and limitation of liability. The Rothschild's terms of business also contain an indemnity from the Company in favour of Rothschild, which is usual for an engagement of this nature.

- 4.7 On 14 August 2008 the Company entered into a further engagement letter with Rothschild confirming the terms of Rothschild's engagement to act as an independent financial adviser to the Board of Directors of SkyePharma (Jersey Limited) and the Company on the refinancing and

restructuring options in respect of the 2024 Bonds and the 2025 Bonds. Rothschild's Terms of Business apply to the engagement.

The period of engagement expires on the conclusion of a refinancing or restructuring of the Convertible Bonds or, if earlier, upon written notice by either party. The Company has agreed to pay Rothschild a fee of £50,000 per month for the provision of its services. In addition, the Company has agreed to pay Rothschild a success fee of £896,000, payable upon the refinancing or restructuring of the Convertible Bonds, provided that such refinancing or restructuring occurs within twelve months of the termination of the engagement.

The Company will pay all out-of-pocket expenses properly incurred in the course of the engagement, together with any VAT properly chargeable. The Terms of Business contain certain provisions in relation to the exclusion and limitation of Rothschild's liability. The terms of business also contain an indemnity from the Company in favour of Rothschild, which is usual for an engagement of this nature.

5. Related party transactions

Save for those transactions in which management and former management are or have been interested, details of which are set out in this paragraph 5 of the Circular, the Company has not entered into any related party transactions during the financial years ended on 31 December 2005, 2006 and 2007 and during the period from 1 January 2008 to 29 August 2008 (being the latest practicable date prior to the publication of this Circular).

The nature and extent of any interests of the Directors or former directors of the Company in transactions which are or were unusual in their nature or conditions or significant to the business of the Group during the current or immediately preceding financial year or during an earlier financial year and remain in any respect outstanding or unperformed are as follows:

5.1 *Certain Arrangements in Respect of the Jago Acquisition*

In July 2000, as part of a settlement agreement establishing full and final settlement of the deferred consideration payable on the acquisition of Jago, Dr Jacques Gonella received:

5.1.1 6 million Ordinary Shares;

5.1.2 12 million "A" Deferred Shares which were automatically redesignated as 12 million Ordinary Shares in April 2002 following the first commercial sale by GlaxoSmithKline of Paxil CR™; and

5.1.3 12 million "B" Deferred Shares which would have automatically converted into 12 million Ordinary Shares upon the Company's receipt of a royalty statement under the current licence agreement with GSK stating that reported sales of Paxil CR™ had exceeded U.S.\$1,000 million during any calendar year prior to 1 January 2006, or (b) exceeded U.S.\$337 million between 1 January 2006 and 3 May 2006. Neither of these conditions were met and therefore the "B" Deferred Shares will not be converted into Ordinary Shares. The "B" Deferred Shares have been transferred to the Company Secretary for no consideration for him to hold as custodian.

5.2 *Certain Arrangements in respect of the Krypton Limited Acquisition*

5.2.1 On 8 January 1996, the Company acquired Krypton Limited from a series of trusts in which Ian Gowrie-Smith, a former director and Chairman of SkyePharma, had an interest. The deferred consideration on the acquisition of Krypton Limited provides that a maximum of 37.5 million Ordinary Shares would be issued contingent on a change in control of the Company at a share price of not less than 80 pence compounded at an annual rate of 10 per cent. (£2.52 as at 31 December 2007), or satisfaction of various conditions and hurdles which lapsed on 31 December 2003. No provision for deferred consideration had been recognised as at 31 December 2007.

5.3 *Other Arrangements*

5.3.1 In August 2003 the Company entered into an eight-year tenancy agreement of 10 East 63rd Street, New York. With an annual rental of U.S.\$720,000 per annum until August 2008, and U.S.\$942,500 per annum from August 2008 to August 2011. The building was owned by Ian Gowrie-Smith, a former director, through a family-owned trust. In June 2007 after negotiations, the lease was terminated and SkyePharma agreed to pay U.S.\$600,000 in full and final settlement.

- 5.3.2 Between December 2001 and March 2005, SkyePharma entered into various agreements which resulted in the purchase of shares and warrants in Astralis. In addition, Michael Ashton, a former director, was appointed to the Board of Astralis in January 2002 and resigned in July 2006. As at 29 August 2008, the total SkyePharma holding was 36,393,900 common shares and 20,000 warrants representing approximately 39.8 per cent. of the common shares. The Company no longer views its collaboration with Astralis as strategic and accordingly the Company is seeking ways it can reduce or dispose of its holding. Astralis is currently lossmaking and the investment had a market value of £0.4 million at 31 December 2007. As at 31 December 2007 the investment in Astralis Limited was recorded in the Company's financial statements at £Nil.
- 5.3.3 Between December 2001 and June 2006, SkyePharma entered into various agreements which resulted in the purchase (and sale) of Ordinary Shares, convertible preferred shares, convertible notes and warrants in Vital Living Inc. (formerly e-nutraceuticals Inc), a United States nutraceuticals company traded on the OTC Bulletin Board. In addition, Michael Ashton, a former director, was appointed to the Board of Vital Living in January 2004 and resigned in October 2006. As at 29 August 2008, the total SkyePharma holding was 29,493,599 common shares and warrants expiring 2008 exercisable for 4 million common shares at an exercise price of U.S.\$0.25 per share, representing approximately 17.9 per cent. of the common shares. As at 31 December 2007 the investment in Vital Living was recorded in the Company's financial statements at £Nil as the investment is deemed illiquid.
- 5.3.4 In 2003, SkyePharma entered into various agreements which resulted in the purchase of ordinary and convertible shares in Micap plc. In addition, Ian Gowrie-Smith, a former director, was appointed to the board of Micap in January 2003 and resigned in September 2005. Micap is a UK science-based technology company, the shares of which traded on AIM. On 27 August 2008, a temporary suspension of trading in the securities of Micap plc was announced pending clarification of the company's financial position. As at 29 August 2008, the total SkyePharma holding was 5,238,334 Ordinary Shares and 1,830,000 convertible shares, representing approximately 2.2 per cent. of the Ordinary Shares. The convertible shares are due to be cancelled in 2008 by Micap. As at 31 December 2007 the investment in Micap was recorded in the Company's financial statements at £0.1 million.
- 5.3.5 In addition, SkyePharma was entitled, under one of the agreements referred to above, to use Micap's encapsulation technology in up to ten nominated pharmaceutical products to be selected by SkyePharma. SkyePharma completed the selection of its nominated compounds in March 2005 but in September 2005 it surrendered all rights back to Micap.
- 5.3.6 In June 2007 the Company entered into an exclusive agreement with Somnus Therapeutics formed by Care Capital LLC for the worldwide development and commercialisation of its sleep therapeutic SKP-1041. Dr Jerry Karabelas, a Non-Executive Director of the Company, is also a partner in Care Capital LLC. In view of his position, Dr Karabelas has not participated in any SkyePharma PLC Board discussions concerning this agreement.
- 5.3.7 Save as disclosed in this paragraph 5, the Company does not hold capital in any undertakings outside the Group likely to have a significant effect on the assessment of its own assets and liabilities, financial position or profit and loss.

6. Major Shareholders

- 6.1 So far as is known to the Company, as at the close of business in London on 29 August 2008 (the latest practicable date prior to publication of this Circular), no person directly or indirectly, jointly or severally, exercises or could exercise control over the Company.
- 6.2 As at the close of business in London on 29 August 2008 (being the latest practicable date prior to publication of this Circular), the Directors have been notified of the following persons in addition

to the interests of the Directors referred to herein, who are or who will be directly or indirectly interested in 3 per cent. or more of the issued ordinary share capital of the Company:

	Number of Existing Ordinary 10 pence Shares	Percentage of issued Ordinary Shares held
HBM Bioventures (Cayman) Limited ⁽¹⁾	90,688,391	11.13
Aviva plc ⁽²⁾	83,999,653	10.31
Barclays PLC	41,193,539	5.05
UBS AG and its subsidiaries	39,569,073	4.85
Dr J Gonella	37,412,291	4.59
OrbiMed Advisors LLC ⁽³⁾	34,600,000	4.25
Legal & General Group plc ⁽⁴⁾	34,254,805	4.20
Kowa Company Limited	30,000,000	3.68
Lehman Brothers International (Europe)	29,260,166	3.59

Notes:

In addition to the notifications received by the Company pursuant to the UKLA's Disclosure Rules and Transparency Rules which are set out above, the Company has been notified pursuant to section 793 of the CA 2006 of the following interests in shares:

- (1) As at 1 August 2008, HBM was interested in 91,800,000 Ordinary Shares representing 11.26% of the issued Ordinary Shares;
- (2) As at 1 August 2008, Aviva plc was interested in 83,841,966 Ordinary Shares representing 10.28% of the issued Ordinary Shares;
- (3) As at 14 August 2008, Orbimed Advisors LLC was interested in 40,600,000 Ordinary Shares representing 4.98% of the issued Ordinary Shares;
- (4) As at 29 July 2008, Legal & General Group plc was interested in 34,430,734 Ordinary Shares representing 4.22% of the issued Ordinary Shares.
- (5) As at 27 August 2008, Lehman Brothers International (Europe) are interested in less than 3% of the issued Ordinary Shares.

6.3 The voting rights of the persons listed in paragraph 6.2 above do not differ from the voting rights of other holders of Ordinary Shares.

6.4 So far as the Company is aware, the Company is not owned or controlled directly or indirectly by any entity and there are no arrangements in place, the operation of which may at a subsequent date result in a change of control of the Company. Following the Placing and Open Offer, HBM will hold up to 29 per cent. of voting rights of the Company as well as a number of Convertible Non-Voting Shares, depending on Open Offer take up. The Convertible Non-Voting Shares are convertible *inter alia* at HBM's option, provided that, immediately following any such conversion the holder of the Convertible Non-Voting Shares (together with its concert parties) will be interested in shares representing less than 30 per cent. of voting rights in the capital of the Company.

7. Significant Change

There has been no significant change in the financial or trading position of the Group since 30 June 2008, the date to which the most recent interim financial information of the Group has been published.

8. Documents available for inspection

Copies of the following documents will be available for inspection during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the offices of Fasken Martineau Stringer Saul LLP, 17 Hanover Square, London, W1S 1HU until the conclusion of the General Meeting or any adjournment thereof:

- (i) this Circular;
- (ii) the Memorandum of Association and Articles of SkyePharma;
- (iii) the audited consolidated accounts of SkyePharma for the three financial years ended December 2007.

9. Miscellaneous

Ernst & Young LLP has given and has not withdrawn its written consent to the inclusion in this Circular of its report relating to the pro forma financial information in the form and context in which it appears.

Dated 1 September 2008

DEFINITIONS

In this document

“2005 Financial Statements”	the Company’s published audited Financial Statements for the year ended 31 December 2005
“2006 Financial Statements”	the Company’s published audited Financial Statements for the year ended 31 December 2006
“2007 Financial Statements”	the Company’s published audited Financial Statements for the year ended 31 December 2007
“2024 Bond Amendments”	the proposed amendments to the 2024 Bond Terms and Conditions as set out in Part 1 of this Circular
“2024 Bondholders”	holders of the 2024 Bonds
“2024 Bond Resolution”	the resolution to approve the 2024 Bond Amendments
“2024 Bonds”	the £69,594,000 6 per cent. guaranteed convertible bonds due 2024 issued by SkyePharma (Jersey) Limited
“2024 Bond Terms and Conditions”	the terms and conditions of the 2024 Bonds as set out in the trust deed dated 4 May 2004, as supplemented by the supplemental trust deed dated 29 July 2004, constituting the 2024 Bonds
“2025 Bond Amendments”	the amendments to the 2025 Bond Terms and Conditions as set out in Part 1 of this Circular
“2025 Bondholders”	holders of the 2025 Bonds
“2025 Bond Resolution”	the written resolution to approve the 2025 Bond Amendments
“2025 Bonds”	the £20,000,000 8 per cent. guaranteed convertible bonds due 2025 issued by SkyePharma (Jersey) Limited
“2025 Bond Terms and Conditions”	the terms and conditions of the 2025 Bonds as set out in the trust deed dated 3 June 2005, constituting the 2025 Bonds
“ “A” Deferred Shares”	as defined in the Old Articles
“Admission”	the admission of the Consolidated New Ordinary Shares to (i) the Official List; and (ii) trading on the London Stock Exchange’s market for listed securities becoming effective in accordance with, respectively, the Listing Rules and the Admission and Disclosure Standards
“Admission and Disclosure Standards”	the requirements contained in the publication “Admission and Disclosure Standards” containing, inter alia, the admission requirements to be observed by companies seeking admission to trading on the London Stock Exchange’s market for listed securities
“ADR”	an American depositary receipt
“Articles”	the articles of association of the Company in place as at the date of this document as amended by special resolution on 21 May 2008
“Astralis” or “Astralis Limited”	Astralis Limited whose registered office is at 75 Passaic Avenue, Fairfield, New Jersey, 07004, United States
“ “B” Deferred Shares”	as defined in the Articles
“Board of Directors” or “Directors” or “Board”	the board of directors of SkyePharma from time to time

“Bond Amendments”	the 2024 Bond Amendments and 2025 Bond Amendments
“Bondholder Meeting”	the meeting of the 2024 Bondholders convened on 25 September 2008 at which resolutions to approve the 2024 Bond Amendments will be proposed and considered
“Bondholders”	the 2024 Bondholders and 2025 Bondholders
“Bond Proposals”	the proposals in respect of the 2024 Bonds and the 2025 Bonds as set out in Part 1 of this Circular
“Bond Resolutions”	the 2024 Bond Resolution and the 2025 Bond Resolution
“CA 1985”	Companies Act 1985 (as amended from time to time)
“CA 2006”	Companies Act 2006 (as amended from time to time)
“Capita Registrars”	a trading name of Capita Registrars Limited
“CCSS”	CREST Courier and Sorting Service
“ “C” Deferred Shares”	deferred shares of 1 pence each in the capital of the Company created by the Subdivision
“Circular” or “this document”	the circular issued by the Company in respect of the Notice of General Meeting together with any supplements or amendments thereto
“Closing Price”	the closing middle market quotation of an Existing Ordinary Share as published in the Daily Official List
“Company” or “SkyePharma”	SkyePharma PLC (registered number 107582) and/or where the context so admits one or more of its subsidiary undertakings
“Company Secretary”	John Murphy or the company secretary of the Company from time to time as the context may require
“Consolidated New Ordinary Shares”	the 14,017,807 Consolidated Ordinary Shares of the Company to be issued pursuant to the Placing and Open Offer
“Consolidated Ordinary Shares”	means ordinary shares of £1.00 each in the capital of the Company following consolidation
“Consolidation”	the consolidation of every 100 Interim Ordinary Shares in issue into 1 Consolidated Ordinary Share and the consolidation of every 100 Interim Ordinary Shares not in issue into 1 Consolidated Ordinary Share
“Convertible Bonds”	the 2024 Bonds and the 2025 Bonds
“Convertible Non-Voting Shares”	the convertible non-voting shares to be created by the passing of Resolution 3
“CRC”	Christofferson, Robb & Company LLC
“Credit Suisse”	Credit Suisse Securities (Europe) Limited
“CREST”	a relevant system (as defined in the CREST Regulations) in respect of which Euroclear is the operator (as defined in the CREST Regulations)
“CREST Manual”	the rules governing the operation of CREST, consisting of the CREST Reference Manual, CREST International Manual, CREST Central Counterparty Service Manual, CREST Rules, Registrars Service Standards, Settlement Discipline Rules, CCSS Operations Manual, Daily Timetable, CREST Application Procedure and CREST Glossary of Terms (all as defined in the CREST Glossary and Terms promulgated by Euroclear and as amended from time to time)

“CREST Member”	a person who has been admitted by Euroclear as a system member (as defined in the CREST Regulations)
“CREST Regulations”	the Uncertificated Securities Regulations 2001 (SI2001 No. 3755), as amended from time to time
“CREST Sponsor”	a CREST participant admitted to CREST as a CREST Sponsor
“CREST Sponsored Member”	a CREST Member admitted to CREST as a sponsored member (which includes all CREST Personal Members)
“Daily Official List”	the daily official list of the London Stock Exchange
“Directors’ Shares”	the 62,545 New Ordinary Shares that certain of the Directors have agreed to subscribe for or purchase as part of the Placing
“Euroclear”	Euroclear UK & Ireland Limited
“Executive Directors”	means the executive directors of SkyePharma whose names are set out in paragraph 2.1 of Part 3 of this Circular
“Existing Ordinary Shares”	the Initial Ordinary Shares in issue at the Record Date and prior to the Share Capital Reorganisation (including the Consolidation) becoming effective
“FDA”	the United States Food and Drug Administration
“Form of Proxy”	the form of proxy accompanying this Circular for use by holders of Existing Ordinary Shares at the General Meeting
“FSMA”	the Financial Services and Markets Act 2000, as amended
“General Meeting”	the general meeting of the Company convened for 11.00 a.m. 19 September 2008, notice of which accompanies this document and including any adjournment thereof
“GSK”	GlaxoSmithKline PLC
“Group”	SkyePharma and its subsidiary undertakings and, where the context permits, each of them
“HBM”	HBM BioVentures (Cayman) Limited
“HFA”	hydrofluroalkane
“IFRS”	International Financial Reporting Standards 7
“Initial Ordinary Shares”	means ordinary shares of 10 pence each in the capital of the Company
“Injectable Business”	means the business sold to Blue Acquisition Group (no Pacira Inc) in March 2007
“Interim Ordinary Shares”	means ordinary shares of 1 pence each in the capital of the Company created by the Subdivision
“Issue Price”	1.5 pence per New Ordinary Share
“Jago”	Jago Holding AG
“Listing Rules”	the listing rules of the UK Listing Authority made pursuant in Part VI FSMA, as amended from time to time
“London Stock Exchange”	London Stock Exchange PLC
“Matching Share”	the matching share awarded by the Company in connection with each ordinary share purchased by an employee under the Employee Plan

“Micap” or “Micap Plc”	Micap plc whose registered office is at Ashton House, No 1 The Parks, Lodge Lane, Newton-le-Willows, Merseyside, WA12 0JQ, UK
“New Ordinary Shares”	the 1,401,780,736 new Ordinary Shares relating to the Placing and Open Offer; following the Share Capital Reorganisation these will be issued in Consolidated form (as 14,017,807 Consolidated New Ordinary Shares)
“Notice of General Meeting”	notice of the General Meeting, a copy of which is set out at end of this Circular
“Official List”	the Official List of the UK Listing Authority
“Old Articles”	the former articles of association of the Company, as adopted by special resolution on 30 May 2002
“Open Offer”	the conditional invitation to Qualifying Shareholders to apply for up to 1,401,780,736 New Ordinary Shares at a price of 1.5 pence each on a pre-emptive basis
“Open Offer Entitlements”	the <i>pro rata</i> entitlement to subscribe for Open Offer Shares, allocated to a Qualifying Shareholder pursuant to the Open Offer
“Open Offer Shares”	the 1,401,780,736 New Ordinary Shares for which Qualifying Shareholders are being invited to apply at a price of 1.5 pence each under the terms of the Open Offer; following the Share Capital Reorganisation these will be issued in at a price of 150 pence each, and the Application Form is expressed in this form as 14,017,807 Consolidated New Ordinary Shares
“Ordinary Shares”	ordinary shares in the capital of the Company
“Panel”	the Panel on Takeovers and Mergers
“Paul Capital Refinancing”	the restructuring of the Group’s financing undertaken in March 2007 with PCRAF details of which are set out in paragraph 3.6 of Part 3 of this Circular
“PCRAF” or “PCRF”	Paul Capital Royalty Fund LP formerly Paul Capital Royalty Acquisitions Fund
“pence” or “p”	decimalisation of £/sterling
“Piper Jaffray”	Piper Jaffray Ltd.
“Placing”	the conditional placing of New Ordinary Shares and to the extent necessary, of the Convertible Non-Voting Shares, subject to clawback pursuant to the Open Offer
“Placing Agreement”	the conditional agreement dated 1 September 2008 between Credit Suisse, Piper Jaffray and the Company relating to the Placing and Open Offer
“Placing Shares”	the New Ordinary Shares to be issued pursuant to the Placing subject to clawback to satisfy applications from Qualifying Shareholders
“put options”	the right to require the Issuer to redeem the 2024 Bonds and the 2025 Bonds in the principal amount of £69.6 million and £20.0 million respectively
“Qualifying Shareholders”	SkyePharma shareholders on the register of members at the Record Date other than SkyePharma Shareholders who are located in or have registered addresses in the United States, Australia, Canada, Hong Kong, Japan, New Zealand and

	holders of ADRs (including the ADR depositary and its nominee or custodian)
“Record Date”	the close of business on 27 August 2008
“Registrar(s)”	Capita Registrars, Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0GA
“Related Party Transaction”	the proposed issue of New Ordinary Shares and the Convertible Non-Voting Shares pursuant to the Placing (subject to clawback to satisfy valid applications under the Open Offer) to HBM who is a related party of the Company for the purposes of the Listing Rules
“Remuneration Committee”	the remuneration committee of the Board
“Resolutions”	the resolutions set out in the Notice of General Meeting at the end of this document
“Securities Act”	the United States Securities Act of 1933
“Shareholders”	the registered holders of Ordinary Shares
“Share Capital Reorganisation”	together the Subdivision and the Consolidation
“Share Incentive Schemes”	means the schemes listed in paragraphs 2.2 of Part 3 of this Circular
“SkyePharma (Jersey) Limited”	SkyePharma (Jersey) Limited registered in Jersey with number 87564
“sterling” or “£”	the lawful currency for the time being in the UK
“Subdivision”	the subdivision of each of the Existing Ordinary Shares into 1 Interim Ordinary Share and 9 “C” Deferred Shares and the subdivision of each of the unissued Initial Ordinary Shares into 1 Interim Ordinary Shares on the terms described in this document
“Supplemental Trust Deeds”	means the second supplemental trust deed in relation to the 2024 Bonds and the supplemental trust deed in relation to the 2025 Bonds which will be entered into to effect the Bond Amendments if the Bond Resolutions are passed and the proceeds of the Placing and Open Offer are received
“Takeover Code”	the City Code on Takeovers and Mergers
“Transactions”	the Placing, Open Offer and Bond Proposals
“UK” or “United Kingdom”	the United Kingdom of Great Britain and Northern Ireland
“UK Listing Authority”	the Financial Services Authority in its capacity as competent authority under FSMA
“United States” or “USA”	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia, and all other areas subject to its jurisdiction
“U.S.\$”	United States dollars, currency of the United States
“Vital Living” or “Vital Living Inc”	Vital Living Inc, whose registered office is at 5080 North 40 th Street, Suite 105, Phoenix, Arizona 85018, United States
“€”	Euro

For the purposes of this document, “subsidiary” and “subsidiary undertaking” have the meanings given by the Companies Acts.

NOTICE OF GENERAL MEETING

Notice is hereby given that a General Meeting of SkyePharma PLC (the “**Company**”) will be held at the offices of Fasken Martineau Stringer Saul LLP, 17 Hanover Square London W1S 1HU, on 19 September 2008 at 11.00 am for the following purposes:

Resolutions

To consider and, if thought fit, to pass the following resolutions, resolutions 1, 2, 3, 4 and 6 to be proposed as ordinary resolutions and resolutions 5, 7 and 8 to be proposed as special resolutions:

RESOLUTIONS

1 THAT:

1.1 each of the 814,988,800 Ordinary Shares of 10 pence each in the capital of the Company in issue as at the close of business on the date of this meeting (the “Existing Ordinary Shares”) be subdivided into 1 Ordinary Share of 1 pence each having the like rights and ranking *pari passu* in all respects with the Ordinary Shares of 10 pence each and 9 “C” deferred shares (the “**C**” **Deferred Shares**) of 1 pence each having the rights and being subject to the restrictions set out below.

1.1.1 the “C” Deferred Shares have a nominal value of 1 pence and shall confer upon the holders thereof the rights, and be subject to the restrictions, as follows:

- (a) the “C” Deferred Shares shall not confer any right to participate in the profits of the Company;
- (b) on a winding-up or other return of capital each “C” Deferred Share shall entitle the holder thereof the right to receive the nominal value thereof if and only if the holders of Ordinary Shares in the capital of the Company have received the sum of £1,000,000 per Ordinary Share;
- (c) the “C” Deferred Shares shall not confer upon the holders thereof the right to receive notice of, attend or vote at any general meeting of the Company;
- (d) neither the passing by the Company of any resolution for the cancellation of the “C” Deferred Shares (whether by way of return of capital or for no consideration, the Company retaining any capital sum thereby set free) by means of a reduction of capital whether or not requiring the confirmation of the Court, nor the obtaining by the Company nor the making by the Court of any order confirming any such reduction of capital nor the becoming effective of any such order nor the becoming effective of any such resolution and reduction of capital shall constitute a variation, modification or abrogation of the rights attaching to the “C” Deferred Shares and accordingly the “C” Deferred Shares may at any time be cancelled for no consideration by means of a reduction of capital effected in accordance with the Companies Act 1985 and the Companies Act 2006 (in each case to the extent then in force) without sanction on the part of the holders of the “C” Deferred Shares;
- (e) any increase or reduction or subdivision or other alteration in the authorised or issued share capital of the Company shall be deemed not to be a variation or abrogation of the rights attaching to the “C” Deferred Shares.

1.1.2 the Company shall have irrevocable authority to appoint any person to execute on behalf of the holders of the “C” Deferred Shares a transfer/cancellation of the “C” Deferred Shares and/or an agreement to transfer/cancel the same, without making any payment or otherwise providing any valuable consideration to the holders of the “C” Deferred Shares to such person or persons as the Company may determine as custodian thereof and, pending such transfer and/or cancellation, to retain the certificates for such shares. The Company may, at its option at any time purchase all or any of the “C” Deferred Shares then in issue in accordance with the provisions of the Companies Act 1985 and the Companies Act 2006 (in each case to the extent then in force) without making any payment to the holders thereof or otherwise providing any valuable consideration. Subject thereto the “C” Deferred Shares shall not be transferable; and

1.2 each of the 373,011,200 ordinary shares of 10 pence each in the capital of the Company that are unissued as at the close of business on the date of this meeting be subdivided into 10 Ordinary Shares

of 1 pence each ranking *pari passu* with the ordinary shares of 1 pence each arising from paragraph 1.1 of this resolution.

- 2 THAT, subject to and conditional upon the passing of resolution 1, with effect from the close of business on the date of this meeting:
 - 2.1 every 100 of the Ordinary Shares of 1 pence arising from paragraph 1.1 of resolution 1 then in issue be consolidated into one ordinary share of £1.00 each having the like rights and ranking *pari passu* in all respects provided that, where such consolidation results in any member being entitled to a fraction of a Consolidated Ordinary Share, such fraction shall, so far as possible, be aggregated with the fractions of a Consolidated Ordinary Share to which other members of the Company may be entitled and the directors of the Company be and are hereby authorised to sell (or appoint any other person to sell to any person), on behalf of the relevant members, all the Consolidated Ordinary Shares representing such fractions at the best price reasonably obtainable to any person, and to distribute the proceeds of sale (net of expenses) in due proportion among the relevant members entitled thereto (save that any fraction of a penny which would otherwise be payable shall be rounded up or down in accordance with the usual practice of the Company's registrar and save that, the Company may retain the net proceeds of sale of such Consolidated Ordinary Shares representing such fractions where the individual amount of proceeds to which any member is entitled is less than five pounds (£5)) and that any director of the Company (or any person appointed by the directors of the Company) shall be and is hereby authorised to execute an instrument of transfer in respect of such shares on behalf of the relevant members and to do all acts and things the directors consider necessary or expedient to effect the transfer of such shares to, or in accordance with the directions of, any buyer of any such shares; and
 - 2.2 every 100 of the unissued Ordinary Shares of 1 pence arising from paragraph 1.2 of resolution 1 be consolidated into one Ordinary Share of £1.00 each ranking *pari passu* with the Ordinary Shares of £1.00 each arising from paragraph 2.1 of resolution 2 provided that where such consolidation would otherwise result in a fraction of a Consolidated Ordinary Share, that number of Interim Ordinary Shares which would otherwise constitute such fraction shall be cancelled pursuant to section 121(2)(e) of the Companies Act 1985.
- 3 THAT, subject to and conditional upon resolutions 1 and 2 being approved and the approval of the Bond Resolutions (as defined in the document published by the Company dated 1 September 2008, a copy of which has been produced to the meeting and initialled by the chairman of the meeting for the purpose of identification only (the "circular")) the authorised share capital of the Company be increased to £140,000,000 by the creation of an additional 11,000,000 Ordinary Shares of £1.00 each to rank *pari passu* in all respects with the Ordinary Shares of £1.00 each arising from paragraph 2.1 of resolution 2 and by the creation of 9,000,000 Convertible Non-Voting Shares of £1.00 each to rank *pari passu* in all respects with the Ordinary Shares of £1.00 each (including as to dividends and rights to return of capital on a winding up) arising from paragraph 2.1 of resolution 2 and being subject to the restrictions set out below:
 - 3.1 the Convertible Non-Voting Shares shall not confer upon the holder(s) thereof the right to receive notice of or to attend or vote at any general meeting of the Company (other than in respect of resolutions to wind up the Company or vary, modify, alter or abrogate any of the rights attaching to the Convertible Non-Voting Shares);
 - 3.2 each Convertible Non-Voting Share will be convertible into one Ordinary Share of £1.00 each (having the rights set out in the Resolutions) on a one-for-one basis and (subject to clause (b) below) the Company will promptly make an application for a listing (on the same market or exchange on which the Ordinary Shares of the Company are then listed) of the ordinary shares arising on conversion:
 - (i) upon written notice given at any time to the Company at its registered office by HBM; or
 - (ii) automatically upon the transfer by HBM of the Convertible Non-Voting Shares to a third party that is not acting in concert with HBM, provided that; (a) immediately following any such conversion, the holder of the Convertible Non-Voting Shares (together with its concert parties) will be interested in shares representing less than 30 per cent. of the voting rights in the capital of the Company; and (b) a notice of conversion shall specify the number of shares to be converted and such conversion shall take effect seven days after service of a valid notice, unless the Company is required to issue a prospectus in connection with the listing of the ordinary shares upon such conversion, when the conversion will only take effect 3 months after the date on which: (A) the notice of conversion is received by the Company; or (B) the transfer of the Convertible Non-Voting Shares takes effect, as applicable, and during that 3-month period the Company will be required to prepare and issue a

prospectus in respect of such listing. The Ordinary Shares arising upon such conversion shall rank *pari passu* in all respects with the Ordinary Shares of £1.00 each arising from paragraph 2.1 of resolution 2;

- 3.3 such Convertible Non-Voting Shares as have not been issued within 3 months of the date on which this resolution 3 takes effect shall automatically be reclassified into Ordinary Shares of £1.00 each, ranking *pari passu* in all respects with the Ordinary Shares of £1.00 each arising from paragraph 2.1 of resolution 2;
- 3.4 the rights attached to the Convertible Non-Voting Shares shall not be deemed to be varied by:
 - (a) the creation or issue of further shares ranking *pari passu* with them or subsequent to them or by the purchase or redemption by the Company of its own shares or by any other reduction of capital; or
 - (b) the variation of any rights attached to any other shares in the Company; and
- 3.5 if the Company undergoes any further reorganisation of its ordinary share capital, the number and nominal value of ordinary shares into which each Convertible Non-Voting Share may be converted shall be adjusted by the directors of the Company as they consider to be necessary so that, after such adjustment, the holder(s) of the Convertible Non-Voting Shares shall, upon conversion, be entitled to receive the same percentage of the issued ordinary share capital of the Company carrying the same proportion of votes exercisable at a general meeting of shareholders of the Company and the same entitlement to participate in distributions of the Company, in each case as nearly as practicable, as would have been the case had no such reorganisation occurred (and making such reduction or increase as is necessary to the premium arising on the issue and allotment of the ordinary shares upon conversion).
- 4 THAT, subject to and conditional upon resolutions 1 to 3 being approved and the approval of the Bond Resolutions, the issue of Ordinary Shares of £1.00 each pursuant to the proposed Placing and Open Offer (as defined in the circular) at a subscription price of 150 pence each (equivalent to 1.5 pence per share prior to the consolidation effected by resolution 2) representing a 62.50 per cent. discount to the closing middle market price (as derived from the daily official list of the London Stock Exchange) of an ordinary share for the day immediately preceding the date of the notice of this meeting, be and is hereby approved.
- 5 THAT, for the purposes of the Placing and Open Offer (as defined in the circular), subject to and conditional upon resolutions 1 to 4 being approved and the approval of the Bond Resolutions (as defined in the circular):
 - 5.1 the directors be and are hereby unconditionally and generally authorised in accordance with section 80 of the Companies Act 1985 (in addition to all existing authorities conferred pursuant to that section) to exercise all the powers of the Company to allot relevant securities (as defined in section 80(2) of the Companies Act 1985) up to an aggregate nominal amount of £14,017,807; and
 - 5.2 the directors be and are hereby empowered pursuant to section 95 of the Companies Act 1985 (in addition to all existing authorities conferred pursuant to that section) to allot equity securities (within the meaning of section 94(2) to section 94(3A) of the Companies Act 1985) wholly for cash pursuant to the general authority conferred on the directors by the preceding sub-paragraph of this resolution as if section 89(1) of the Companies Act 1985 did not apply to any such allotment provided that this power shall be limited to the allotment of equity securities up to an aggregate nominal amount of £14,017,807
in each case for a period expiring (unless previously renewed, varied or revoked by the Company in general meeting) on 31 December 2009, save that before such authority expires, the Company may make an offer or agreement which would or might require securities to be allotted after such expiry and the directors may allot securities under such an offer or agreement as if the authority conferred hereby had not expired.
- 6 THAT, subject to and conditional upon resolutions 1 to 5 being approved and the approval of the Bond Resolutions, the issue of an aggregate of 7,616,596 Consolidated New Ordinary Shares and/or Convertible Non-Voting Shares pursuant to the Placing (as defined in the circular) to HBM (as defined in the circular) be and is hereby approved.
- 7 THAT, in connection with the issue of Ordinary Shares in the Company upon the conversion of the 2024 Bonds and 2025 Bonds (as defined in the circular), taking into account the Bond Amendments

(as defined in the circular), subject to and conditional upon resolutions 1 to 5 being approved and the approval of the Bond Resolutions (as defined in the circular):

- 7.1 the directors be and are hereby unconditionally and generally authorised in accordance with section 80 of the Companies Act 1985 (in addition to all existing authorities conferred pursuant to that section) to exercise all the powers of the Company to allot relevant securities (as defined in section 80(2) of the Companies Act 1985) up to an aggregate nominal amount of £23,995,000; and
- 7.2 the directors be and are hereby empowered pursuant to section 95 of the Companies Act 1985 (in addition to all existing authorities conferred pursuant to that section) to allot equity securities (within the meaning of section 94(2) to section 94(3A) of the Companies Act 1985) wholly for cash pursuant to the general authority conferred on the directors by the preceding sub-paragraph of this resolution as if section 89(1) of the Companies Act 1985 did not apply to any such allotment provided that this power shall be limited to the allotment of equity securities up to an aggregate nominal amount of £23,995,000

in each case for a period expiring (unless previously renewed, varied or revoked by the Company in general meeting) on 1 September 2013, save that before such authority expires, the Company may make an offer or agreement which would or might require securities to be allotted after such expiry and the directors may allot securities under such an offer or agreement as if the authority conferred hereby had not expired.

- 8 THAT, in pursuance of the provisions of Article 118 of the Articles of Association of the Company, borrowings shall be permitted up to £250 million and further, that all previous borrowings, whether or not compliant with Article 118, be and are hereby ratified.

BY ORDER OF THE BOARD

Registered Office:
105 Piccadilly
London W1J 7NJ

1 September 2008
John Murphy
Company Secretary

Notes

- 1 A Form of Proxy is enclosed for your use.
- 2 A member of the Company entitled to attend and vote at the meeting may appoint one or more proxies to attend and speak and vote on his/her behalf. A proxy need not be a member of the Company. You can also appoint more than one proxy provided each proxy is appointed to exercise the rights attached to a different share or shares held by you.

The Form(s) of Proxy should be returned to the Registrars, Capita Registrars, Proxies, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU; or electronically at the Registrar's website at www.capitaregistrars.com by following the instructions on the website. CREST members should use the CREST electronic proxy appointment service and should refer to the note below. In each case, the proxy appointment must be received by 11.00 a.m. on 17 September 2008 or not less than 48 hours before the time for the holding of the meeting or adjourned meeting together (except in the case of appointments made electronically) with any authority (or a notarially certified copy of such authority) under which it is signed.

- 3 CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the General Meeting to be held on 19 September 2008 and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST Personal Members or other CREST Sponsored Members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a

previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's agent (ID RA10) by the latest time(s) for receipt of proxy appointments specified in the notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

- 4 Termination of Proxy Appointments—In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment as above. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.

The revocation notice must be received by Capita Registrars Limited no later than 11.00 a.m. on 17 September 2008. If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to the paragraph directly below, your proxy appointment will remain valid.

- 5 Appointment of a proxy does not preclude you from attending the General Meeting and voting in person. If you have appointed a proxy and attend the General Meeting in person, your proxy appointment will automatically be terminated.
- 6 Appointment of a Designated Corporate Representative – In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that:
 - (i) if a corporate shareholder has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and
 - (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative.

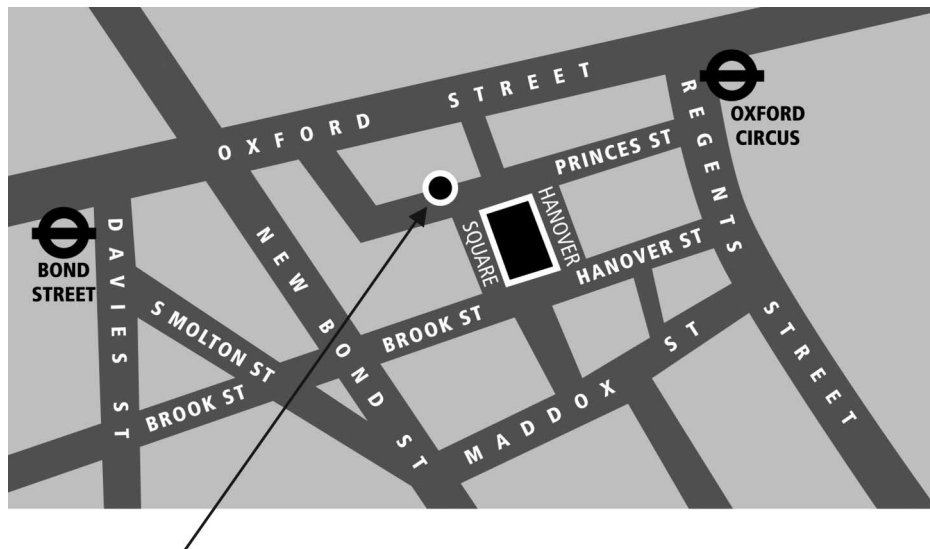
Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators (“ICSA”) on proxies and corporate representatives on the ICSA website, icsa.org.uk, for further details of this procedure.

- 7 Nominated Persons—Any person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a “Nominated Person”) may have a right, under an agreement between him/her and the shareholder by whom he/she was nominated, to be appointed (or to have someone else appointed) as a proxy for the General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights. The statement of the rights of shareholders in relation to the appointment of proxies

above does not apply to Nominated Persons. The rights described can only be exercised by shareholders of the Company.

- 8 Total Voting Rights—As at 29 August 2008 (being the last practicable date prior to the publication of this Notice of General Meeting) the Company's issued ordinary share capital consists of 814,988,636 Ordinary Shares, carrying one vote each. Therefore, the total voting rights of the Company as at 29 August 2008 2008 are 814,988,636.
- 9 You may not use any electronic address provided in this Notice of General Meeting to communicate with the Company for any purposes other than those expressly stated.

The General Meeting of SkyePharma PLC will be held at the offices of Fasken Martineau Stringer Saul LLP, 17 Hanover Square, London W1S 1HU on 19 September 2008 at 11.00 a.m.



Location: 17 Hanover Square, London W1S 1HU
Nearest Tube Stations: Oxford Circus, Bond Street