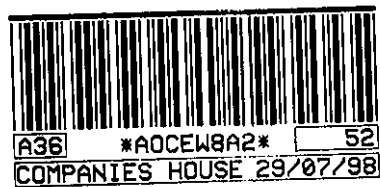


Seven Seas Limited

Directors' report and financial statements

31 December 1997

Registered number 351663



Directors' report and financial statements

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Company information

Directors

CO Dixon
AG Clements
M Douglas
R Grant
TG Hardman
T Morrison
TM Simpson

Secretary

R Grant

Auditors

KPMG
1 The Embankment
Neville Street
LEEDS
LS1 4DW

Bankers

National Westminster Bank plc
186 Brompton Road
SW3 1XJ

Registered office

Hedon Road
Marfleet
Hull
HU9 5NJ

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 1997.

Principal activities and Business review

The directors are satisfied with the results for the period.

It is anticipated that the company will continue to concentrate its activity, for the foreseeable future, on the manufacture and marketing of vitamin supplements and healthcare products for both human and animal consumption.

Results and dividends

The turnover and profits of the company are set out on page 5. A dividend of £5,000,000 has been paid during the period. The surplus for the period of £1,411,000 (1996 - £12,594,000 deficit) has been added to reserves.

Directors

The directors of the company are those stated on page 1. All directors served throughout the year.

Directors and directors' interests

No director had any interests in the shares or debentures of the company or of Merck KGaA or of any subsidiary undertaking of Merck KGaA as at 1 January 1997 and 31 December 1997.

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Directors' report *(continued)*

Employment policies

Non-discrimination

It is the policy of the company that employees at all levels shall not discriminate against others, or be discriminated against, on the grounds of colour, race, religion, sex or ethnic origin. This policy applies to all conditions of employment, recruitment and other aspects of work.

Disabled people

The company seeks to abide by the Department of Employment's voluntary code of practice on the employment of disabled people. This requires to give full and fair consideration to disabled people when applying for jobs, and in offering disabled employees training, career development and promotion opportunities. We believe that if a positive attitude to the employment of disabled people is adopted, then many of the problems commonly considered to be associated with the employment of disabled people can be overcome.

The company continues to operate well established employee consultation arrangements. We remain firmly convinced that progress is most readily achieved by basing employees' involvement on their participation at the workplace, in the office, depot or factory. Management input to existing arrangements continues to be given high priority.

Supplier Payment Policy

It is the policy of the company to pay according to the terms requested by suppliers wherever possible. Where not possible payment will usually be within 90 days of delivery, subject to any specific contracts agreed or any dispute.

Auditors

KPMG have indicated their willingness to continue as auditors and a Resolution to re-appoint them for the ongoing year will be put to members at the Annual General Meeting.

By order of the board



R Grant
Secretary
22nd June 1998



1 The Embankment
Neville Street
Leeds
LS1 4DW

Report of the auditors to the members of Seven Seas Limited

We have audited the financial statements on pages 5 to 16.

Respective responsibilities of directors and auditors

As described on page 2 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG
Chartered Accountants
Registered Auditors

21 July 1998

Profit and loss account
for the year ended 31 December 1997

	<i>Note</i>	1997 (12 months) £	1996 (15 months) £
Turnover - continuing activities	2	60,231	72,307
Operating costs	3	(51,314)	(59,818)
Operating profit - continuing activities		8,917	12,489
Interest receivable		272	144
Interest payable	5	(1)	(20)
Dividends received		-	1,000
Profit on ordinary activities before taxation		9,188	13,613
Taxation charge	6	(2,777)	(4,307)
Profit on ordinary activities after taxation		6,411	9,306
Dividends paid	7	(5,000)	(21,900)
Surplus/(Deficit) for the financial year		1,411	(12,594)
Retained profit at 1 January 1997		3,506	16,100
Retained profit at 31 December 1997		4,917	3,506

Statement of total recognised gains and losses

There are no recognised gains or losses other than the profit attributable ordinary shareholders of £6,411,000 in the year ended 31 December 1997 (*for the 15 months ended 31 December 1996: £9,306,000*).

This profit and loss account has been prepared on an unmodified historical cost basis.

Balance sheet
at 31 December 1997

	<i>Note</i>	31 December 1997 £000	31 December 1996 £000
Fixed assets			
Tangible assets	8	6,710	5,842
Investments	9	5,753	5,753
		12,463	11,595
Current assets			
Stocks	10	10,392	11,987
Debtors	11	12,399	15,342
Cash at bank and in hand		10,211	3,874
		33,002	31,203
Current liabilities			
Creditors: amounts falling due within one year	12	(40,345)	(38,877)
		(7,343)	(7,674)
Net current liabilities			
		(7,343)	(7,674)
Total assets less current liabilities		5,120	3,921
Provisions for liabilities and charges	13	(153)	(365)
		4,967	3,556
Capital and reserves			
Equity share capital	14	-	-
Profit and loss account		4,917	3,506
		4,917	3,506
Equity shareholders' funds	15	4,917	3,506
Non equity share capital	14	50	50
		4,967	3,556
Equity and non equity shareholders' funds	15	4,967	3,556
		4,967	3,556

Approved by the Board of Directors on 15th June 1998.


 _____) Directors
 R Grant)

Notes

(forming part of the financial statements)

1 Accounting policies

Basis of preparation

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

Consolidated accounts

As the company is a wholly owned undertaking of a company which is itself incorporated in the United Kingdom, consolidated financial statements have not been prepared.

Turnover

Turnover comprises the value of goods and services invoiced, excluding value added tax.

It is the opinion of the directors that the company operates in only one class of business.

Valuation of stock

Stocks have been valued at cost or at estimated net realisable value if lower. Cost includes an appropriate proportion of attributable overheads based on normal levels of activity.

Depreciation

No depreciation is provided on freehold land; all other tangible assets are depreciated on a straight line basis.

Freehold and leasehold buildings	-	2% - 4%
Plant and machinery	-	10% - 15%
Computers	-	25% - 33%
Goods vehicles	-	16.66% - 25%
Motor cars	-	25%

Deferred taxation

Provision is made on the liability method for taxation which is deferred as a result of timing differences between profits as computed for tax purposes and profits as stated in the accounts, only when it is considered that there is a reasonable certainty that the timing differences will reverse in the foreseeable future.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at exchange rates ruling at the year end unless forward rates of exchange have been contracted, in which case the contracted rate is used.

All transactions of a trading nature are translated into sterling at the rates of exchange ruling at the date of the transaction.

Exchange gains or losses are included in profit on ordinary activities before taxation.

Notes (continued)

Cashflow

Under Financial Reporting Standard 1 (revised), the company is exempt from the requirement to prepare a cashflow statement being a wholly owned subsidiary incorporated in consolidated accounts of an EC parent who include a consolidated cashflow statement.

Research and development

Research and development expenditure is written off to the profit and loss account in the year in which it is incurred.

Investments

Investments are stated at cost, less provisions in respect of any permanent diminution in value.

2 Turnover

Analysis of turnover by geographical market supplied is not disclosed in these accounts because the directors consider that disclosure would be prejudicial to the business. Turnover is attributable to the principal continuing activity of the company.

3 Operating costs

	1997 (12 months) £	1996 (15 months) £
Decrease/(increase) in finished goods and work in progress	409	(1,431)
Raw materials and consumables	23,935	27,118
Staff costs (note 4)	7,207	7,169
Depreciation	1,113	1,252
Auditors' fees		
- audit services	30	30
- non audit services	5	38
Profit on sale of tangible fixed assets	(40)	(46)
Other operating charges	18,655	25,688
	51,314	59,818

Notes (continued)

4 Directors and employees

The average number of persons (including directors where appropriate) employed by the company was:

	1997 (12 months) No	1996 (15 months) No
Production	218	236
Sales and marketing	99	100
Distribution	33	26
Administration	40	38
	390	400

	1997 (12 months) £000	1996 (15 months) £000
Wages and salaries	6,367	6,357
Social security costs	582	776
Other pension costs	258	36
	7,207	7,169

	1997 (12 months) £000	1996 (15 months) £000
Directors' emoluments	518	668
Amounts received under long term incentive schemes	0	0
Company contributions to money purchase pension schemes	0	26
	518	694

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £121,000 (1996: £183,000), and company pension contributions of £Nil (1996: £20,000) were made to a money purchase scheme on his behalf.

He is a member of a defined benefit scheme under which the accrued pension to which he would be entitled from normal retirement date, if he were to retire at the year end, was £53,500, and his accrued lump sum was £155,000.

Notes *(continued)*

4 Directors and employees *(continued)*

	Number of Directors	
	1997	1996
Retirement benefits are accruing to the following number of directors under :		
Money purchase schemes	4	4
Defined benefit schemes	7	7

5 Interest payable

	1997 (12 months) £000	1996 (15 months) £000
Interest to group undertakings	-	20
Other Interest	1	-
	<u>1</u>	<u>20</u>

6 Taxation charge

	1997 (12 months) £000	1996 (15 months) £000
Corporation tax at 31% (1996: 33%)	3,016	4,182
Overseas tax	29	76
Double tax relief	(29)	(66)
Prior year adjustment	(29)	35
	<u>2,987</u>	<u>4,227</u>
Deferred tax (note 13)	(210)	80
	<u>2,777</u>	<u>4,307</u>

Notes (continued)

7 Dividends paid

	1997 (12 months) £000	1996 (15 months) £000
Final paid - £50,000 per bearer share	5,000	-
Interim paid - £390 per ordinary share	-	19,500
Interim paid - £18 per ordinary share	-	900
Final paid £15,000 per bearer shares	-	1,500
	5,000	21,900

8 Tangible fixed assets

	Land and buildings			Fixtures, fittings, tools and equipment	
	Short leasehold £000	Freehold £000	Plant and machinery £000	£000	Total £000
Cost					
At 31 December 1996	372	2,480	7,669	2,792	13,313
Additions	41	26	1,239	700	2,006
Disposals	-	-	(174)	(209)	(383)
Reclassification	-	-	(8)	8	-
	413	2,506	8,726	3,291	14,936
At 31 December 1997	413	2,506	8,726	3,291	14,936
Depreciation					
At 31 December 1996	35	521	5,242	1,673	7,471
Charge for the period	13	81	469	550	1,113
Disposals	-	-	(167)	(191)	(358)
Reclassification	-	-	18	(18)	-
	48	602	5,562	2,014	8,226
At 31 December 1997	48	602	5,562	2,014	8,226
Net book value					
At 31 December 1997	365	1,904	3,164	1,277	6,710
At 31 December 1996	337	1,959	2,427	1,119	5,842

Notes (continued)

9 Investments

	£000
Shares in subsidiary undertakings at cost:	
At 31 December 1996 and 31 December 1997	5,753

The company owns the whole of the share capital of the following:

British Cod Liver Oils Limited
Hofels Pure Foods Limited
Marfleet Refining Company Limited
New Era Laboratories
Phillips Yeast Products Limited
Seven Seas (Ireland) Limited
Seven Seas Health Care Limited
Seven Seas Pension Trustees Limited
Vitrite Health Care Limited

With the exception of Phillips Yeast Products Limited, these companies and their subsidiary undertakings did not trade during the period. All the companies are registered in England and Wales except Seven Seas (Ireland) Limited, which is incorporated in the Republic of Ireland.

10 Stocks

	31 December 1997 £000	31 December 1996 £000
Raw materials	1,811	2,997
Work in progress	3,566	2,820
Finished goods	5,015	6,170
	10,392	11,987

There is no significant difference between the balance sheet value of stock and its replacement cost.

Notes (continued)

11 Debtors

	31 December	31 December
	1997	1996
	£000	£000
Trade debtors	11,568	11,683
Amounts owed by group companies	89	5
Other debtors	615	1,073
Prepayments and accrued income	127	81
Loan to Seven Seas Pension Scheme	-	2,500
	12,399	15,342

12 Creditors: amounts falling due within one year

	31 December	31 December
	1997	1996
	£000	£000
Trade creditors	8,632	9,355
Amounts owed to ultimate holding company	47	82
Amounts owed to fellow group undertakings	26,056	25,595
Corporation tax	3,315	2,628
Other taxation and social security	741	414
Accruals and deferred income	1,554	803
	40,345	38,877

13 Provisions for liabilities and charges

	31 December	31 December
	1997	1996
	£000	£000
Rationalisation of business	23	25
Deferred taxation	130	340
	153	365

The movements in provisions during the year are detailed below:

	Rationalisation	Deferred tax
	£000	£000
Provision at 1 January 1997	25	340
Utilised	(2)	(210)
Provision at 31 December 1997	23	130

Notes (continued)

13 Provision for liabilities and charges (continued)

Deferred taxation is in respect of timing differences arising from:

	31 December 1997 £000	31 December 1996 £000
Excess of capital allowances over depreciation	446	450
Short term timing differences	(316)	(110)
	<u>130</u>	<u>340</u>

14 Called up share capital

	31 December 1997 £000	31 December 1996 £000
<i>Authorised, allotted, called up and fully paid</i>		
50,000 deferred shares of £1 each	50	50
100 Bearer shares of 1 pfennig each	-	-
	<u>50</u>	<u>50</u>

The 50,000 deferred shares of £1 each do not carry any voting rights. Holders of the deferred shares are not entitled to any participation in the profits or assets of the company save upon winding up when they rank behind all other classes of shares.

The 100 bearer shares carry all the rights attaching to ordinary equity shares for both voting and participation in the profits and assets of the company.

15 Reconciliation of movements in equity shareholder's funds

	31 December 1997 £000	31 December 1996 £000
Profit for the period	6,411	9,306
Dividends paid	(5,000)	(21,900)
	<u>1,411</u>	<u>(12,594)</u>
Shares converted into non-equity shares	-	(50)
Opening equity shareholders' funds	3,506	16,150
	<u>4,917</u>	<u>3,506</u>
Closing equity shareholders' funds	4,917	3,506
Non equity shareholders' funds	50	50
	<u>4,967</u>	<u>3,556</u>
Equity and non equity shareholders' funds	<u>4,967</u>	<u>3,556</u>

Notes *(continued)*

16 Capital commitments

	31 December	31 December
	1997	1997
	£000	£000
Expenditure contracted for	8	266

17 Contingent liabilities

The company has given an unconditional unsecured guarantee to National Westminster Bank plc in favour of two fellow subsidiaries companies, Merck Limited and Lipha Pharmaceuticals Limited. There was no liability to the bank by either company at 31 December 1997.

18 Pension scheme

The majority of the company's employees participate in the Seven Seas Pension Scheme while several employees participate in the Merck Pension Scheme. Both are defined benefit schemes and the assets are held in separate trustee administered funds.

The Seven Seas scheme is a closed scheme with membership restricted to those employees who were formally members of the IT Pension Fund. The latest actuarial valuation of the Seven Seas scheme was made on 31st March, 1997. The assumptions which have the most significant effect on the results of the evaluation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that future investment returns would be 9% per annum, that dividends would increase by 5% per annum, that pay increases would average 7% per annum and pension increases would be at least those specified in the rules of the Scheme.

At the date of the latest actuarial valuation of the Scheme, the market value of the assets of the Scheme was £11.8 million. These assets were sufficient to cover 153% of the benefits that had accrued to members as at the date of the valuation. Company contributions to the Scheme remain suspended, having regard to the surplus disclosed at this valuation.

A provision of £180,000 (1996: Nil) is included in the Balance Sheet which represents the difference in the accumulated pension costs in respect of the Seven Seas Scheme over the amounts paid by the Company into the Scheme.

The Merck Pension Scheme is open to all employees joining the company after 1st November, 1995. The latest actuarial valuation of the Merck Pension Scheme as at 31st December 1995 shows that the market value of the assets of the scheme was £75.6 million. These assets were sufficient to cover 115% of the benefits that had accrued to members as at the date of the valuation.

The contributions of the company are 12% of pensionable salary.

Total pension costs for the year relating to the Merck scheme were £78,000 (1996: £36,000).

Notes *(continued)*

19 Related party disclosures

The company has taken advantage of the exemption in FRS 8 from disclosing transactions with related parties that are part of the Merck KGaA group.

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

The company is a wholly owned subsidiary of Merck Limited, a company registered in England and Wales. The results of Seven Seas Limited are incorporated in the group accounts published by Merck Limited.

The ultimate parent undertaking is Merck KGaA, a company incorporated in Germany. The accounts of Merck KGaA are available from Frankfurter Strasse 250,D - 64293 Darmstadt, Germany.