

Seven Seas Limited

Directors' report and financial statements

31 December 1998

Registered number 351663



Directors' report and financial statements

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Company information

Directors

CO Dixon
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 1998.

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 6. A dividend of £5,000,000 has been paid during the period. The surplus for the period of £1,327,000 (1997 - £1,411,000) has been added to reserves.

Directors

The directors of the company are those stated on page 1. All directors served throughout the year. Mr A G Clements, a director at the start of the period, resigned on 30 July 1998.

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 1998 and 31 December 1998.

Directors' report *(continued)*

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.

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.

Directors' report *(continued)*

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

8th June 1999



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 6 to 17.

Respective responsibilities of directors and auditors

As described on page 3 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 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG

KPMG
Chartered Accountants
Registered Auditors

8 June 1999

Profit and loss account
for the year ended 31 December 1998

	<i>Note</i>	1998 £000	1997 £000
Turnover - continuing activities	2	54,066	60,231
Operating costs	3	(46,378)	(51,314)
Operating profit - continuing activities		7,688	8,917
Interest receivable		409	272
Interest payable	5	-	(1)
Dividends received		1,000	-
Profit on ordinary activities before taxation		9,097	9,188
Taxation charge	6	(2,770)	(2,777)
Profit on ordinary activities after taxation		6,327	6,411
Dividends paid	7	(5,000)	(5,000)
Surplus/(Deficit) for the financial year		1,327	1,411
Retained profit at 1 January 1998		4,917	3,506
Retained profit at 31 December 1998		6,244	4,917

Statement of total recognised gains and losses

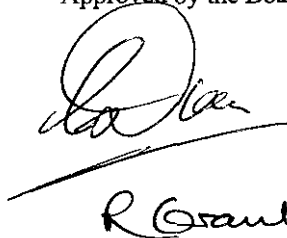
There are no recognised gains or losses other than the profit attributable ordinary shareholders.

Balance sheet
at 31 December 1998

	<i>Note</i>	31 December 1998 £000	31 December 1997 £000
Fixed assets			
Tangible assets	8	7,032	6,710
Investments	9	5,753	5,753
		12,785	12,463
Current assets			
Stocks	10	10,235	10,392
Debtors	11	11,045	12,399
Cash at bank and in hand		10,104	10,211
		31,384	33,002
Current liabilities			
Creditors: amounts falling due within one year	12	(37,667)	(40,345)
		(6,283)	(7,343)
Net current liabilities			
		6,502	5,120
Total assets less current liabilities			
		6,502	5,120
Provisions for liabilities and charges	13	(208)	(153)
		6,294	4,967
Capital and reserves			
Share capital	14	50	50
Profit and loss account		6,244	4,917
		6,294	4,967
Shareholders' funds	15		
Equity	15	6,244	4,917
Non equity	14	50	50
		6,294	4,967

Approved by the Board of Directors on

8/6/99.


)
)
) 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; the cost less residual value of all other tangible assets is 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

	1998	1997
	£000	£000
Decrease in finished good and work in progress	541	409
Raw materials and consumables	17,954	23,935
Staff costs (note 4)	7,490	7,207
Depreciation	1,207	1,113
Auditors' fees		
- audit services	27	30
- non audit services	22	5
Profit on sale of tangible fixed assets	(82)	(40)
Other operating charges	19,219	18,655
	46,378	51,314

Notes *(continued)*

4 Directors and employees

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

	1998 No	1997 No
Production	183	185
Sales and marketing	94	99
Distribution	32	33
Administration	44	40
	353	357

	1998 £000	1997 £000
Wages and salaries	6,638	6,367
Social security costs	503	582
Other pension costs	349	258
	7,490	7,207

	1998 £000	1997 £000
Directors' emoluments	541	518
Amounts received under long term incentive schemes	-	-
Company contributions to money purchase pension schemes	-	-
	541	518

The aggregate of emoluments of the highest paid director was £130,000 (1997: £121,000) and no company pension contributions were made.

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 £55,500, and his accrued lump sum was £155,000.

Notes *(continued)*

4 Directors and employees *(continued)*

	Number of Directors	
	1998	1997
Retirement benefits are accruing to the following number of directors under :		
Money purchase schemes	3	4
Defined benefit schemes	6	7
	<u> </u>	<u> </u>

5 Interest payable

	1998 £000	1997 £000
Bank Interest	-	1
	<u> </u>	<u> </u>

6 Taxation charge

	1998 £000	1997 £000
Corporation tax at 31%	2,633	3,016
Overseas tax	42	29
Double tax relief	(33)	(29)
Prior year adjustment	71	(29)
	<u> </u>	<u> </u>
Deferred tax (note 13)	2,713 57	2,987 (210)
	<u> </u>	<u> </u>
	<u>2,770</u>	<u>2,777</u>

Notes *(continued)*

7 Dividends paid

	1998	1997
	£000	£000
Final equity dividend paid - £50,000 per bearer share	5,000	5,000

8 Tangible fixed assets

	Land and buildings		Plant and	Fixtures,	
	Short	Freehold	machinery	fittings,	
	leasehold			tools and	Total
	£000	£000	£000	equipment	£000
Cost					
At 31 December 1997	413	2,506	8,726	3,291	14,936
Additions	-	576	400	631	1,607
Disposals	-	-	(3)	(415)	(418)
At 31 December 1998	413	3,082	9,123	3,507	16,125
Depreciation					
At 31 December 1997	48	602	5,562	2,014	8,226
Charge for the period	16	88	543	560	1,207
Disposals	-	-	(3)	(337)	(340)
At 31 December 1998	64	690	6,102	2,237	9,093
Net book value					
At 31 December 1998	349	2,392	3,021	1,270	7,032
At 31 December 1997	365	1,904	3,164	1,277	6,710

Notes *(continued)*

9 Investments

	£000
Shares in subsidiary undertakings at cost:	
At 31 December 1997 and 1998	5,753
	<u> </u>

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	31 December
	1998	1997
	£000	£000
Raw materials	2,195	1,811
Work in progress	3,118	3,566
Finished goods	4,922	5,015
	<u> </u>	<u> </u>
	10,235	10,392
	<u> </u>	<u> </u>

Notes *(continued)*

11 Debtors

	31 December	31 December
	1998	1997
	£000	£000
Trade debtors	10,294	11,568
Amounts owed by group companies	201	89
Other debtors	418	615
Prepayments and accrued income	132	127
	11,045	12,399

12 Creditors: amounts falling due within one year

	31 December	31 December
	1998	1997
	£000	£000
Trade creditors	7,088	8,632
Amounts owed to ultimate holding company	27	47
Amounts owed to fellow group undertakings	25,111	26,056
Corporation tax	2,667	3,315
Other taxation and social security	1,369	741
Accruals and deferred income	1,405	1,554
	37,667	40,345

13 Provisions for liabilities and charges

	31 December	31 December
	1998	1997
	£000	£000
Rationalisation of business	21	23
Deferred taxation	187	130
	208	153

The movements in provisions during the year are detailed below:

	Rationalisation	Deferred tax
	£000	£000
Provision at 1 January 1998	23	130
Utilised	(2)	-
Charged in the period	-	57
	21	187
Provision at 31 December 1998	21	187

Notes *(continued)*

13 Provision for liabilities and charges *(continued)*

Deferred taxation is in respect of timing differences arising from:

	31 December 1998 £000	31 December 1997 £000
Excess of capital allowances over depreciation	518	446
Short term timing differences	(331)	(316)
	187	130

The amounts provided represent the total liability.

14 Called up share capital

	31 December 1998 £000	31 December 1997 £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	-	-

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.

Notes (continued)

15 Reconciliation of movements in equity shareholder's funds

	31 December	31 December
	1998	1997
	£000	£000
Profit for the period	6,327	6,411
Dividends paid	(5,000)	(5,000)
Opening equity shareholders' funds	1,327	1,411
	4,917	3,506
Closing equity shareholders' funds	6,244	4,917
Non equity shareholders' funds	50	50
Equity and non equity shareholders' funds	6,294	4,967

16 Capital commitments

	31 December	31 December
	1998	1997
	£000	£000
Expenditure contracted for	63	8

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 1998.

18 Pension scheme

The company's employees participate in either the Seven Seas Pension Scheme or 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.

Notes (continued)

18 Pension scheme (continued)

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 £457,000 (1997: £180,000) 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 1998 shows that the market value of the assets of the scheme was £98.6 million. These assets were sufficient to cover 106% of the benefits that had accrued to members as at the date of the valuation.

The contributions of the company are 12% pensionable salary.

Total pension costs for the year relating to the Merck scheme were £108,000 (1997: £78,000).

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.