

Seven Seas Limited

**Directors' report and financial
statements**

Registered number 351663

31 December 1999



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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 1999.

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 £742,000 (1998: £1,327,000) has been taken 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 1999 and 31 December 1999.

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

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



R Grant
Secretary

3 October 2000



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

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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

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 1999 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

3 October 2000

Profit and loss account
for the year ended 31 December 1999

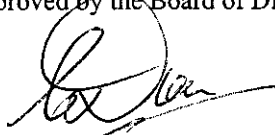
	<i>Note</i>	1999 £000	1998 £000
Turnover - continuing activities	2	55,305	54,066
Operating costs	3	(46,784)	(46,378)
Operating profit - continuing activities		8,521	7,688
Interest receivable		375	409
Interest payable	5	(3)	-
Dividends received		-	1,000
Profit on ordinary activities before taxation		8,893	9,097
Taxation charge	6	(3,151)	(2,770)
Profit on ordinary activities after taxation		5,742	6,327
Dividends paid	7	(5,000)	(5,000)
Surplus for the financial year		742	1,327
Retained profit at 1 January		6,244	4,917
Retained profit at 31 December		6,986	6,244

There are no recognised gains or losses other than the profit attributable to ordinary shareholders in both the current and preceding financial year.

Balance sheet
at 31 December 1999

	<i>Note</i>	31 December 1999 £000	31 December 1998 £000
Fixed assets			
Tangible assets	8	7,682	7,032
Investments	9	5,753	5,753
		13,435	12,785
Current assets			
Stocks	10	8,840	10,235
Debtors	11	11,113	11,045
Cash at bank and in hand		11,634	10,104
		31,587	31,384
Current liabilities			
Creditors: amounts falling due within one year	12	(37,955)	(37,667)
		(6,368)	(6,283)
Net current liabilities			
		7,067	6,502
Total assets less current liabilities			
Provisions for liabilities and charges	13	(31)	(208)
		7,036	6,294
Capital and reserves			
Share capital	14	50	50
Profit and loss account		6,986	6,244
		7,036	6,294
Shareholders' funds			
		7,036	6,294
Equity	15	6,986	6,244
Non equity	14	50	50
		7,036	6,294

Approved by the Board of Directors on 3 October 2000

)
) Directors
)

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 impairment.

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

	1999	1998
	£000	£000
Decrease in finished good and work in progress	804	541
Raw materials and consumables	19,754	17,954
Staff costs (note 4)	8,142	7,490
Depreciation	1,279	1,207
Auditors' fees		
- audit services	30	27
- non audit services	28	22
Profit on sale of tangible fixed assets	(40)	(82)
Other operating charges	16,787	19,219
	<u>46,784</u>	<u>46,378</u>

Notes *(continued)*

4 Directors and employees

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

	1999 No	1998 No
Production	221	229
Sales and marketing	82	97
Distribution	37	33
Administration	53	49
	393	408

	1999 £000	1998 £000
Wages and salaries	7,170	6,638
Social security costs	522	503
Other pension costs	450	349
	8,142	7,490

	1999 £000	1998 £000
Directors' emoluments	541	541

The aggregate emoluments of the highest paid director were £147,000 (1998: £130,000).

The highest paid director participates in 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 £65,000, and his accrued lump sum was £172,000.

Notes *(continued)*

4 Directors and employees *(continued)*

	Number of Directors	
	1999	1998
Retirement benefits are accruing to the following number of directors under :		
Money purchase schemes	3	3
Defined benefit schemes	6	6

5 Interest payable

	1999 £000	1998 £000
Other Interest	3	-

6 Taxation charge

	1999 £000	1998 £000
Corporation tax at 31%	3,446	2,633
Overseas tax	47	42
Double tax relief	(46)	(33)
Prior year adjustment	(140)	71
	3,307	2,713
Deferred tax (note 13)	(156)	57
	3,151	2,770

Notes (continued)

7 Dividends paid

	1999	1998
	£000	£000
Final equity dividend paid - £50,000 per bearer share	5,000	5,000

8 Tangible fixed assets

	Land and buildings		Plant and machinery	Fixtures, fittings tools and equipment	Total
	Short leasehold	Freehold	£000	£000	£000
	£000	£000			
<i>Cost</i>					
At 31 December 1998	413	3,082	9,123	3,507	16,125
Additions	-	84	1,153	696	1,933
Disposals	-	-	(24)	(402)	(426)
Transfer from subsidiary	-	-	389	13	402
At 31 December 1999	413	3,166	10,641	3,814	18,034
<i>Depreciation</i>					
At 31 December 1998	64	690	6,102	2,237	9,093
Charge for the period	13	97	622	547	1,279
Disposals	-	-	(24)	(335)	(359)
Transfer from subsidiary	-	-	326	13	339
At 31 December 1999	77	787	7,026	2,462	10,352
<i>Net book value</i>					
At 31 December 1999	336	2,379	3,615	1,352	7,682
At 31 December 1998	349	2,392	3,021	1,270	7,032

Notes *(continued)*

9 Investments

	£000
Shares in subsidiary undertakings at cost:	
At 31 December 1998 and 1999	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 Limited
 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 1999 £000	31 December 1998 £000
Raw materials	1,604	2,195
Work in progress	2,363	3,118
Finished goods	4,873	4,922
	8,840	10,235

Notes (continued)

11 Debtors

	31 December 1999 £000	31 December 1998 £000
Trade debtors	10,397	10,294
Amounts owed by group companies	471	201
Other debtors	125	418
Prepayments and accrued income	120	132
	<u>11,113</u>	<u>11,045</u>

12 Creditors: amounts falling due within one year

	31 December 1999 £000	31 December 1998 £000
Trade creditors	6,390	7,088
Amounts owed to ultimate holding company	24	27
Amounts owed to fellow group undertakings	25,791	25,111
Corporation tax	2,638	2,667
Other taxation and social security	1,495	1,369
Accruals and deferred income	1,617	1,405
	<u>37,955</u>	<u>37,667</u>

13 Provisions for liabilities and charges

	31 December 1999 £000	31 December 1998 £000
Rationalisation of business	-	21
Deferred taxation	31	187
	<u>31</u>	<u>208</u>

The movements in provisions during the year are detailed below:

	Rationalisation £000	Deferred tax £000
Provision at 1 January 1999	21	187
Utilised	(21)	-
Charged in the period	-	(156)
	<u>-</u>	<u>31</u>
Provision at 31 December 1999	-	31

Notes *(continued)*

13 Provision for liabilities and charges *(continued)*

Deferred taxation is in respect of timing differences arising from:

	31 December 1999 £000	31 December 1998 £000
Excess of capital allowances over depreciation	441	518
Short term timing differences	(410)	(331)
	<u>31</u>	<u>187</u>

The amounts provided represent the total liability.

14 Called up share capital

	31 December 1999 £000	31 December 1998 £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.

Notes (continued)

15 Reconciliation of movements in equity shareholder's funds

	31 December 1999 £000	31 December 1998 £000
Profit for the period	5,742	6,327
Dividends paid	(5,000)	(5,000)
Opening equity shareholders' funds	742 6,244	1,327 4,917
Closing equity shareholders' funds	6,986	6,244
Non equity shareholders' funds	50	50
Equity and non equity shareholders' funds	7,036	6,294

16 Capital commitments

	31 December 1999 £000	31 December 1998 £000
Expenditure contracted for	152	63

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 1999.

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 became a closed scheme on the 1st November 1995. 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 £847,000 (1998: £457,000) 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 1999 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 during 1999 were 12% of pensionable salary to the end of May 1999 reducing to 2% of pensionable salary for the remainder of the year. The ongoing contributions of the company are 5% of pensionable salary until 2002.

Total pension costs for the year relating to the Merck scheme were £79,000 (1998: £108,000).

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.