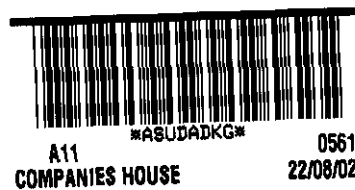


Seven Seas Limited

**Directors' report and financial
statements**

Registered number 351663

31 December 2001



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Company information

Directors

CO Dixon
PJ Shotter
RH Correll (Republic of Ireland)
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 2001.

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. An exceptional charge of £2,074,000 has been incurred relating to the impairment of investments. A dividend of £4,500,000 has been paid during the year (2000: £3,500,000). These two transactions resulted in a deficit for the period of £517,000 (2000: surplus £1,351,000), which has been taken against reserves.

Directors and directors' interests

The directors of the company are those stated on page 1. All directors served throughout the year, except Mr RH Correll who was appointed on 1 May 2001 and Mr PJ Shotter who was appointed on 7 January 2002.

No director had any interests in the shares or debentures of the company or any other subsidiary undertaking of Merck KGaA as at 1 January 2001 and 31 December 2001.

The disclosable interests of the directors in the share capital of the ultimate parent undertaking Merck KGaA, according to the register kept by the company for the purposes of the Companies Act 1985 are shown below:

Ordinary shares of five Deutsche Marks each:

	31 December 2001 Number	1 January 2001 Number
M Douglas	18	18

Options to subscribe for ordinary shares of five Deutsche Marks each at 31 December 2001 and 31 December 2000:

	Number
CO Dixon	6,500
R Grant	2,500
TG Hardman	2,500
TM Simpson	2,500

Options granted are at a subscription price of Euro 37.41. Under the rules of the Merck stock option programme options may not be exercised until 15 October 2002 and are then only exercisable if the Merck KGaA share price is at least 30% higher than the option price.

Directors' report *(continued)*

Going concern

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

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.

By order of the board



R Grant
Secretary

22 May 2002

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.



1 The Embankment
Neville Street
Leeds
LS1 4DW

Independent auditors' report to the members of Seven Seas Limited

We have audited the financial statements on pages 6 to 18.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 4, 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 1985. 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 audit 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 2001 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*

22 May 2002

Profit and loss account
for the year ended 31 December 2001

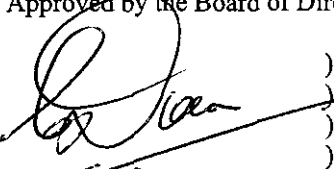
	<i>Note</i>	2001 £000	2000 £000
Turnover - continuing activities	2	55,241	55,044
Operating costs - ordinary		(47,939)	(48,064)
- exceptional		(2,074)	-
Total operating costs	3	(50,013)	(48,064)
Operating profit - continuing activities		5,228	6,980
Interest receivable		450	421
Interest payable	5	(16)	-
Profit on ordinary activities before taxation		5,662	7,401
Tax on profit on ordinary activities	6	(1,679)	(2,550)
Profit on ordinary activities after taxation		3,983	4,851
Dividends paid	7	(4,500)	(3,500)
(Loss)/profit for the financial year		(517)	1,351
Retained profit at 1 January		8,337	6,986
Retained profit at 31 December		7,820	8,337

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 2001

	<i>Note</i>	31 December 2001 £000	31 December 2000 £000
Fixed assets			
Tangible assets	8	7,492	7,552
Investments	9	3,679	5,753
		11,171	13,305
Current assets			
Stocks	10	9,940	9,405
Debtors	11	11,514	11,812
Cash at bank and in hand		4,930	6,333
		26,384	27,550
Current liabilities			
Creditors: amounts falling due within one year	12	(29,521)	(32,325)
Net current liabilities		(3,137)	(4,775)
Total assets less current liabilities		8,034	8,530
Provisions for liabilities and charges	13	(164)	(143)
		7,870	8,387
Capital and reserves			
Share capital	14	50	50
Profit and loss account		7,820	8,337
Shareholders' funds	15	7,870	8,387
Equity	15	7,820	8,337
Non equity	14	50	50
		7,870	8,387

Approved by the Board of Directors on 22 May 2002





) 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 as follows:

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)

Pension costs

The company operates defined benefit pension schemes. Pension costs are accounted for in accordance with SSAP 24.

The cost of providing retirement pensions and related benefits is charged to the profit and loss account over the periods which benefit from the employees' services.

The full provision basis has been used in accounting for the deferred tax implications of pensions and other post-retirement benefits.

Cashflow

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

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

	2001 £000	2000 £000
(Increase)/decrease in finished goods and work in progress	(817)	(360)
Raw materials and consumables	17,073	19,080
Staff costs (note 4)	9,460	8,981
Depreciation	1,416	1,333
Auditors' fees		
- audit services	36	34
- non audit services	17	32
Profit on sale of tangible fixed assets	(41)	(43)
Other operating charges	20,795	19,007
Exceptional charge	2,074	-
	50,013	48,064

The exceptional operating charge in 2001 relates to a provision for impairment of the investment in Phillips Yeast Products Limited

Notes *(continued)*

4 Directors and employees

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

	2001 No	2000 No
Production	233	235
Sales and marketing	82	83
Distribution	45	44
Administration	67	58
	<u>427</u>	<u>420</u>

The aggregate payroll costs of these persons were as follows:

	2001 £000	2000 £000
Wages and salaries	8,144	7,738
Social security costs	621	596
Other pension costs	695	647
	<u>9,460</u>	<u>8,981</u>

	2001 £000	2000 £000
Directors' emoluments	<u>797</u>	<u>627</u>

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £201,000 (2000: £170,000), inclusive of company pension contributions of £41,000 (2000: £4,000). 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 £74,000 and his accrued lump sum was £193,000.

Notes *(continued)*

4 Directors and employees *(continued)*

	Number of Directors	
	2001	2000
Retirement benefits are accruing to the following number of directors under :		
Money purchase schemes	3	3
Defined benefit schemes	7	6

5 Interest payable

	2001 £000	2000 £000
Other Interest	16	-

6 Tax on profit on ordinary activities

	2001 £000	2000 £000
Corporation tax at 30%	2,427	2,468
Overseas tax	20	13
Double tax relief	(27)	(15)
Prior year adjustment	(762)	(28)
	1,658	2,438
Deferred tax (note 13)	21	112
	1,679	2,550

Notes (continued)

7 Dividends paid

	2001 £000	2000 £000
Equity dividend paid - £45,000 (2000: £35,000) per share	4,500	3,500

8 Tangible fixed assets

	Land and buildings		Plant and Machinery	Fixtures, Fittings tools and Equipment	Total
	Short leasehold £000	Freehold £000	£000	£000	£000
Cost					
At 31 December 2000	413	3,166	11,242	3,685	18,506
Additions	-	177	1,650	927	2,754
Transfer to subsidiary	-	(608)	(1,189)	(63)	(1,860)
Disposals	-	-	(69)	(415)	(484)
At 31 December 2001	413	2,735	11,634	4,134	18,916
Depreciation					
At 31 December 2000	90	888	7,630	2,346	10,954
Charge for the period	13	97	721	585	1,416
Transfer to subsidiary	-	(46)	(452)	(34)	(532)
Disposals	-	-	(59)	(355)	(414)
At 31 December 2001	103	939	7,840	2,542	11,424
Net book value					
At 31 December 2001	310	1,796	3,794	1,592	7,492
At 31 December 2000	323	2,278	3,612	1,339	7,552

Notes (continued)

9 Investments

	31 December 2001 £000	31 December 2000 £000
Shares in subsidiary undertakings:		
Cost at 31 December	5,753	5,753
Impairment provisions	(2,074)	-
At 31 December 2001	3,679	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

	2001 £000	2000 £000
Raw materials	1,527	1,809
Work in progress	3,238	2,613
Finished goods	5,175	4,983
	9,940	9,405

Notes (continued)

11 Debtors

	31 December	31 December
	2001	2000
	£000	£000
Trade debtors	10,748	10,986
Amounts owed by group companies	481	365
Other debtors	78	298
Prepayments and accrued income	207	163
	<u>11,514</u>	<u>11,812</u>

12 Creditors: amounts falling due within one year

	31 December	31 December
	2001	2000
	£000	£000
Trade creditors	6,652	5,721
Amounts owed to fellow group undertakings	17,644	20,748
Corporation tax	1,530	2,300
Other taxation and social security	2,126	2,126
Accruals and deferred income	1,569	1,430
	<u>29,521</u>	<u>32,325</u>

13 Provisions for liabilities and charges

	31 December	31 December
	2001	2000
	£000	£000
Deferred taxation	164	143

The movements in provisions during the year are detailed below:

	Deferred tax
	£000
Provision at 31 December 2000	143
Charged in the period	21
	<u>164</u>
Provision at 31 December 2001	

Notes *(continued)*

13 Provision for liabilities and charges *(continued)*

Deferred taxation is in respect of timing differences arising from:

	2001 £000	2000 £000
Excess of capital allowances over depreciation	587	549
Short term timing differences	(423)	(406)
	<u>164</u>	<u>143</u>

The amounts provided represent the total liability.

14 Called up share capital

	2001 £000	2000 £000
<i>Authorised, allotted, called up and fully paid</i>		
50,000 deferred shares of £1 each	50	50
100 Bearer shares of 1 pence 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 shareholder's funds

	31 December 2001 £000	31 December 2000 £000
Profit for the period	3,983	4,851
Dividends paid	(4,500)	(3,500)
(Decrease)/increase in equity shareholders' funds	(517)	1,351
Opening equity shareholders' funds	8,337	6,986
Closing equity shareholders' funds	7,820	8,337
Non equity shareholders' funds	50	50
Equity and non equity shareholders' funds	7,870	8,387

16 Capital commitments

	31 December 2001 £000	31 December 2000 £000
Expenditure contracted for	68	254

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 2001.

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.

Merck pension scheme

Total pension costs for the year relating to the Merck scheme were £155,000 (2000: £77,000).

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.

Notes (continued)

18 Pension scheme (continued)

The company has taken advantage of the transitional arrangements of *FRS 17: 'Retirement Benefits'*. In addition as the company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by *FRS 17* the scheme will be accounted for when the accounting standard is fully adopted by the company as if the scheme was a defined contribution scheme.

There were no outstanding or prepaid contributions at 31 December 2001 and 31 December 2000.

Seven Seas Scheme

The Seven Seas scheme is a closed scheme. The latest actuarial valuation of the Seven Seas scheme was as at 31st March 2000.

Pension costs for the year relating to Seven Seas Pension Scheme were £552,000 (2000: £570,000).

At the date of the latest actuarial valuation of the Scheme, the market value of the assets of the Scheme was £15.4 million. These assets were sufficient to cover 109% of the benefits that had accrued to members as at the date of the valuation.

The ongoing contributions of the company are 12.45% of pensionable salary until 2002. A provision of £1,348,000 (2000: £1,307,000) 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 company has taken advantage of the transitional arrangements contained within Financial Reporting Standard 17, the closing balance sheet information being presented below.

The actuarial valuation carried out as at 31 March 2000 was updated at 31 December 2001, for the purposes of Financial Reporting Standard 17, by Bacon and Woodrow. The major assumptions used by the actuary were:

Rate of increase in salaries	4.0%
Rate of increase in pensions payment	2.5%
Discount rate was	6.0%
Inflation assumption	2.5%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

Notes (continued)

18 Pension scheme (continued)

	Value at year end £000	Expected rate of return % p.a.
Equities	11,190	8.0
Property	677	6.0
Fixed interest	3,399	5.0
Cash	664	3.5
Present value of scheme liabilities	(15,150)	
Surplus in the scheme	780	
Related deferred tax liability	(234)	
Net pension asset	546	

The amount of this net pension asset would also be included in the company's profit and loss reserve.

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 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.

On 28 February 2002 a group reconstruction resulted in a change in the company's immediate parent undertaking. Since that date, the immediate parent undertaking has been Merck Consumer Healthcare Limited, a company registered in England and Wales.