

Seven Seas Limited

**Directors' report and financial
statements**

Registered number 351663

31 December 2002



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Company information

Directors

CO Dixon (resigned 22 May 2002)
PJ Shotter (appointed 7 January 2002)
RH Correll (Republic of Ireland)
M Douglas
R Grant
TG Hardman
T Morrison
TM Simpson

Secretary

LP Stringer

Auditors

KPMG LLP
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 2002.

Principal activities and Business review

The directors are satisfied with the results for the year.

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 £3,000,000 has been declared during the year (2001: £4,500,000). This resulted in a surplus for the year of £2,591,000 (2001: deficit £517,000), which has been transferred to reserves.

Directors and directors' interests

The directors of the company are those stated on page 1. All directors served throughout the year, except Mr PJ Shotter who was appointed on 7 January 2002 and Mr CO Dixon who resigned on 22 May 2002.

In accordance with the articles of association, the directors are not required to retire by rotation and offer themselves for re-election.

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 2002 and 31 December 2002.

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:

	31 December 2002 Number	1 January 2002 Number
M Douglas	18	18

According to the register of directors' interests, no rights to subscribe for shares in or debentures of the company or any other group company were granted to any of the directors or their immediate families, or exercised by them, during the financial year, except as indicated over the page.

Directors' report *(continued)*

Options to subscribe for ordinary shares:

	Number of options during the year			
	At start of year	Granted	Exercised	At end of year
R Grant	2,500	4,000	-	6,500
TG Hardman	2,500	4,000	-	6,500
P J Shotter	-	8,000	-	8,000
TM Simpson	2,500	4,000	-	6,500

Options granted at the start of the year 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.

Options granted during the year are at a subscription price of Euro 34.35. Under the rules of the Merck stock option programme options may not be exercised until 15 May 2004 and are then only exercisable if the Merck KGaA share price is at least 30% higher than the option price.

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 agreed with 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 LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

A handwritten signature in black ink, appearing to read 'LP Stringer', with a long horizontal flourish extending to the right.

LP Stringer
Secretary

24 October 2003

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 19.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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.

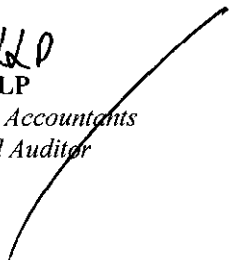
Basis of audit opinion

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 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


KPMG LLP
Chartered Accountants
Registered Auditor

24 October 2003

Profit and loss account
for the year ended 31 December 2002

	<i>Note</i>	2002 £000	2001 £000
Turnover	2	58,987	55,241
Operating costs			
- ordinary		(50,741)	(47,939)
- exceptional		-	(2,074)
Total operating costs	3	(50,741)	(50,013)
Operating profit		8,246	5,228
Interest receivable		191	450
Interest payable	5	(564)	(16)
Profit on ordinary activities before taxation		7,873	5,662
Tax on profit on ordinary activities	6	(2,282)	(1,679)
Profit on ordinary activities after taxation		5,591	3,983
Dividends paid	7	(3,000)	(4,500)
Profit/(loss) for the financial year		2,591	(517)
Retained profit at 1 January		7,820	8,337
Retained profit at 31 December		10,411	7,820

The above operations all relate to continuing activities.

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

The reported profit on ordinary activities before taxation in both the current and the previous financial year was the historical cost profit.

Balance sheet
at 31 December 2002

	<i>Note</i>	2002 £000	2001 £000
Fixed assets			
Tangible assets	8	7,114	7,492
Investments	9	3,679	3,679
		<u>10,793</u>	<u>11,171</u>
Current assets			
Stocks	10	11,060	9,940
Debtors	11	13,035	11,514
Cash at bank and in hand		2,960	4,930
		<u>27,055</u>	<u>26,384</u>
Creditors: amounts falling due within one year	12	<u>(27,073)</u>	<u>(29,521)</u>
Net current liabilities		<u>(18)</u>	<u>(3,137)</u>
Total assets less current liabilities		<u>10,775</u>	<u>8,034</u>
Provisions for liabilities and charges	13	<u>(314)</u>	<u>(164)</u>
Net assets		<u>10,461</u>	<u>7,870</u>
Capital and reserves			
Share capital	14	50	50
Profit and loss account		10,411	7,820
Shareholders' funds	15	<u>10,461</u>	<u>7,870</u>
Equity	15	10,411	7,820
Non equity	15	50	50
		<u>10,461</u>	<u>7,870</u>

These financial statements were approved by the board of directors on 24 October 2003 and were signed on its behalf by:

R Grant

R Grant
Director

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements. During the year the company has adopted FRS 19 Deferred Tax and FRS 18 Accounting policies with no material impact on the results for the current or prior year.

Basis of accounting

The accounts of the company are prepared under the historical cost convention and in accordance with applicable Accounting Standards.

The company is exempt by virtue of s228 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the company as an individual undertaking and not about its group.

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

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

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

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 transitional disclosures in accordance with FRS 17 have been given in note 18.

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.

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.

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

	2002 £000	2001 £000
Increase in finished goods and work in progress	(626)	(817)
Raw materials and consumables	20,038	17,073
Staff costs (note 4)	10,450	9,460
Depreciation	1,413	1,416
Auditors' fees		
- audit services	23	36
- non audit services	37	17
Profit on sale of tangible fixed assets	(33)	(41)
Other operating charges	19,439	20,795
Exceptional charge	-	2,074
	50,741	50,013

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:

	2002 No	2001 No
Production	226	233
Sales and marketing	85	82
Distribution	43	45
Administration	70	67
	<u>424</u>	<u>427</u>

The aggregate payroll costs of these persons were as follows:

	2002 £000	2001 £000
Wages and salaries	9,144	8,144
Social security costs	639	621
Other pension costs	667	695
	<u>10,450</u>	<u>9,460</u>

	2002 £000	2001 £000
Directors' emoluments	1,257	797
Company contributions to money purchase pension schemes	3	26
	<u>1,260</u>	<u>823</u>

The aggregate of emoluments of the highest paid director was £282,000 (2001:£201,000), inclusive of company pension contributions of £15,000 (2001:£41,000). 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 £1,000 and his accrued lump sum was £3,000.

	Number of Directors 2002	2001
Retirement benefits are accruing to the following number of directors under :		
Money purchase schemes	2	3
Defined benefit schemes	7	7
	<u>9</u>	<u>10</u>

Notes (continued)

5 Interest payable

	2002 £000	2001 £000
Interest payable on group finance	564	16

6 Taxation

<i>Analysis of charge in period</i>	2002 £000	2001 £000
<i>UK Corporation tax</i>		
Tax on profit for the period	2,178	2,337
Adjustment in respect of previous periods	(46)	(679)
Total current tax	2,132	1,658
Deferred tax:		
Origination & reversal of timing differences (note 13)	150	21
Tax on profit on ordinary activities	2,282	1,679

Factors affecting tax charge for period

The current tax for the period is lower than the standard rate of corporation tax as explained below:

	2002 £000	2001 £000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	7,873	5,662
Tax at 30% on ordinary activities (2001: 30%)	2,362	1,699
<i>Effects of:</i>		
Exceptional impairment charges		622
Expenses not deductible for tax purposes	5	24
Capital allowances in excess of depreciation	24	(8)
Other short term timing differences	(213)	-
Adjustments in respect of previous periods	2,178 (46)	2,337 (679)
Current tax charge (see above)	2,132	1,658

7 Dividends paid

	2002 £000	2001 £000
Equity dividend paid - £30,000 (2001: £45,000) per share	3,000	4,500

Notes (continued)

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 2001	413	2,735	11,634	4,134	18,916
Additions	-	58	492	535	1,085
Disposals	-	-	(2)	(324)	(326)
At 31 December 2002	413	2,793	12,124	4,345	19,675
Depreciation					
At 31 December 2001	103	939	7,840	2,542	11,424
Charge for the period	14	91	658	650	1,413
Disposals	-	-	(2)	(274)	(276)
At 31 December 2002	117	1,030	8,496	2,918	12,561
Net book value					
At 31 December 2002	296	1,763	3,628	1,427	7,114
At 31 December 2001	310	1,796	3,794	1,592	7,492

9 Investments

	31 December 2002 £000	31 December 2001 £000
Shares in subsidiary undertakings:		
Cost at 31 December	3,679	5,753
Impairment charge	-	(2,074)
At 31 December 2002	3,679	3,679

The company owns the whole of the ordinary 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, whose principal activity is the manufacture and marketing of healthcare products for animal consumption, these companies and their subsidiary undertakings did not trade during the year. All the companies are registered in England and Wales except Seven Seas (Ireland) Limited, which is incorporated in the Republic of Ireland.

Notes *(continued)*

10 Stocks

	2002 £000	2001 £000
Raw materials	2,021	1,527
Work in progress	3,803	3,238
Finished goods	5,236	5,175
	<u>11,060</u>	<u>9,940</u>

11 Debtors

	31 December 2002 £000	31 December 2001 £000
Trade debtors	11,638	10,748
Amounts owed by group companies	297	481
Other debtors	828	78
Prepayments and accrued income	272	207
	<u>13,035</u>	<u>11,514</u>

12 Creditors: amounts falling due within one year

	31 December 2002 £000	31 December 2001 £000
Trade creditors	5,618	6,652
Amounts owed to fellow group undertakings	15,627	17,644
Corporation tax	980	1,530
Other taxation and social security	2,975	2,126
Accruals and deferred income	1,873	1,569
	<u>27,073</u>	<u>29,521</u>

Notes (continued)

13 Provisions for liabilities and charges

	31 December 2002 £000	31 December 2001 £000
Deferred taxation	314	164

The movements in provisions during the year are detailed below:

	Deferred tax £000
Provision at 31 December 2001	164
Charged in the year	150
Provision at 31 December 2002	314

Deferred taxation is in respect of timing differences arising from:

	2002 £000	2001 £000
Excess of capital allowances over depreciation	523	587
Short term timing differences	(209)	(423)
	314	164

14 Called up share capital

	2002 £000	2001 £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	-	-

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 2002 £000	31 December 2001 £000
Profit for the period	5,591	3,983
Dividends paid	(3,000)	(4,500)
Increase/(decrease) in equity shareholders' funds	2,591	(517)
Opening equity shareholders' funds	7,820	8,337
Closing equity shareholders' funds	10,411	7,820
Non equity shareholders' funds	50	50
Equity and non equity shareholders' funds	<u>10,461</u>	<u>7,870</u>

16 Capital commitments

	31 December 2002 £000	31 December 2001 £000
Expenditure contracted for	145	68

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 2002.

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 £286,000 (2001: £155,000).

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 2002 and 31 December 2001.

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 £970,000 (2001: £552,000).

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 December 2002. A provision of £832,000 (2001: £1,348,000) 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 2002, for the purposes of Financial Reporting Standard 17, by Bacon and Woodrow. The major assumptions used by the actuary were:

	2002	2001
Rate of increase in salaries	3.8%	4.0%
Rate of increase in pensions payment	2.5%	2.5%
Discount rate was	5.6%	6.0%
Inflation assumption	2.3%	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.

Notes (continued)

18 Pension scheme (continued)

Scheme assets

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:

	Long term rate of return 2002	Value at 2002 £m	Long term rate of return 2001	Value at 2001 £m
Equities	8.5%	10.5	8.0%	11.3
Property	5.5%	0.4	6.0%	0.7
Government bonds	4.5%	2.6	5.0%	3.4
Cash	4.0%	0.5	3.5%	0.5
Total market value of scheme assets		14.0		15.9
Present value of scheme liabilities		(18.1)		(15.1)
(Deficit)/surplus in the scheme – pension (liability)/asset		(4.1)		0.8
Related deferred tax asset/(liability)		1.2		(0.2)
Net pension (liability)/asset		(2.9)		0.6

The amount of this net pension asset would impact on the company's profit and loss reserve.

Movement in surplus during the year

	2002 £m
Surplus in scheme at beginning of year	0.8
Current service cost	(0.98)
Contributions paid	1.11
Past service cost	(0.30)
Other finance income/cost	0.25
Actuarial loss	(4.98)
(Deficit) in the scheme at end of year	(4.1)

If FRS 17 had been fully adopted in these financial statements the pension costs for defined benefit schemes would have been:

Analysis of other pension costs charged in arriving at operating profit

	2002 £m
Current service cost	0.98
Past service cost	0.30
Total operating charge	1.28

Notes (continued)

18 Pension scheme (continued)

Analysis of amounts included in other finance income

	2002 £m
Expected return on pension scheme assets	(1.15)
Interest on pension scheme liabilities	0.90
Net return	(0.25)

Analysis of amount recognised in statement of total recognised gains and losses

	2002 £m
Actual return less expected return on scheme assets	(3.99)
Experience gains and losses arising on scheme liabilities	(0.16)
Changes in assumptions underlying the present value of scheme liabilities	(0.83)
Actuarial gain loss recognised in statement of total recognised gains and losses	(4.98)
Percentage of present value of year end scheme liabilities	27%

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.