

Seven Seas Limited

**Directors' report and financial
statements**

Registered number 351663

31 December 2003



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Company information

Directors

PJ Shotter
RH Correll (Republic of Ireland)
M Douglas
R Grant
TG Hardman
T Morrison
TM Simpson

Secretary

N G Fraser

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 2003.

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 7. No dividend has been declared during the year (2002: £3,000,000). This resulted in a surplus for the year of £5,397,000 (2002: surplus £2,591,000), 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.

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 2003 and 31 December 2003.

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 2003 Number	1 January 2003 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	(1)	2,500	-	-	2,500
	(2)	4,000	-	-	4,000
TG Hardman	(1)	2,500	-	-	2,500
	(2)	4,000	-	-	4,000
P J Shotter	(2)	8,000	-	-	8,000
T M Simpson	(1)	2,500	-	-	2,500
	(2)	4,000	-	-	4,000

1) Options granted at a subscription price of Euro 37.41. Under the rules of the Merck stock option programme options are only exercisable if the Merck KGaA share price is at least 30% higher than the option price.

2) Options granted 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.

Directors' report *(continued)*

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.

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



N G Fraser
Secretary

22 September 2004

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 7 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 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP
KPMG LLP
Chartered Accountants
Registered Auditor

22 September 2004

Profit and loss account
for the year ended 31 December 2003

	<i>Note</i>	2003 £000	2002 £000
Turnover	<i>2</i>	60,422	58,987
Total operating costs	<i>3</i>	(52,529)	(50,741)
Operating profit		7,893	8,246
Interest receivable		138	191
Interest payable	<i>5</i>	(282)	(564)
Profit on ordinary activities before taxation		7,749	7,873
Tax on profit on ordinary activities	<i>6</i>	(2,352)	(2,282)
Profit on ordinary activities after taxation		5,397	5,591
Dividends paid	<i>7</i>	-	(3,000)
Profit for the financial year		5,397	2,591
Retained profit at 1 January		10,411	7,820
Retained profit at 31 December		15,808	10,411

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 2003

	<i>Note</i>	2003	2002
		£000	£000
Fixed assets			
Tangible assets	8	7,051	7,114
Investments	9	3,659	3,679
		<u>10,710</u>	<u>10,793</u>
Current assets			
Stocks	10	11,123	11,060
Debtors	11	12,926	13,035
Cash at bank and in hand		3,529	2,960
		<u>27,578</u>	<u>27,055</u>
Creditors: amounts falling due within one year	12	<u>(21,826)</u>	<u>(27,073)</u>
Net current assets/(liabilities)		<u>5,752</u>	<u>(18)</u>
Total assets less current liabilities		<u>16,462</u>	<u>10,775</u>
Provisions for liabilities and charges	13	<u>(604)</u>	<u>(314)</u>
Net assets		<u>15,858</u>	<u>10,461</u>
Capital and reserves			
Share capital	14	50	50
Profit and loss account		15,808	10,411
Shareholders' funds	15	<u>15,858</u>	<u>10,461</u>
Equity	15	<u>15,808</u>	<u>10,411</u>
Non equity	15	<u>50</u>	<u>50</u>
		<u>15,858</u>	<u>10,461</u>

These financial statements were approved by the board of directors on 22 September 2004 and were signed on its behalf by:



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.

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

	2003 £000	2002 £000
Increase in finished goods and work in progress	163	(626)
Raw materials and consumables	20,302	20,038
Staff costs (note 4)	10,416	10,450
Depreciation	1,321	1,413
Auditors' fees		
- audit services	35	23
- non audit services	25	37
Profit on sale of tangible fixed assets	(62)	(33)
Other operating charges	20,329	19,439
	52,529	50,741

Notes (continued)

4. Directors and employees

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

	2003 No	2002 No
Production	219	226
Sales and marketing	72	85
Distribution	43	43
Administration	73	70
	<u>407</u>	<u>424</u>

The aggregate payroll costs of these persons were as follows:

	2003 £000	2002 £000
Wages and salaries	9,144	9,178
Social security costs	715	639
Other pension costs	557	633
	<u>10,416</u>	<u>10,450</u>

	2003 £000	2002 £000
Directors' emoluments	1,095	1,257
Company contributions to money purchase pension schemes	26	3
	<u>1,121</u>	<u>1,260</u>

The aggregate of emoluments of the highest paid director was £292,000 (2002:£282,000), inclusive of company pension contributions of £12,000 (2002:£14,000). 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 £3,300 and his accrued lump sum was £5,000.

	Number of Directors	
	2003	2002
Retirement benefits are accruing to the following number of directors under :		
Money purchase schemes	3	2
Defined benefit schemes	7	7
	<u>10</u>	<u>9</u>

Notes (continued)

5. Interest payable

	2003 £000	2002 £000
Interest payable on group finance	280	564
Other Interest payable	2	-
	<u>282</u>	<u>564</u>

6. Taxation

<i>Analysis of charge in year</i>	2003 £000	2002 £000
<i>UK Corporation tax</i>		
Tax on profit for the year	2,127	2,178
Adjustment in respect of previous years	(65)	(46)
	<u>2,062</u>	<u>2,132</u>
Total current tax	2,062	2,132
Deferred tax:		
Origination & reversal of timing differences (note 13)	290	150
	<u>2,352</u>	<u>2,282</u>
Tax on profit on ordinary activities	2,352	2,282

Factors affecting tax charge for year

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

<i>Current tax reconciliation</i>	2003 £000	2002 £000
Profit on ordinary activities before tax	7,749	7,873
	<u>7,749</u>	<u>7,873</u>
Tax at 30% on ordinary activities (2002: 30%)	2,325	2,362
<i>Effects of:</i>		
Expenses not deductible for tax purposes	8	5
Capital allowances in excess of depreciation	(18)	24
Other short term timing differences	(188)	(213)
	<u>2,127</u>	<u>2,178</u>
Adjustments in respect of previous year	(65)	(46)
	<u>2,062</u>	<u>2,132</u>
Current tax charge (see above)	2,062	2,132

Notes (continued)

7. Dividends paid

	2003 £000	2002 £000
Equity dividend paid - nil (2002: £30,000) per share	-	3,000

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 2002	413	2,793	12,124	4,345	19,675
Additions	-	-	1,043	270	1,313
Disposals	-	-	(60)	(422)	(482)
At 31 December 2003	413	2,793	13,107	4,193	20,506
Depreciation					
At 31 December 2002	117	1,030	8,496	2,918	12,561
Charge for the period	13	93	612	602	1,320
Disposals	-	-	(54)	(372)	(426)
At 31 December 2003	130	1,123	9,054	3,148	13,455
Net book value					
At 31 December 2003	283	1,670	4,053	1,045	7,051
At 31 December 2002	296	1,763	3,628	1,427	7,114

9. Investments

	31 December 2003 £000	31 December 2002 £000
Shares in subsidiary undertakings:		
Cost at 1 January	3,679	3,679
Disposal	(20)	-
At 31 December	3,659	3,679

Notes (continued)

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. During the year the company sold the whole of the share capital of Gilberts Health Foods Limited to a fellow subsidiary undertaking at book value.

10. Stocks

	2003 £000	2002 £000
Raw materials	2,247	2,021
Work in progress	3,673	3,803
Finished goods	5,203	5,236
	<u>11,123</u>	<u>11,060</u>

11. Debtors

	2003 £000	2002 £000
Trade debtors	11,285	11,638
Amounts owed by group companies	745	297
Other debtors	481	828
Prepayments and accrued income	415	272
	<u>12,926</u>	<u>13,035</u>

12. Creditors: amounts falling due within one year

	2003 £000	2002 £000
Trade creditors	5,004	5,618
Amounts owed to fellow group undertakings	11,904	15,627
Corporation tax	1,196	980
Other taxation and social security	2,059	2,975
Accruals and deferred income	1,663	1,873
	<u>21,826</u>	<u>27,073</u>

Notes (continued)

13. Provisions for liabilities and charges

	31 December 2003 £000	31 December 2002 £000
Deferred taxation	604	314

The movements in provisions during the year are detailed below:

	Deferred tax £000
Provision at 31 December 2002	314
Charged in the year	290
Provision at 31 December 2003	604

Deferred taxation is in respect of timing differences arising from:

	2003 £000	2002 £000
Excess of capital allowances over depreciation	525	523
Short term timing differences	79	(209)
	604	314

14. Called up share capital

	2003 £000	2002 £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

	2003 £000	2002 £000
Profit for the period	5,397	5,591
Dividends paid	-	(3,000)
Increase in equity shareholders' funds	5,397	2,591
Opening equity shareholders' funds	10,411	7,820
Closing equity shareholders' funds	15,808	10,411
Non equity shareholders' funds	50	50
Equity and non equity shareholders' funds	15,858	10,461

16. Capital commitments

	2003 £000	2002 £000
Expenditure contracted for	18	145

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 2003.

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 £57,000 (2002: £91,000).

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 2001 shows that the market value of the assets of the scheme was £103.5 million. These assets were sufficient to cover 101% 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 2003 and 31 December 2002.

Seven Seas Scheme

The Seven Seas scheme is a closed scheme. The latest actuarial valuation of the Seven Seas scheme was as at 31 March 2003.

Pension costs for the year relating to Seven Seas Pension Scheme were £500,000 (2002: 542,000).

At the date of the latest actuarial valuation of the Scheme, the market value of the assets of the Scheme was £13.4 million. These assets were sufficient to cover 95% of the benefits that had accrued to members as at the date of the valuation.

The ongoing contributions of the company are 31.0% of pensionable salary. A provision of £95,000 (2002: £832,000) 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 2003 was updated at 31 December 2003, for the purposes of Financial Reporting Standard 17, by Bacon and Woodrow. The major assumptions used by the actuary were:

	2003	2002
Rate of increase in salaries	3.8%	3.8%
Rate of increase in pensions payment	2.9%	2.5%
Discount rate was	5.6%	5.6%
Inflation assumption	2.8%	2.3%

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 2003	Value at 2003 £m	Long term rate of return 2002	Value at 2002 £m
Equities	8.8%	13.4	8.5%	10.5
Property	5.5%	0.4	5.5%	0.4
Government bonds	4.8%	1.8	4.5%	2.6
Cash	3.8%	1.7	4.0%	0.5
Total market value of scheme assets		17.3		14.0
Present value of scheme liabilities		(21.5)		(18.1)
(Deficit) in the scheme – pension (liability)		(4.2)		(4.1)
Related deferred tax asset		1.2		1.2
Net pension (liability)		(3.0)		(2.9)

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

Movement in surplus during the year

	2003 £m
Surplus in scheme at beginning of year	(4.1)
Current service cost	(1.0)
Contributions paid	1.1
Past service cost	-
Other finance income/cost	0.1
Actuarial loss	(0.3)
Deficit in the scheme at end of year	(4.2)

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

	2003 £m
Current service cost	1.0
Past service cost	-
Total operating charge	1.0

Notes (continued)

18 Pension scheme (continued)

Analysis of amounts included in other finance income

	2003 £m
Expected return on pension scheme assets	(1.1)
Interest on pension scheme liabilities	1.0
Net return	(0.1)

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

	2003 £m
Actual return less expected return on scheme assets	1.4
Experience gains and losses arising on scheme liabilities	(1.7)
Changes in assumptions underlying the present value of scheme liabilities	-
Actuarial loss recognised in statement of total recognised gains and losses	(0.3)
Percentage of present value of year end scheme liabilities	1.4%

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.