Merck Chemicals Limited

Directors' report and financial statements

Registered number 660457

31 December 2006

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2006

Principal activities

The principal activities of the company during the year were the sale of speciality chemicals and the provision of research and developments services

Business Performance and Development

Total turnover reduced by 3 0% over 2005 as a result of the disposal of the Electronic Chemicals business Turnover for the continuing operations grew by 10 2% The operating result for the year was affected by the cost of implementing new systems and by the cost of relocating the warehousing and head office Significant additional contributions paid into the Group's defined benefit pension scheme also reduced operating profitability The underlying trading result was positive

The company relocated its head office from Poole to Nottingham during the year and brought its warehousing and distribution operation within the same premises On 1 January 2007 the trading operations of the company merged with those of Merck Biosciences Ltd These changes present the company with the opportunity to strengthen its management, improve efficiency and to grow the business

Risks and Uncertainties

The management undertake a constant and proactive review of the risks facing the company, and formally report on these at Group level twice a year The risks considered include contractual risk, risk to property and security, risk to employees and the public, business continuity, security of systems and data All risks are managed to a minimum level and no significant risks, financial or otherwise, which fall outside the usual risks faced by a business in this industry, have been identified

Key Performance Indicators

The key measures of financial performance are turnover, gross profit margin, return on sales and return on capital employed These are as follows

	2006	2005
	£000	£000
Turnover	8,539	8,804
Gross profit margin	25 9%	24 0%
(Gross profit expressed as a percentage of turnover)		
Return on sales	(18 1)%	0 9%
(Operating result expressed as a percentage of turnover)		
Return on capital employed	(8 5)%	3 4%
(Operating result expressed as a percentage of net assets employed)		

In addition to these financial indicators the company monitors other key performance indicators including staff statistics, freight and shipping statistics, and customer service levels

Results and dividends

The loss for the year after tax amounted to £1,049,000 *(2005 £478,000 profit)* The directors do not recommend payment of a dividend *(2005 £nil)*

Fixed assets

The movements in fixed assets are shown in note 9 to the financial statements In the opinion of the directors the value of the company's properties does not materially differ from that at which they are shown in the balance sheet

Directors' report *(continued)*

Directors and directors' interests

The directors holding office during the year were as follows

Mr S Burgess	(resigned 31 March 2006)
Mr JO Diaz Lelevier	(appointed 1 August 2006)
Mr J Dove	
Mr W Galinat	(appointed 1 August 2006, resigned 20 February 2008)
Mr U Heider	(resigned 31 July 2006)
Mr J Krause-Harder	(appointed 1 January 2006)
Mr J Szebel	(resigned 21 November 2005)
Mr K Reinhard Bischoff	(appointed 20 February 2008)

No director had any interest in the shares of the company at the beginning or end of the year nor have they had any interest other than in the ordinary course of business in contracts or arrangements entered into by the company during the year

Political or charitable donations

No contributions to political organisations were made during the year *(2005 £nil)*

Charitable donations totalled £250 *(2005 £250)*

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

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

J. Krause Harder

J Krause-Harder
Director

17 March 2008

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its 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

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Independent auditors' report to the members of Merck Chemicals Limited

We have audited the financial statements of Merck Chemicals Limited for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet and the related notes These financial statements have been prepared under the accounting policies set out therein

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' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 3

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, 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 other transactions is not disclosed

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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

Independent auditors' report to the members of Merck Chemicals Limited *(continued)*

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

KPMG LLP
KPMG LLP
Chartered Accountants
Registered Auditor

17 March 2008

Profit and loss account
for the year ended 31 December 2006

	Notes	2006 £000	2005 £000
Turnover	2	**8,539**	8,804
Cost of sales		**(6,328)**	(6,686)
Gross profit		**2,211**	2,118
Operating costs		**(3,923)**	(3 774)
Other operating income		**167**	1,838
Operating (loss)/profit	3	**(1,545)**	83
Profit on sale of discontinued operation		**-**	339
Interest receivable and similar income	6	**12**	20
Interest payable and similar charges	7	**(326)**	(294)
Loss/(profit) on ordinary activities before taxation		**(1,859)**	148
Taxation	8	**810**	330
(Loss)/profit on ordinary activities after taxation and retained profit for the year		**(1,049)**	478
Retained profit brought forward		**1,715**	1,237
Retained profit carried forward		**666**	1,715

There are no recognised gains or losses other than the results stated above

There are no material difference between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historical cost equivalents

The results for the current and prior year all relate to continuing activities

Balance sheet
at 31 December 2006

	Note	2006 £000	2005 £000
Fixed assets			
Tangible assets	*9*	**5,778**	5,925
Investments	*10*	**16,712**	-
Current assets			
Stocks	*11*	**1,090**	1,451
Debtors	*12*	**4,012**	4,307
Cash at bank and in hand		**842**	1,067
		5,944	6,825
Creditors. amounts falling due within one year	*13*	**(8,766)**	(8,660)
Net current liabilities		**(2,822)**	(1,836)
Total assets less current liabilities		**19,668**	4,090
Provisions for liabilities and charges	*14*	**(1,590)**	(1,675)
Net assets		**18,078**	2,415
Capital and reserves			
Equity			
Share capital	*15*	**3,250**	650
Profit and loss account	*16*	**666**	1,715
Other reserves		**14,112**	-
		18,028	2,365
Non-equity			
Share capital	*15*	**50**	50
Shareholders' funds		**18,078**	2,415

These financial statements were approved by the board of directors on 17 March 2008 and were signed on its behalf by

J. Krause-Harder

J Krause-Harder
Director

Notes

(forming part of the financial statements)

1 Accounting policies

The financial statements have been prepared under the historical cost convention and in accordance with applicable Accounting Standards

The company is exempt from the requirement of Financial Reporting Standard No 1 (revised) to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary undertaking and its ultimate parent undertaking includes the company in its own published consolidated financial statements

Depreciation of tangible fixed assets

Fixed assets are stated at cost and depreciation over their estimated useful lives on a straight line basis, the principal rates used being

Leasehold property	-	over period of lease
Plant and machinery	-	between 10% and 20% per annum

Stocks and work in progress

Stocks are valued at the lower of cost and net realisable value after making due allowance for any obsolete or slow moving items

Foreign currencies

Assets, liabilities, revenues and costs denominated in foreign currencies are recorded at the rates of exchange ruling at the dates of the transaction, except where specific forward contracts exist in respect of these amounts, when the contract rate is used Monetary assets and liabilities at the balance sheet date are translated at year end rates of exchange except where specific forward contracts exist in respect of these amounts, when the contract rate is used Gains and losses on translation are included in the profit and loss account

Research and development

All revenue expenditure on research and development is written off in the profit and loss account in the year in which it is incurred

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 Deferred tax assets are recognised to the extent that they are considered to be recoverable

Pension scheme

The company participates in a funded defined benefit scheme, operated by a subsidiary of Merck KGaA, to which the company and members make contributions The pension costs charged against the profit and loss account are based on an actual method and actuarial assumptions designed to spread the cost of pensions over the working lives of employees who are pension scheme members, in a way that seeks to ensure that the regular pension cost represents a substantially level percentage of current expected future pensionable earnings Variations from regular cost are spread over the average remaining service lives of current employees in the pension scheme

Notes *(continued)*

1 Accounting policies *(continued)*

Related party disclosures

As the company is wholly owned by Merck KGaA, it has taken advantage of the exemption in Financial reporting Standard No 8 and has, therefore, not disclosed transactions or balances with entities which form part of the group headed by Merck KGaA The consolidated financial statements of Merck KGaA, within which this company is included, can be obtained from the address given in note 22

2 Turnover

Turnover, all originating in the UK, represents the invoiced value of goods and services supplied by the Company, and is exclusive of VAT

Analysis of turnover by destination

	2006	2005
	£000	£000
United Kingdom	**8,538**	8 782
Exports	**1**	22

3 Operating profit

The operating profit is stated after charging

	2006	2005
	£000	£000
Research and development (see below)	**7,300**	7 445
Auditors remuneration		
- audit	**21**	16
- other services	**3**	39
Hire of plant and machinery under operating leases	**275**	193
Leasehold property rent	**387**	176
Depreciation of tangible fixed assets (note 9)	**727**	682

Substantially all the cost of research and development activity is recharged to group companies

4 Directors and employees

	2006	2005
	£000	£000
Staff costs during the year		
Salaries and wages	**3,395**	5 498
Social security costs	**309**	352
Other pension costs (see note 17)	**1,544**	692
	5,248	6 542

Notes *(continued)*

5 Number of employees

The average number of persons employed during the year, including directors, was as follows

	2006 Number	2005 Number
Research and development	**67**	74
Distribution	**14**	15
Administration	**4**	9
	85	98

6 Interest receivable and similar income

	2006 £000	2005 £000
Bank deposits	**4**	1
Other	**8**	19
	12	20

7 Interest payable and similar charges

	2006 £000	2005 £000
On loans from group undertakings, repayable within five years	**314**	280
Other	**12**	14
	326	294

8 Taxation

	2006 £000	2005 £000
Analysis of (credit)/charge in year		
UK Corporation tax		
Current tax on profits for the year	**(725)**	(274)
Adjustments in respect of previous periods	**-**	-
Total current tax	**(725)**	(274)
Deferred tax (note 13)		
Reversal of timing differences	**(85)**	(56)
Adjustments in respect of previous periods	**-**	-
Total current tax	**(810)**	(330)

Notes *(continued)*

8 Taxation *(continued)*

Factors affecting the tax charge for the current year

The current tax charge for the year is lower *(2005 lower)* than the standard rate of corporation tax in the UK (30%, *2005 30%*) The differences are explained below

	2006 **£000**	2005 £000
Current tax reconciliation		
Profit on ordinary activities before tax	**(1,859)**	(364)
Current tax at 30% *(2005 30%)*	**(558)**	(109)
Effects of		
Expenses not deductible for tax purposes	**10**	11
Additional tax deduction on expenditure	**(264)**	(232)
Net differences between depreciation and capital allowances for the year	**85**	56
Movement in short term timing differences	**2**	-
Adjustments in respect of previous periods	**1**	-
Total current tax (credit)/charge (see above)	**(725)**	(274)

9 Tangible fixed assets

	Leasehold properties £000	**Plant and machinery £000**	**Assets under course of construction £000**	**Total £000**
Cost				
At beginning of year	4,420	4,828	104	9,352
Additions	295	205	94	594
Transfers	43	61	(104)	-
Disposals	-	(57)	-	(57)
At end of year	4,758	5,037	94	9,889
Depreciation				
At beginning of year	751	2,676	-	3,427
Charge for year	149	578	-	727
Disposals	-	(43)	-	(43)
At end of year	900	3,211	-	4,111
Net book value				
At 31 December 2006	**3,858**	**1,826**	**94**	**5,778**
At 31December 2005	3,669	2,152	104	5,925

Notes *(continued)*

9 Tangible fixed assets *(continued)*

The net book value of land and buildings is made up as follows

	2006 £000	2005 £000
Short leaseholds with less than 50 years to run as of the balance sheet date	**84**	51
Long leaseholds	**3,774**	3,618
	3,858	3,669

10 Investments

During the year the company purchased the entire share capital of a fellow group company, Merck Biosciences UK Limited, at a cost of £16,712,000

11 Stocks

	2006 £000	2005 £000
Finished goods	**1,090**	1,451

12 Debtors

	2006 £000	2005 £000
Trade debtors	**2,004**	1,724
Amounts owed by group undertakings	**-**	1,282
Other debtors	**1,755**	1,088
Prepayments and accrued income	**253**	213
	4,012	4,307

13 Creditors: amounts falling due within one year

	2006 £000	2005 £000
Trade creditors	**243**	609
Amounts owed to group undertakings	**5,477**	5,263
Taxation and social security	**230**	-
Accruals and deferred income	**2,816**	2,397
	8,766	8,660

Notes *(continued)*

14 Provisions for liabilities and charges

	Deferred tax £000
At beginning of year	1,675
Transfer to profit and loss account (note 8)	(85)
At 31 December 2006	1,590

The elements of deferred tax are as follows

	2006 £000
Differences between depreciation and capital allowances	**1,590**

15 Share capital

	2006 £000	2005 £000
Authorised, allotted, called up and fully paid		
Equity share capital		
3,250 ordinary shares (*2005 650,000*) of £1 each	**3,250**	650
Non-equity share capital		
50,000 non-cumulative preferences shares (*2005 50,000*) of £1 each	**50**	50

The preference shares have no voting rights On a winding up, the surplus assets of the company, remaining after payment of its other liabilities, will be used to repay the capital of the holders of the preference shares and ordinary shares in that order

16 Reserves

	Profit and loss account £000
At beginning of year	1,715
Retained profit for the year	(1,049)
At 31 December 2006	666

Notes *(continued)*

17 Reconciliation of movements in equity shareholders' funds

	Share capital £000	Share premium £000	Profit and loss £000	Total £000
Opening shareholders' funds	700	-	1,715	2,415
Movement	2,600	14,112	(1,049)	15,663
Closing shareholders' funds	**3,300**	**14,112**	**666**	**18,078**

18 Pension scheme

The total pension cost for the year ended 31 December 2006 was £1,544,000 *(2005 £692,000)*

The pension cost is assessed in accordance with the advice of a professional qualified actuary using the projected unit method The most significant actuarial assumptions were a 6 0% annual rate of return on investments, 4 4% annual increase in pay levels and a 3 4% annual increase in present and future pensions

The assets for the Merck Pension Scheme are held in separate trustee-administered funds

The Company is a member of a pension scheme providing benefits based on final pensionable pay Because the Company is unable to identify its hare of the schemes assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 'Retirement Benefits' the scheme will be accounted for by the Company when the accounting standard is fully adopted by the Company as if the scheme was a defined contribution scheme

A full valuation of the Merck Pension Scheme was carried out for funding purposes as at 31 December 2004 It was updated in an approximate way to 31 December 2006 and the update was based on the following key assumption

Inflation	3 1% pa
Salary increases	4 1 pa
Pension increases	3 4% pa (on benefits earned before 1 July 2006)
Pension increases	3 1% pa (on benefits earned after 1 July 2006)
Discount rate	4 9% pa

The update revealed a market value of assets £120 1 million and a value of liabilities of £150 4 million The revealed deficit of £30 3 million has no direct impact on the company, but the company contributions being paid reflect the £30 7 million deficit revealed by the funding valuation as at 31 December 2004

19 Capital commitments

No provision has been made in these financial statements for the following capital expenditure

	2006 £000	2005 £000
Contracted for	**69**	20

Notes *(continued)*

20 Financial commitments

	Land and buildings		Plant and equipment	
	2006	2005	**2006**	2005
	£000	£000	**£000**	£000
Payments due in respect of leases expiring				
Within one year	**-**	-	12	22
Between two and five years	**70**	99	152	90
After five years	**35**	35	-	-
	105	134	**164**	112

The company and certain fellow subsidiaries are jointly and severally liable under a group registration for VAT The liabilities of the other members of the VAT group were

	2006	2005
	£000	£000
VAT	**1,595**	977

21 Remuneration of directors

	2006	2005
	£000	£000
Directors' emoluments	**420**	249

The emoluments of the highest paid director were £138,000 *(2005 £112,000)* He is a member of a defined benefit scheme, under which his accrued pension at the year end was £9,000 *(2005 £9,000)*

	Number of directors	
Defined benefits are accruing to the following number of directors under	**2006**	2005
Defined benefit schemes	**2**	2

22 Ultimate parent undertaking

The company's ultimate parent undertaking is Merck KGaA, a company registered in Germany This company is 73 8% owned by E Merck, a general partnership formed pursuant to the laws of Germany, with the remaining equity being quoted on the Frankfurt stock exchange The only group in which the results of the company are consolidated is that headed by Merck KGaA The consolidated financial statements of this group are available to the public and may be obtained from Frankfurter Strasse 250, D-64293 Darmstadt, Germany