



Registration  
Number  
928555

BOOTS THE CHEMISTS LIMITED

DIRECTORS' REPORT

and

FINANCIAL STATEMENTS

YEAR ENDED 31ST MARCH 2004



**Registration**  
**No: 928555**

**BOOTS THE CHEMISTS LIMITED**

**Board of Directors**

Year ended 31st March 2004

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**Directors:**

A D Emson  
D A Kneale  
A Gourlay  
C R Grimsdell

**Secretary:**

Sonia Fennell

**Registered Office:**

Nottingham, NG2 3AA

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# BOOTS THE CHEMISTS LIMITED

## Directors' Report

Year ended 31st March 2004

The directors present their annual report together with the audited financial statements for the year ended 31st March 2004.

### Principal activities

The company's principal activities during the year were dispensing and retail chemists.

### Strategy

Boots The Chemists (BTC) customer appeal is founded on the trust and heritage of the Boots brand, broad choice of own brand and proprietary products, innovative new product development and expert service and advice. BTC focused on the health and beauty markets and are confident of growing with them. We will maintain our leadership position through innovation, continued development of our store portfolio and clear value positioning supported by tight control of operating costs.

### Trading

BTC sales grew by £65m, improving consistently through every quarter and enjoying a second excellent Christmas.

Renewed focus on the core healthcare business resulted in sales growth, achieving the best performance since 2000. The relaunched prescription collection service helped to drive a dispensing increase of 6.2% although this resulted in a slight loss in market share.

Beauty and toiletries grew with strong gains in cosmetics and fragrance both in terms of sales and market share.

Sales in other categories including baby, food and photo performed well and the food business was helped by the relaunch of the shapers brand.

The benefit of the Boots advantage card as a major sales driver was further improved by the addition of over 1 million more customers in the year.

### Outlook

We will continue to drive growth through investment in stores, people, pricing and new product development. To partially offset this spending we have major programmes to improve operating efficiency.

### Profit, dividends and retentions

Details of profit, dividends and retentions are shown in the profit and loss account on page 6.

# BOOTS THE CHEMISTS LIMITED

## Directors' Report

Year ended 31st March 2004

### Payment to suppliers

The group is a signatory of the Better Payment Practice Code and BTC complies with the terms of this code. The company agrees appropriate terms and conditions for its transactions with suppliers (by means ranging from standard written terms to individually negotiated contracts) and that payment should be made in accordance with those terms and conditions, provided that the supplier has also complied with them.

The number of day's purchases outstanding at 31st March 2004 was 24 days.

### Staff

The company continues to involve staff in the decision-making process and communicates regularly with staff during the year. Their involvement in the company's performance is encouraged through employee bonus and share schemes. The involvement extends to the board of Boots Pensions Ltd; on which there are three group employee representatives as well as a retired employee.

The company's aim for all members of staff and applicants for employment is to fit the qualifications, aptitude and ability of each individual to the appropriate job, and to provide equal opportunity, regardless of sex, religion or ethnic origin. The company does all that is practicable to meet its responsibility towards the employment and training of disabled people. Where an employee becomes disabled, every effort is made to provide continuity of employment in the same job or a suitable alternative.

### Directors

The details of directors in office on 31st March 2004 are shown on page 1. There have been the following changes to the board of directors during the year and up to the date of signing the financial statements:

<u>Appointments</u>	<u>Date</u>
A Gourlay	3 November 2003
C R Grimsdell	31 October 2003
<u>Resignations</u>	<u>Date</u>
J S Sinclair	7 November 2003
P G Matthews	19 September 2003

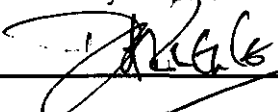
### Remuneration of directors and directors' shareholding

Details of the remuneration and shareholdings of the directors are included in notes 19 and 20 on pages 20 to 23.

### Auditors

A resolution to re-appoint the auditor KPMG Audit Pic will be proposed at the annual general meeting.

By order of the board

  
\_\_\_\_\_  
Director

20 MAY 2004

\_\_\_\_\_  
Date

**BOOTS THE CHEMISTS LIMITED**  
**Directors' responsibilities statement**  
Year ended 31st March 2004

Company law requires 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 and loss of the company for that period. In preparing these financial statements, 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, 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 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 group and to prevent and detect fraud and other irregularities.

**BOOTS THE CHEMISTS LIMITED**

**Independent Auditor's Report**

Year ended 31st March 2004

**Independent Auditor's Report to the members of Boots The Chemists Limited.**

We have audited the financial statements on pages 6 to 24.

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 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.

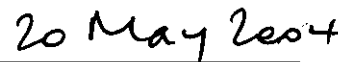
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity 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 affairs of the company as at 31st March 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**KPMG Audit Plc**  
Chartered Accountants  
Registered Auditor  
Birmingham



Date

**BOOTS THE CHEMISTS LIMITED**

**Profit and Loss Account**

Year ended 31st March 2004

	Notes	2004 £m	* Restated 2003 £m
<b>Turnover</b>	2	<b>4,270.1</b>	4,204.8
Cost of sales		<b>(2,798.5)</b>	(2,762.4)
<b>Gross profit</b>		<b>1,471.6</b>	1,442.4
Operating costs	3	<b>(1,174.9)</b>	(1,123.9)
<b>Operating profit</b>		<b>296.7</b>	318.5
Loss on disposal of fixed assets		<b>(7.4)</b>	(2.8)
Income from shares in subsidiary undertakings		<b>31.6</b>	71.4
Release/(charge) for provisions against investments		<b>8.9</b>	(8.9)
<b>Profit on ordinary activities before interest</b>		<b>329.8</b>	378.2
Net interest (payable)/receivable	4	<b>(0.1)</b>	8.1
<b>Profit on ordinary activities before taxation</b>		<b>329.7</b>	386.3
Tax on profit on ordinary activities	5	<b>(87.6)</b>	(91.2)
<b>Profit on ordinary activities after taxation and profit for the financial year attributable to shareholders</b>		<b>242.1</b>	295.1
Dividends	6	<b>(217.0)</b>	(297.5)
<b>Retained profit/(loss) for the financial year</b>		<b>25.1</b>	(2.4)

The result for the year is wholly attributable to the continuing operations of the company. In addition, Boots The Chemists acquired a number of pharmacy businesses during the year. The impact of these acquisitions on the company's operating profit is not material.

\*Restated on adoption of FRS 5 application note G: Revenue Recognition (note 1).

**BOOTS THE CHEMISTS LIMITED****Other Primary Statements**

Year ended 31st March 2004

<b>Statement of total recognised gains and losses</b>	<b>2004 £m</b>	<b>* Restated 2003 £m</b>
<b>Profit for the financial year attributed to shareholders</b>	<b>242.1</b>	<b>295.1</b>
Profit on disposal of business (note 16)	53.6	
<b>Total recognised gains and losses for the year</b>	<b>295.7</b>	
<b>Prior year adjustment</b>	<b>(20.9)</b>	
<b>Total gains and losses recognised since last annual report (note 1)</b>	<b>274.8</b>	
<b>Reconciliation of movements in shareholders funds</b>		
	<b>2004 £m</b>	<b>* Restated 2003 £m</b>
<b>Total recognised gains and losses for the year</b>	<b>295.7</b>	<b>295.1</b>
Dividends	(217.0)	(297.5)
<b>Net increase/(decrease) in shareholders' funds</b>	<b>78.7</b>	<b>(2.4)</b>
Opening shareholders' funds (originally £710.1m before deducting prior year adjustment of £20.9m)	689.2	691.6
<b>Closing shareholders' funds</b>	<b>767.9</b>	<b>689.2</b>

\*Restated on adoption of FRS 5 application note G: Revenue Recognition (note 1).



**BOOTS THE CHEMISTS LIMITED**

**Balance Sheet**

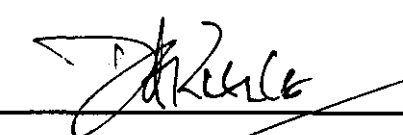
At 31st March 2004

	Notes	2004 £m	* Restated 2003 £m
<b>Fixed assets</b>			
Intangible assets	7	9.3	9.6
Tangible assets	8	516.2	502.6
Investments	9	302.0	221.2
		<u>827.5</u>	<u>733.4</u>
<b>Current assets</b>			
Stocks	10	412.3	368.0
Debtors falling due within one year	11	260.5	224.4
Debtors falling due after more than one year	11	272.9	46.9
		533.4	271.3
Cash at bank and in hand		39.4	131.0
		<u>985.1</u>	<u>770.3</u>
Creditors: Amounts falling due within one year	12	(629.3)	(469.7)
		<u>355.8</u>	<u>300.6</u>
<b>Net current assets</b>			
		1,183.3	1,034.0
<b>Total assets less current liabilities</b>			
Creditors: Amounts falling due after more than one year	13	(347.6)	(284.2)
Provisions for liabilities and charges	14	(67.8)	(60.6)
		<u>767.9</u>	<u>689.2</u>
<b>Net assets</b>			
<b>Capital and reserves</b>			
Called up share capital	15,16	709.7	709.7
Other reserves	16	53.6	-
Profit and loss account	16	4.6	(20.5)
		<u>767.9</u>	<u>689.2</u>
<b>Equity shareholders' funds</b>			

\*Restated on adoption of FRS 5 application note G: Revenue Recognition (note 1).

**20 MAY 2004**

The financial statements were approved by the Board of Directors on  
and are signed on its behalf by: **D A KNEALE**



Director

**BOOTS THE CHEMISTS LIMITED**  
**Notes to the Financial Statements**  
Year ended 31st March 2004

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**1. Accounting policies**

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The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements except as noted below.

**Basis of preparation**

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules.

Under FRS 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.

During the year, new requirements on revenue recognition, in the form of an Application Note to FRS 5 'Reporting the Substance of Transactions', were issued and became effective for this year's Reports and Accounts. The effects of this Application Note are shown in Note 24.

**Foreign currencies**

Overseas investments are stated at the rate of exchange in force at the date the investment was made. Assets and liabilities in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Profits and losses arising from changes in exchange rates in the normal course of trading are taken to the profit and loss account.

**Fixed assets and depreciation**

Depreciation of tangible fixed assets is provided to write-off the cost or valuation, less residual value, by equal instalments over their expected economic useful lives as follows:

- Freehold land and assets in the course of construction – not depreciated.
- Freehold and long leasehold buildings, including shops with physical lives of more than 50 years - depreciated to their estimated residual values over their economic useful lives of not more than 50 years.
- Short leasehold properties - remaining period of lease when less than 50 years.
- Plant, equipment, fixtures and fittings and motor vehicles - depreciated over 3 to 20 years according to the estimated life of the asset.

Any impairment in the value of such fixed assets is recognised immediately.

**Stock**

Stock is valued at the lower of cost and net realisable value. Cost comprises purchase cost of goods and costs related to distribution.

**Pensions**

The company participates in a group wide pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company.

**BOOTS THE CHEMISTS LIMITED**  
**Notes to the Financial Statements**  
Year ended 31st March 2004

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**1. Accounting policies** (continued)

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Contributions to the scheme are charged to the profit and loss account so as to spread the cost of the pensions over the employees' working lives with the company.

Since 1st October 2000, new employees have been offered membership of Boots Stakeholder Pension Plan, a defined contribution pension arrangement. After five years membership of this plan, employees have the opportunity to join the Boots Pension Scheme.

**Leases**

The rental costs of properties and other assets acquired under operating leases are charged to the profit and loss account on a straight line basis over the life of the lease.

Benefits received as an incentive to sign a lease, whatever form they may take, are credited to the profit and loss account on a straight line basis over the lease term or, if shorter than the full lease term, over the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate.

The cost of assets held under finance leases is included under tangible fixed assets and depreciation is provided in accordance with the policy for the class of asset concerned. The corresponding obligations under these leases are shown as creditors. The finance charge element of rentals is charged to the profit and loss account to produce, or approximate to, a constant periodic rate of charge on the remaining balance of the outstanding obligations.

**Deferred taxation**

Deferred tax is provided in respect of all timing differences that have originated, but not reversed, by the balance sheet date. Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws substantively enacted at the balance sheet date. This is in accordance with FRS 19.

No provision is made for any potential liability to corporation tax on capital gains arising on disposals of assets where any liability is expected to be deferred indefinitely.

**Goodwill and intangible assets**

Goodwill on acquisitions, comprises the excess of the cost of investment over the fair value of the net assets acquired. Fair values are attributed to the identifiable assets and liabilities that existed at the date of acquisition, reflecting their condition at that date.

Goodwill arising on acquisitions prior to 1st April 1998 has been set off against reserves. For subsequent acquisitions goodwill is recognised within fixed assets in the year in which it arises and amortised on a straight line basis over its useful economic life of 20 years. The carrying value of goodwill is reviewed annually and any impairment in value charged to the profit and loss account.

**BOOTS THE CHEMISTS LIMITED**  
**Notes to the Financial Statements**  
Year ended 31st March 2004

**2. Turnover**

Turnover comprises retail sales to external customers (excluding value added tax and other sales taxes). The Company's principal activities during the year were dispensing and retail chemists. All turnover is sourced and is destined for the United Kingdom and Republic of Ireland.

<b>3. Operating costs</b>	2004 £m	* Restated 2003 £m
Selling, distribution and branch costs	1,046.9	1,024.6
Administrative expenses	128.0	99.3
<b>Operating costs</b>	<b>1,174.9</b>	<b>1,123.9</b>
<b>Operating profit shown on page 6 is after charging</b>		
Operating lease rentals		
- Property rents	209.1	201.1
- Computer and plant hire	1.5	1.3
Depreciation of tangible fixed assets		
- Owned assets	68.5	71.9
- Assets held under finance leases	1.1	0.9
Amortisation of goodwill	0.6	0.6
Remuneration of auditors – Audit fees	0.2	0.1
QUEST	-	0.1

\*Restated on adoption of FRS 5 application note G: Revenue Recognition (note 1).

<b>4. Net interest (payable)/receivable</b>	2004 £m	2003 £m
<b>Interest receivable and similar income:</b>		
From group undertaking	3.6	13.8
Other interest	0.2	0.4
	<b>3.8</b>	<b>14.2</b>
<b>Interest payable and similar charges:</b>		
Bank loans and overdrafts wholly repayable within 5 years	(0.2)	(0.5)
Finance leases	(0.2)	(0.2)
To group undertaking	(3.5)	(4.3)
Exchange losses on foreign currency borrowings	-	(1.1)
	<b>(3.9)</b>	<b>(6.1)</b>
	<b>(0.1)</b>	<b>8.1</b>

**BOOTS THE CHEMISTS LIMITED**  
**Notes to the Financial Statements**  
Year ended 31st March 2004

<b>5. Tax on profit on ordinary activities</b>	<b>2004</b>	<b>2003</b>
	<b>£m</b>	<b>£m</b>
<b>The tax charge on the profit for the year consists of:</b>		
<b>Current taxation</b>		
UK corporation tax	82.2	108.4
Adjustment in respect of prior years	-	(4.2)
<b>Total current tax</b>	<b>82.2</b>	<b>104.2</b>
<b>Deferred tax</b>		
Origination and reversal of timing differences	5.4	(13.0)
<b>Tax on profits on ordinary activities</b>	<b>87.6</b>	<b>91.2</b>

**Reconciliation of current tax charge**

The standard rate of tax for the year, based on the UK standard rate of corporation tax, is 30% (2003:30%). The actual tax charge for the current and previous year is below the standard rate for the reasons set out in the following reconciliation.

	<b>2004</b>	<b>2003</b>
	<b>£m</b>	<b>£m</b>
Profit on ordinary activities before tax	329.8	386.3
UK standard rate of corporation tax at 30%	99.0	115.9
Factors affecting charge for the year:		
Changes in accelerated capital allowances	0.2	9.0
Changes in pension fund prepayment	-	4.9
Other timing differences	(9.1)	(0.2)
Disallowable expenses and non taxable income	4.2	(2.4)
Dividends from subsidiary companies	(9.6)	(21.4)
Provision against investments in and current accounts with subsidiary undertakings	(2.7)	2.7
Exceptional items	0.2	(0.1)
Prior year adjustments	-	(4.2)
<b>Total current tax charge for the year</b>	<b>82.2</b>	<b>104.2</b>

**BOOTS THE CHEMISTS LIMITED**  
**Notes to the Financial Statements**  
Year ended 31st March 2004

<b>6. Dividends</b>	<b>2004</b>	<b>2003</b>
	<b>£m</b>	<b>£m</b>
Final proposed	<u><b>217.0</b></u>	<u><b>297.5</b></u>

<b>7. Intangible fixed assets</b>	<b>Purchased goodwill</b>
	<b>£m</b>
<b>Cost</b>	
At 1st April 2003	11.6
Acquisitions	0.3
<b>At 31st March 2004</b>	<u><b>11.9</b></u>
<b>Amortisation</b>	
At 1st April 2003	2.0
Charge for the year	0.6
<b>At 31st March 2004</b>	<u><b>2.6</b></u>
Net book value at 31st March 2003	9.6
<b>Net book value at 31st March 2004</b>	<u><b>9.3</b></u>

**BOOTS THE CHEMISTS LIMITED**  
**Notes to the Financial Statements**  
Year ended 31st March 2004

<b>8. Tangible fixed assets</b>	Land and <i>buildings</i> £m	Plant and <i>machinery</i> £m	Fixtures, fittings, tools and <i>equipment</i> £m	Payments on account and assets in course of <i>construction</i> £m	Total £m
<b>Cost</b>					
At 1st April 2003	19.8	62.4	914.2	6.3	1,002.7
Additions	1.0	2.4	71.6	33.2	108.2
Disposals	(0.1)	(2.2)	(36.4)	-	(38.7)
Reclassifications and transfers	(1.2)	(0.9)	(10.3)	(6.3)	(18.7)
<b>At 31st March 2004</b>	<b>19.5</b>	<b>61.7</b>	<b>939.1</b>	<b>33.2</b>	<b>1,053.5</b>
<b>Depreciation</b>					
At 1st April 2003	7.8	35.5	456.8	-	500.1
Charge for the year	0.9	6.5	62.2	-	69.6
Disposals	-	(1.5)	(24.0)	-	(25.5)
Reclassifications and transfers	(0.4)	(0.4)	(6.1)	-	(6.9)
<b>At 31st March 2004</b>	<b>8.3</b>	<b>40.1</b>	<b>488.9</b>	<b>-</b>	<b>537.3</b>
Net book value at 31st March 2003	12.0	26.9	457.4	6.3	502.6
<b>Net book value at 31st March 2004</b>	<b>11.2</b>	<b>21.6</b>	<b>450.2</b>	<b>33.2</b>	<b>516.2</b>

	2004 £m	2003 £m
<b>Net book value of land and buildings comprises:</b>		
Short leasehold	<u>11.2</u>	<u>12.0</u>

The cost of plant and machinery includes £4.2m (2003: £4.5m) in respect of assets held under finance leases on which accumulated depreciation at the end of the year was £1.4m (2003: £1.3m) and for which the depreciation charge for the year was £1.1m (2003: £0.9m).

**BOOTS THE CHEMISTS LIMITED**  
**Notes to the Financial Statements**  
Year ended 31st March 2004

<b>9. Fixed asset investments</b>	Shares in subsidiary undertakings £m	Loans to Subsidiary Undertakings £m	Total £m
<b>Cost</b>			
At 1st April 2003	134.7	106.7	241.4
Additions	71.3	3.6	74.9
Currency adjustments	-	(3.0)	(3.0)
<b>At 31st March 2004</b>	<b>206.0</b>	<b>107.3</b>	<b>313.3</b>
<b>Provision</b>			
At 1st April 2003	11.3	8.9	20.2
Provided in the year	-	(8.9)	(8.9)
<b>At 31st March 2004</b>	<b>11.3</b>	<b>-</b>	<b>11.3</b>
Net book value at 31st March 2003	123.4	97.8	221.2
<b>Net book value at 31st March 2004</b>	<b>194.7</b>	<b>107.3</b>	<b>302.0</b>

	Incorporated in	Ordinary Shares Percentage owned %	Principal activities	Last financial year ended
Boots Stores Ltd	Great Britain*	100	Management	31st March 2004
Hammond and Hammond Ltd	Great Britain*	100	Inactive	31st March 2004
Seawade Ltd	Great Britain*	100	Inactive	31st March 2004
SCM Ltd	Republic of Ireland	100	Holding company	31st March 2004
Metcalfe – Proud Ltd	Great Britain*	100	Inactive	31st March 2004
Connors Holdings Ltd	Northern Ireland	100	Holding company	31st March 2004
Boots Dentalcare Ltd	Great Britain*	100	Dentistry	31st March 2004
A B Arnott Ltd	Great Britain*	100	Inactive	31st March 2004
Newpast Ltd	Great Britain*	100	Inactive	31st March 2004
Boots The Chemists (Jersey) Ltd	Jersey	100	Dispensing Chemist	31st March 2004
The Centre for the Study of Complementary Medicine Ltd	Great Britain*	100	Inactive	31st March 2004
Boots Card Handling Ltd	Great Britain*	100	Card handling services to customers of Boots	31st March 2004
Bootholdland Ltd	Great Britain*	100	Health Centre Pharmacy	31st May 2003
Boots Retail (Ireland) Ltd	Republic of Ireland	100	Dispensing chemist	31st March 2004
Boots Health & Beauty Ltd	Great Britain*	100	Health & Beauty services	31st March 2004
Prouds Lane Pharmacy Ltd	Great Britain*	100	Inactive	31st March 2004
Canton and Riverside Centre Ltd	Great Britain*	100	Inactive	31st March 2004
Portland Ceramics Ltd	Great Britain*	100	Dentistry	31st March 2004
St Allans Properties (One) Limited	Great Britain*	100	Inactive	31st March 2004
St Allans Properties (Two) Limited	Great Britain*	100	Inactive	31st March 2004
Dovepharm Limited	Great Britain*	100	Healthcare	31st December 2004



**BOOTS THE CHEMISTS LIMITED**  
**Notes to the Financial Statements**  
Year ended 31st March 2004

**9. Fixed asset investments** (continued)

	Incorporated In	Preference Shares Percentage Owned %	Principal Activities	Last financial year ended
Boots Investments Ltd	Jersey	100	Investments	31st March 2004

\*Registered in England and Wales

In the opinion of the directors the value of the company's investment in subsidiary undertakings is not less than the amount shown on page 15.

Group financial statements have not been prepared as permitted by section 228 (2) of the Companies Act 1985.

<b>10. Stocks</b>	2004 £m	2003 £m
Finished goods and goods for resale	<u>412.3</u>	<u>368.0</u>

<b>11. Debtors</b>	2004 £m	2003 £m
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**Falling due within one year:**

Trade debtors	176.4	168.6
Amounts owed by group undertakings	36.1	14.2
Other debtors	4.0	4.8
Prepayments and accrued income	44.0	36.8
	<u>260.5</u>	<u>224.4</u>

**Falling due after more than one year:**

Amounts owed by group undertakings	227.9	1.9
Other debtors	45.0	45.0
	<u>272.9</u>	<u>46.9</u>

<b>Total debtors</b>	<u>533.4</u>	<u>271.3</u>
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**BOOTS THE CHEMISTS LIMITED**  
**Notes to the Financial Statements**  
Year ended 31st March 2004

<b>12. Creditors: Amounts falling due within one year</b>	2004 £m	* Restated 2003 £m
Bank overdraft	114.7	0.2
Trade creditors	35.1	8.9
Amounts due to group undertakings	87.4	0.2
Corporation tax	34.7	37.6
Other taxation and social security	30.0	39.9
Other creditors	28.6	28.9
Accruals and deferred income	80.8	55.3
Finance lease obligations	1.0	1.2
Proposed dividend	217.0	297.5
	<b>629.3</b>	<b>469.7</b>

\*Restated on adoption of FRS 5 application note G: Revenue Recognition (note 1).

<b>13. Creditors: Amounts falling due after more than one year</b>	2004 £m	2003 £m
Debenture loans	0.5	0.5
Amounts due to group undertakings	341.4	278.2
Accruals and deferred income	3.9	3.5
Finance lease obligations	1.8	2.0
	<b>347.6</b>	<b>284.2</b>

The amounts owed to group undertakings are not interest bearing and no specific repayment terms exist.

**BOOTS THE CHEMISTS LIMITED**  
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<b>14. Provisions for liabilities and charges</b>	Vacant property provisions £m	* Deferred Taxation £m	* Restated Total £m
At 1st April 2003 as previously stated	4.6	64.9	69.5
Prior year adjustment	-	(8.9)	(8.9)
At 1st April 2003 as restated	4.6	56.0	60.6
Profit and loss account	3.8	5.4	9.2
Utilised	(0.6)	-	(0.6)
Reversed	(0.7)	-	(0.7)
Transfers	-	(0.7)	(0.7)
<b>At 31st March 2004</b>	<b>7.1</b>	<b>60.7</b>	<b>67.8</b>

The vacant property provision represents recognition of the net costs arising from vacant properties and sub-let properties, the exact timing of utilisation of this provision will vary according to the individual properties concerned.

\*Restated on adoption of FRS 5 application note G: Revenue Recognition (note 1).

	2004 £m	* Restated 2003 £m
<b>Analysis of deferred tax liability:</b>		
Accelerated capital allowances	46.7	51.1
Pension prepayment	13.4	13.4
Other timing differences	0.6	(8.5)
	<u>60.7</u>	<u>56.0</u>

**Factors affecting future charges**

Capital losses of £8.9m (2003: £9.7m) are available for offset against certain future chargeable gains arising in this company or across the group. These have not been recognised in the accounts.

\*Restated on adoption of FRS 5 application note G: Revenue Recognition (note 1).

<b>15. Called up share capital</b>	2004 £m	2003 £m
<b>709,750,000 Ordinary shares of £1 each:</b>		
Authorised, allotted, called up and fully paid	<u>709.7</u>	<u>709.7</u>

**BOOTS THE CHEMISTS LIMITED**  
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<b>16. Share capital and reserves</b>	Called up Share Capital £m	Other reserves £m	* Restated Profit and Loss Account £m	* Restated Total £m
At 1st April 2003 as previously stated	709.7	-	0.4	710.1
Prior year adjustment	-	-	(20.9)	(20.9)
At 1st April 2003 as restated	709.7	-	(20.5)	689.2
Movements in the year	-	53.6	25.1	78.7
<b>At 31st March 2004</b>	<b>709.7</b>	<b>53.6</b>	<b>4.6</b>	<b>767.9</b>

\* Restated on adoption of FRS 5 application note G: Revenue Recognition (note 1).

During the year the Company disposed of Boots Ireland trade and assets to a fellow group subsidiary for £70.6m of share consideration. This resulted in a profit on disposal of £53.6m. This is included in other reserves and is currently not considered available for distribution.

**17. Commitments**

a) Future capital expenditure approved by the directors and not provided for in these financial statements is as follows:

	2004 £m	2003 £m
Contracts placed	<u>24.2</u>	<u>10.9</u>

b) Annual commitments under operating leases at 31st March 2004 are as follows:

	Land and Buildings £m	Other Assets £m
Expiring:		
Within one year	3.7	-
Within two to five years	12.0	0.8
Over five years	185.2	-
	<u>200.9</u>	<u>0.8</u>

Annual commitments under operating leases at 31st March 2003 are as follows:

	Land and Buildings £m	Other Assets £m
Expiring:		
Within one year	9.9	-
Within two to five years	11.5	0.8
Over five years	171.9	-
	<u>193.3</u>	<u>0.8</u>

**BOOTS THE CHEMISTS LIMITED**  
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<b>18. Staff numbers and cost</b>	<b>2004</b>	<b>2003</b>
	<b>Number</b>	<b>Number</b>
The average number of full time equivalents employed by the company during the year was:	<u>30,235</u>	<u>31,089</u>
	<b>2004</b>	<b>2003</b>
	<b>£m</b>	<b>£m</b>
The aggregated payroll cost was as follows:		
Wages and salaries	<b>487.3</b>	479.5
Social security costs	<b>28.1</b>	25.5
Other pension costs	<b>15.4</b>	16.1
	<u><b>530.8</b></u>	<u>521.1</u>

<b>19. Directors' remuneration</b>	<b>2004</b>	<b>2003</b>
	<b>£m</b>	<b>£m</b>
i) Directors' emoluments for services to the company	1.1	1.3
ii) Compensation for loss of office	0.4	-
iii) Monies received from long term bonus schemes	0.1	-
iv) (a) The remuneration of the highest paid director, excluding pension contributions	0.4	0.3
(b) (i) Increase in accrued pension during the year, including inflation	-	-
(ii) Accumulated total accrued pension at year end	0.1	-

The highest paid director received but did not exercise share options during the year.

	<b>2004</b>	<b>2003</b>
v) Number of directors who are members of defined benefit pension schemes	4	4
vi) Number of directors who had exercised options during the year (who are not directors of the ultimate holding company)	-	1

**BOOTS THE CHEMISTS LIMITED**

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**20. Directors' shareholdings and share options**

The beneficial interests of the directors, who are not directors of the ultimate holding company, and their families in the share capital of the ultimate holding company at 31st March 2004 are shown below. No director holds any loan capital in the ultimate holding company. The share interests of the directors of the ultimate holding company are included within those group financial statements.

**Ordinary shares under executive and SAYE options**

	Ordinary shares 2004	Ordinary shares 2003	Ordinary shares under options 2004	Average option price 2004	Exercised during the year	Exercise price	Market Price at Date of Exercise	Granted during the year	Lapsed during the year	Ordinary shares under options 2003
A D Emson	6,087	5,727	35,029	622p	-	-	-	12,917	1,632	23,744
A Gourlay	2,522	2,522 *	24,333	611p	-	-	-	-	-	24,333 *
C R Grimsdell	166	1,666 *	22,079	612p	-	-	-	-	-	22,079*
D A Kneale	855	855	66,655	619p	-	-	-	37,128	-	29,527

\* At date of appointment

The market price of the ultimate holding company's shares at 31st March 2004 was 619.5p. The range of market prices during the year was 524.5p to 752.5p. Prices shown for options exercised during the year represent the weighted average of prices. The average option price for 2004 represents the weighted average price for options outstanding at 31st March 2004.

Under a savings related scheme options may be granted to qualifying employees to subscribe for ordinary shares at approximately 80% of market price.

Under the executive share option plan 2001 certain directors were granted options to subscribe for ordinary shares in Boots Group PLC. These options become exercisable 3 years after grant if the performance target is met. If the target is not met, the performance period is extended but if the target is still not met by the end of the sixth year of the performance period, the options lapse. Once the performance target is met, such options are exercisable up to 10 years from grant at option prices of between 594p and 635p.

**BOOTS THE CHEMISTS LIMITED**

**Notes to the Financial Statements**

Year ended 31st March 2004

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**20. Directors' shareholdings and share options (continued)**

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The table below shows the number of shares in Boots Group PLC (the ultimate holding company) over which certain directors have been granted conditional rights under the Long Term Bonus scheme. Under the Long Term Bonus scheme, at the end of a four year performance cycle, (three years for the schemes commenced in 2002) half the bonus earned will be paid in cash and half is paid as a share award.

**Ordinary shares conditional awards**

	31st March 2004	Exercised during the year	Lapsed during the year	Granted during the year	31st March 2003
<b>Long Term Bonus scheme</b>					
A D Emson	-	2,659	-	-	2,659
C R Grimsdell	-	280	-	280	- *

\* At date of appointment

The table below shows the number of shares in Boots Group PLC (the ultimate holding company) that have been conditionally awarded to certain directors under the All Employee Share Ownership Plan. The employee will normally become unconditionally entitled to these shares after remaining employed for three years from the date the award is made.

**Free Shares  
awards under the All Employee Share Ownership Plan 2000**

	31st March 2004	Awarded during the year	31st March 2003
A D Emson	171**	57	114
A Gourlay	121**	-	121 *
C R Grimsdell	121**	40	81 *
D A Kneale	40	40	-

\* At date of appointment

\*\* 42 shares for A Gourlay and C R Grimsdell and 59 Shares for A D Emson became unconditional on 20<sup>th</sup> March 2004

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**20. Directors' shareholdings and share options** (continued)

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As a potential beneficiary, each director is deemed to have an interest in a total of 15,701,287 ordinary shares of the company held by the following employee trusts, namely, Boots ESOP Trust Limited (established to facilitate the operation of the company's executive bonus schemes), Boots (QUEST) Trustee Limited (established in connection with the company's UK all-employee SAYE Share Option Scheme) and Boots Share Plan Trustee Limited (established in connection with the All Employee Share Ownership Plan).

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**21. Pensions**

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The company participates in a funded group wide pension scheme providing benefits based on final pensionable pay, contributions being charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. Since 1st October 2000, new employees have been offered membership of Boots Stakeholder Pension Plan, a defined contribution pension arrangement. After five years' membership of this plan, employees have the opportunity to join Boots Pension Scheme.

Because 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 '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. At 31st March 2004 the scheme had a deficit on an FRS 17 basis of £58m before tax.

Details of the most recent actuarial valuation and FRS 17 disclosures at 31st March 2004 can be found in the financial statements of Boots Group PLC.

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**22. Contingent liability**

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The company has given its bankers the right to set off credit balances on its current accounts against amounts owed by its parent and fellow UK subsidiaries. At 31st March 2004 the contingent liability was nil (2003: £108.5m).



**BOOTS THE CHEMISTS LIMITED**  
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**23. Ultimate holding company**

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The company's immediate holding company (which is also the immediate controlling party) is The Boots Company PLC and its ultimate holding company (which is also the ultimate controlling party) is Boots Group PLC, a company incorporated in Great Britain and registered in England and Wales. The results of the company are included in the group financial statements of Boots Group PLC.

Copies of the group financial statements may be obtained from 1 Thane Road West, Nottingham NG2 3AA.

The company is exempt from disclosing transactions with other group undertakings and investees of the group qualifying as related parties as permitted by paragraph 3 of Financial Reporting Standard 8.

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**24. Prior year restatement**

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**Impact of FRS 5 Changes**

During the year, the Accounting Standards Board issued additional guidance to FRS 5 in the form of Application Note G: Revenue Recognition.

The overall impact on the P&L is to reduce turnover by £2.7m (2003 £1.0m) and operating profit by £0.1m (2003 £0.2m). There is a prior year adjustment of £20.9m to reserves at 31 March 2003 as a result of these changes, an increase of £29.8m to creditors partly offset by the related deferred tax assets of £8.9m shown within provisions for liabilities and charges (see notes 12 and 14). Net assets at 31st March 2004 have been reduced by £20.9m as a result of these changes. Comparatives have been restated.

**Elements Leading to Restatement**

**1. Advantage Card**

In the past when points were issued the company has provided for the cost of goods which are expected to be purchased by customers using those points. This has previously been charged to cost of sales. Application Note G requires the provision to be for the full retail value of the points and for this to be charged to turnover. The impact of this change on sales is a reduction of £0.3m (2003 £0.6m) and an operating profit reduction of £0.1m (2003 £0.2m).

A prior year adjustment of £20.9m has been made.

**2. Other adjustments**

Other adjustments relate to monies received from customers on certain direct debit schemes, certain commissions and changes to gift voucher redemption provisions now brought into line with FRS5. The impact of these changes on sales is a reduction of £2.4m (2003 £0.4m) and there is no impact on operating profit(2003 £nil).

A prior year adjustment of £nil has been made.