Registration
Number
928555

BOOTS UK LIMITED
(Formerly Boots The Chemists Limited)

DIRECTORS' REPORT

and

FINANCIAL STATEMENTS

YEAR ENDED 31ST MARCH 2008

Registration No: 928555

BOOTS UK LIMITED
(formerly Boots The Chemists Limited)

Board of Directors

Year ended 31st March 2008

Directors:
G Chappell
S Duncan
E Fagan
I Filby
P Fussey
A W Gourlay
P Kennerley
R Mehra
S Roberts

Secretary:
D Foster (appointed 5th April 2007)
S Fennell (resigned 5th April 2007)

Registered Office:
Nottingham, NG2 3AA

BOOTS UK LIMITED
(formerly Boots The Chemists Limited)

Directors' Report

Year ended 31st March 2008

The directors present their annual report together with the audited financial statements for the year ended 31st March 2008.

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

On 31st March 2008 the company bought the majority of the trade and assets of Boots.com Direct Limited, Boots Insurance Services Limited, E Moss Limited, Alliance Pharmacy (NI) Limited and The Boots Company PLC. The activities of these companies, which included the marketing and distribution of healthcare and consumer products, the operation of the Boots.com website and various insurance activities, will now be undertaken by Boots UK Limited. The acquisition of E Moss Limited and Alliance Pharmacy (NI) Limited has added 931 pharmacies to the Boots UK Limited chain.

Review of business
Turnover increased by 4.8% to £5,005.1m.

Operating profit before exceptional items increased by 16.0% to £298.0m.

Within operating profit was £85.1m (2007: credit £1.3m) of exceptional costs. The exceptional costs comprised £Nil (2007: credit of £1.3m) for the systems rationalisation and supply chain reconfiguration, £11.1m (2007: £Nil) in relation to the acquisition of Alliance Boots by AB Acquisitions Limited in June 2007 and £74.0m (2007: £Nil) in relation to increased provision for the expected liability on outstanding points in issue on loyalty schemes. This latter item arose following the acquisition of Alliance Boots by AB Acquisitions Limited during the year and the subsequent reassessment by the new group management of the redemption profile of issued points. Operating profit was £212.9m, compared to £258.1m in the previous year.

In the Retail Health category, sales of non-prescription medicines were strong. We continue to develop our differentiated healthcare product offering, including our range of Boots branded healthcare products.

We continued to strengthen our position in the UK Beauty and Toiletries category with sales of our No7 cosmetics and skincare brand growing very significantly year on year, partly as a result of very high demand for our award winning No7 Protect & Perfect Beauty Serum, a successful No7 marketing programme and continuing new product development with a strong pharmaceutical focus. In January 2008 we successfully launched a No7 Protect & Perfect total skincare regime, which includes specially formulated day, night and eye creams. Shortly thereafter we launched No7 For Men, a comprehensive range of men's skincare products.

In the Lifestyle category the nutrition business continues to grow. The seasonal business performed well where we had good seasonal sales and an excellent post Christmas sale. These increases were partially offset by declines in the photographic sub-category, despite a strong performance in digital, and to a lesser extent in electrical and baby

During the year we acquired 35 stores (2007: Nil) in addition to opening a further 15 stores (2007: 31). At 31 March 2008, following the purchase of 943 branches, including 931 pharmacies, from E Moss Limited and Alliance Pharmacy (NI) Limited, the company operated 2,403 retail outlets, of which 2,291 operate a pharmacy.

The Boots Advantage Card loyalty scheme, where customers earn points on purchases for redemption at a later date, is a key element of our offering. At the year end the number of active Boots Advantage Card holders (which we define as members who have used their card at least once in the last 12 months) was 15.4 million, making it one of the largest loyalty schemes in the UK.

There have been no significant events since the balance sheet date which should be considered for a proper understanding of these financial statements.

Principal risks and uncertainties
The company is exposed to currency, credit and interest rate risk. The Group's treasury function manages these risks at a Group level in accordance with Group Treasury Policy including the use of financial instruments for the purpose of managing these risks. Group risks are discussed in the Group's annual review, which does not form part of this report.

Environment
The company recognises the importance of its environmental responsibilities, monitors its impact on the environment and designs and implements policies to reduce any damage that might be caused by the group's activities. The company operates in accordance with group policies, which are described in the group's annual review, which do not form part of this report.

Initiatives designed to minimise the company's impact on the environment include waste recycling, waste minimisation and reducing energy consumption and carbon emissions.

Donations
The company made no political donations during the current or preceding year. The company made £1.5m of charitable donations during the year (2007: £1.5m).

Payment to suppliers
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 company does not follow any code or standard payment practice.

Prior to the purchase of the trade and assets of the companies as noted on page 2, the number of day's purchases outstanding at 31st March 2008 was 21 days (2007: 20 days).

Employees
Details of the number of employees and related costs can be found in note 19 on page 29.

Our aim is to ensure that all our people are informed and engaged with their business. We have a variety of approaches to fulfil this aim including regular face-to-face team briefings, conference calls, magazines, newsletters and a number of intranet sites. Feedback is sought on the effectiveness of our communications and surveys have been instituted to gauge the morale of our people and what is important to them.

It is critical to the success of the company that we continue to nurture the different and diverse talents in our business and we have designed our employment policies to achieve this. We aim to provide equal opportunities, regardless of sex, race, religion or belief, sexual orientation, disability or ethnic origin.

We do all that is practicable to meet our responsibilities towards the employment and training of disabled people. Where one of our people becomes disabled, every effort is made to provide continuity of employment in the same job or a suitable alternative.

Profit and dividends
Details of profit for the year are shown in the profit and loss account on page 9. A dividend of £254m was paid in the year (2007: £49m).

Directors
The details of directors in office on 31st March 2008 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:

Appointments	Date
A Brent	23rd July 2007
G Chappell	23rd July 2007
S Churton	23rd July 2007
S Duncan	23rd July 2007
E Fagan	23rd July 2007
I Filby	23rd July 2007
P Kennerley	23rd July 2007
R Mehra	23rd July 2007
S Roberts	23rd July 2007

Resignations	Date
S Wheway	11th July 2007
P Patel	5th November 2007
A Brent	3rd December 2007
S Churton	3rd December 2007

Remuneration of directors
Details of the remuneration of the directors are included in note 20 on page 29.

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.

BOOTS UK LIMITED
(formerly Boots The Chemists Limited)

Directors' Report

Year ended 31st March 2008

Auditors

Pursuant to a shareholders resolution, the company is not obliged to reappoint its auditors annually and KPMG Audit Plc will therefore continue in office.

By order of the board

PAUL FINLEY

Director

26th January 2009

Date

Directors' Responsibilities Statement

Year ended 31st 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 and applicable law (UK Generally Accepted Accounting Practice).

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.

Independent Auditors' Report

Year ended 31st March 2008

Independent Auditors' Report to the members of Boots UK Limited (formerly Boots The Chemists Limited)

We have audited the financial statements of Boots UK Limited (formerly Boots The Chemists Limited) for the year ended 31st March 2008, which comprise the Profit and Loss Account, the Reconciliation of Movements in Shareholder's Funds, 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 6.

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

Year ended 31st March 2008

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 31st March 2008 and of its profit 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 Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Birmingham

26 January 2009
Date

BOOTS UK LIMITED
(formerly Boots The Chemists Limited)

Profit and Loss Account

Year ended 31st March 2008

	Notes	2008 £m	2007 £m
Turnover	2	**5,005.1**	4,773.6
Cost of sales		**(3,181.0)**	(3,066.7)
Gross profit		**1,824.1**	1,706.9
Operating costs	3	**(1,611.2)**	(1,448.8)
Operating profit		**212.9**	258.1
Profit on disposal of fixed assets		**2.5**	6.7
Income from shares in subsidiary undertakings		**6.5**	6.5
Provisions against investments in subsidiary undertakings	9	**(25.6)**	-
Profit on disposal of investments in subsidiary undertakings		**177.7**	-
Profit on ordinary activities before interest		**374.0**	271.3
Interest receivable	4	**22.4**	23.1
Interest payable	4	**(0.3)**	(22.5)
Profit on ordinary activities before taxation		**396.1**	271.9
Tax on profit on ordinary activities	5	**(39.4)**	(81.0)
Profit on ordinary activities after taxation and profit for the financial year	16	**356.7**	190.9

The profit for the year is wholly attributable to the continuing operations of the company and there have been no recognised gains or losses other than the profit for the year as stated above.

BOOTS UK LIMITED
(formerly Boots The Chemists Limited)

Reconciliation of Movements in Shareholder's Funds

Year ended 31st March 2008

	Notes	2008 £m	2007 £m
Profit for the financial year attributable to shareholders		**356.7**	190.9
Dividends paid	17	**(254.0)**	(49.0)
Share based payments		**9.1**	3.2
Net increase in shareholder's funds		**111.8**	145.1
Opening shareholder's funds		**958.1**	813.0
Closing shareholder's funds		**1,069.9**	958.1

BOOTS UK LIMITED
(formerly Boots The Chemists Limited)

Balance Sheet

At 31st March 2008

	Notes	2008 £m	2007 £m
Fixed assets			
Intangible assets	7	**687.6**	9.8
Tangible assets	8	**843.0**	586.4
Investments	9	**127.3**	199.6
		1,657.9	795.8
Current assets			
Stocks	10	**590.9**	389.4
Debtors falling due within one year	11	**1,292.1**	583.7
Debtors falling due after more than one year	11	**0.6**	0.3
		1,292.7	584.0
Cash at bank and in hand		**89.5**	36.3
		1,973.1	1,009.7
Creditors: Amounts falling due within one year	12	**(2,429.9)**	(726.0)
Net current (liabilities)/assets		**(456.8)**	283.7
Total assets less current liabilities		**1,201.1**	1,079.5
Creditors: Amounts falling due after more than one year	13	**(26.0)**	(8.8)
Provisions for liabilities and charges	14	**(105.2)**	(112.6)
Net assets		**1,069.9**	958.1
Capital and reserves			
Called up share capital	15,16	**709.7**	709.7
Other reserves	16	**53.6**	53.6
Profit and loss account	16	**306.6**	194.8
Shareholder's funds		**1,069.9**	958.1

The financial statements were approved by the Board of Directors on 26th January 2009 and are signed on its behalf by:

P FUSSEY
Director

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 preparation
The financial statements have been prepared in accordance with UK Generally Accepted Accounting Practice, and under the historical cost accounting rules.

Having reviewed the cash flow forecasts up to 31st March 2014, the directors are satisfied that the company will be able to meet its obligations as they fall due despite the deficiency in net current assets at the balance sheet date. On this basis, the directors consider the going concern assumption to be an appropriate basis for these financial statements.

Under FRS 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that Alliance Boots GmbH, a higher parent undertaking, includes the company's cash flows in its own published consolidated financial statements.

The company is exempt under section 228 of the Companies Act 1985 from the requirement to prepare group financial statements and deliver them to the Registrar of Companies. The financial statements therefore present information about the company as an individual undertaking and not about its group. The company is included within the consolidated financial statements of Alliance Boots GmbH, a higher parent undertaking.

Foreign currencies
Overseas investments are stated at the rate of exchange in force at the date the investment was made. Monetary assets and liabilities in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Non-monetary assets and liabilities in foreign currencies are translated at the rate ruling on the date of the transaction. Profits and losses arising from changes in exchange rates are taken to the profit and loss account.

Turnover
Turnover comprises retail sales to external customers (excluding value added tax). Consideration received from customers is only recorded as turnover when the company has completed full performance in respect of that consideration, for non-advantage card transactions this is when the sale is made in the store.

In respect of the Boots loyalty scheme, the Advantage Card, when points are issued to customers the retail value of those points expected to be redeemed is deferred. When the points are used by customers they are recorded as revenue. Sales of gift vouchers are only included in revenue when the vouchers are redeemed.

1. Accounting policies (continued)

Intangible fixed assets
The cost of intangible assets acquired (which are capitalised only if separately identifiable) is not amortised except where the end of the useful economic lives of the acquired intangible asset can be reasonably foreseen. Similar assets created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred. The carrying value of intangible assets is reviewed annually and any impairment in value charged to the profit and loss account.

Pharmacy licences are considered to have an indefinite life and therefore no amortisation is charged.

Goodwill represents the excess of the fair value of consideration paid over the fair value of the identifiable net assets acquired. Goodwill arising on acquisition is capitalised and is carried at cost less accumulated impairment losses. Goodwill is considered to have an indefinite life and therefore no amortisation is charged.

Fixed assets and depreciation
All fixed assets are stated at cost or deemed cost less accumulated depreciation and impairment losses.

Depreciation of property, plant and equipment is provided to write off the cost, less residual value, in equal instalments over their expected useful economic lives as follows:

- Freehold land and assets in the course of construction – not depreciated;
- Freehold and long leasehold buildings – depreciated to their estimated residual values over their useful economic lives of not more than 50 years;
- Plant and machinery – 3 to 10 years; and
- Fixtures, fittings, tools and equipment – 3 to 20 years.

Residual values, remaining useful economic lives and depreciation methods are reviewed annually and adjusted if appropriate.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. Any impairment in the value of fixed assets is recognised immediately.

Investments
Investments are stated at cost less provisions for any impairment in the carrying value of the investment.

1. Accounting policies (continued)

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

Expense arising from share based payments
The fair value of the shares/options granted is charged as an employee expense. The fair value is measured at the grant date and spread over the period during which the employees become unconditionally entitled to the shares/options. The fair value is based on market value. The amount recognised as an expense reflects the estimated number of shares/options that are expected to vest except where forfeiture is only due to 'total share holder return' targets not being achieved.

In accordance with the transitional provisions of FRS20 no expense is recorded in respect of grants made under the above schemes prior to 7th November 2002.

Pensions
The company participates in the Boots Pension Scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company. The company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS17 'Retirement benefits', accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

Additionally, Boots also operates two Stakeholder Pension Plans, which are defined contribution pension arrangements.

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.

Leases, for which the company assumes substantially all of the risks and rewards of ownership, are classified as finance leases. 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.

1. Accounting policies (continued)

Deferred tax
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 FRS19.

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.

Dividends on shares presented within shareholder's funds
Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

2. Turnover

Turnover comprises retail sales to external customers (excluding value added tax).
All turnover originates from UK operations.

By destination of geographical segment	Destination 2008 £m	Destination 2007 £m
UK	**4,888.7**	4,678.1
Rest of Europe	**116.4**	95.5
	5,005.1	4,773.6

3. Operating costs	2008 £m	2007 £m
Selling, distribution and branch costs	**1,497.7**	1,339.5
Administrative expenses	**113.5**	109.3
Operating costs	**1,611.2**	1,448.8
Operating profit shown on page 9 is after charging/(crediting)		
Operating lease rentals		
- Property rents	**245.7**	230.0
- Computer and plant hire	**1.1**	1.4
Depreciation of tangible fixed assets		
- Owned assets	**111.6**	96.2
- Assets held under finance leases	**1.1**	0.9
Remuneration of auditors – Audit fees[1]	**-**	-
Exchange gains and losses	**(1.5)**	(3.6)
Operating exceptionals		
- Supply chain reconfiguration[2]	**-**	(1.3)
- Advantage card provision[3]	**74.0**	-
- Costs in relation to acquisition of Alliance Boots by AB Acquisitions Limited[4]	**11.1**	-

[1] The 2008 audit fee was borne by a fellow group undertaking. The allocation that would have been incurred is £0.2m (2007: £0.3m). Amounts receivable by the company's auditor in respect of services to the company and its associates, other than the audit of the company's financial statements, have not been disclosed as the information is disclosed on a consolidated basis in the consolidated financial statements of Alliance Boots GmbH.

[2] Costs associated with the major supply chain reconfiguration programme announced in 2006.

[3] Increased provision for the expected liability on outstanding points in issue on loyalty schemes arising following the acquisition of Alliance Boots by AB Acquisitions Limited during the year and the subsequent review by the new group management of the application of the group policy on accounting for loyalty schemes.

[4] Costs of settling share scheme obligations, including employer's national insurance contributions, following the acquisition of Alliance Boots by AB Acquisitions Limited on 26th June 2007.

BOOTS UK LIMITED
(formerly Boots The Chemists Limited)

Notes to the Financial Statements

Year ended 31st March 2008

4. Net interest receivable	2008 £m	2007 £m
Interest receivable and similar income:		
From group undertakings	**11.9**	1.1
Bank interest	**10.1**	21.5
Other interest	**0.4**	0.5
	22.4	23.1
Interest payable and similar charges:		
Bank loans and overdrafts wholly repayable within 5 years	**(0.3)**	(0.2)
To group undertakings	**-**	(22.3)
	(0.3)	(22.5)
Net interest receivable	**22.1**	0.6

5. Tax on profit on ordinary activities	2008 £m	2007 £m
The tax charge on the profit for the year comprises:		
Current taxation		
UK corporation tax	**50.3**	84.8
Adjustment in respect of prior years	**(2.1)**	(11.7)
Relief for overseas taxation	**(0.4)**	(0.3)
Total UK current tax	**47.8**	72.8
Overseas taxation	**0.4**	1.2
Total current tax	**48.2**	74.0
Deferred tax		
Origination and reversal of timing differences	**(6.8)**	7.0
Adjustments arising on deferred tax rate change	**(2.0)**	-
Tax on profit on ordinary activities	**39.4**	81.0

5. Tax on profit on ordinary activities (continued)

Reconciliation of current tax charge
The standard rate of tax for the year, based on the UK standard rate of corporation tax, is 30% (2007: 30%). The actual tax charge for the current and prior year is below the standard rate for the reasons set out in the following reconciliation.

	2008 £m	2007 £m
Profit on ordinary activities before tax	**396.1**	271.9
UK standard rate of corporation tax at 30%	**118.8**	81.6
Factors affecting charge for the year:		
Depreciation in excess of capital allowances	**8.9**	5.6
Share scheme adjustments	**2.8**	-
Expenses not deductible for tax purposes	**1.3**	2.6
Non taxable income	**-**	(2.0)
Dividends from subsidiary companies	**(2.0)**	(2.0)
Profit on disposal of fixed assets	**(0.8)**	-
Provisions against investments	**7.7**	-
Profit on disposal of investments	**(53.3)**	-
UK transfer pricing adjustments	**(33.1)**	-
Group tax adjustments	**-**	(1.0)
Prior year adjustments	**(2.1)**	(10.8)
Total current tax charge for the year	**48.2**	74.0

Factors affecting future tax charges:
The standard rate of corporation tax in the UK changed to 28% with effect from 1st April 2008.

6. Acquisitions

On 31st March 2008 the company bought the majority of the trade and assets of Boots.com Direct Limited, Boots Insurance Services Limited, E Moss Limited, Alliance Pharmacy (NI) Limited and The Boots Company PLC. All businesses acquired have been accounted for using the acquisition method of accounting. The consideration for the acquisition of Boots.com Direct Limited from a fellow group undertaking has been based on directors' valuation rather than fair value, though the directors assess the value to have been determined on an arms length basis. Fair value and acquisition information in relation to the acquisitions where trade and assets have been acquired is shown below:

Trade and assets from The Boots Company PLC	Book Value £m	Fair Value £m
Goodwill	-	(9.7)
Tangible fixed assets	204.7	204.7
Stock	106.5	106.5
Debtors	1,723.9	1,723.9
Creditors	(497.1)	(497.1)
Overdraft	(10.8)	(10.8)
Provisions	(15.8)	(15.8)
	1,511.4	1,501.7
Satisfied by:		
Cash		1,501.7

Had this entity been acquired at the start of the year, the effect on profit after tax would have been to increase profit by £450.6m (2007: decrease by £62.7m):

	2008 £m
Turnover	2,230.0
Operating loss	(51.3)
Exceptional items	512.5
Profit on ordinary activities before taxation	446.3
Tax on profit on ordinary activities	4.3
Profit for the financial year	450.6

There were no recognised gains or losses other than the profit for the year as stated above.

6. **Acquisitions** (continued)

Trade and assets from E Moss Limited	Book Value £m	Fair Value £m
Goodwill	13.1	17.2
Pharmacy licences	572.0	572.9
Tangible fixed assets	79.8	79.8
Stock	54.6	54.6
Debtors	133.3	133.3
Creditors	(164.6)	(164.6)
	688.2	693.2
Satisfied by:		
Cash		693.2

Had this entity been acquired at the start of the year, the effect on profit after tax would have been to increase profit by £9.8m (2007: £49.2m):

	2008 £m
Turnover	862.4
Operating profit	28.6
Exceptional items	13.4
Profit on ordinary activities before taxation	8.3
Tax on profit on ordinary activities	1.5
Profit for the financial year	9.8

There were no recognised gains or losses other than the profit for the year as stated above.

6. Acquisitions (continued)

Total acquisitions	Book Value £m	Fair Value £m
Goodwill	13.1	40.9
Pharmacy licences	609.6	633.4
Tangible fixed assets	288.6	288.6
Stock	181.1	181.1
Debtors	1,871.1	1,871.1
Creditors	(714.2)	(714.2)
Overdraft	(22.1)	(22.1)
Provisions	(15.8)	(15.8)
	2,211.4	2,263.0
Satisfied by:		
Cash		2,263.0

The excess of the fair value of consideration paid over the fair value of the identifiable net assets acquired represents goodwill.

Had these entities been acquired at the start of the year, the effect on profit after tax would have been a profit of £468.2m (2007: loss of £5.0m).

7. Intangible fixed assets

	Goodwill £m	Pharmacy licences £m	Total £m
Cost			
At 1st April 2007	-	13.7	13.7
Additions	-	3.5	3.5
From acquired businesses	40.9	633.4	674.3
At 31st March 2008	**40.9**	**650.6**	**691.5**
Amortisation			
At 1st April 2007 and 31st March 2008	**-**	**3.9**	**3.9**
Net book value at 31st March 2007	-	9.8	9.8
Net book value at 31st March 2008	**40.9**	**646.7**	**687.6**

In accordance with FRS10, goodwill and pharmacy licences, which are regarded as having an indefinite useful economic life, are not amortised but are subject to an annual impairment test. The annual impairment test supports the carrying value of the pharmacy licences and therefore there was no impairment charge in the year.

8. Tangible fixed assets

	Land and buildings £m	Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Payments on account and assets in course of construction £m	Total £m
Cost					
At 1st April 2007	29.8	35.3	1,288.3	4.5	1,357.9
Additions	2.1	1.7	-	104.6	108.4
From acquired businesses	29.7	59.5	467.0	12.3	568.5
Disposals	(0.3)	(1.3)	(27.1)	-	(28.7)
Transfers of completed assets	-	0.8	106.0	(106.8)	-
Intra-group transfers	-	(0.3)	(22.6)	-	(22.9)
At 31st March 2008	**61.3**	**95.7**	**1,811.6**	**14.6**	**1,983.2**
Depreciation					
At 1st April 2007	12.1	16.9	742.5	-	771.5
Charge for the year	1.7	3.6	107.4	-	112.7
From acquired businesses	6.3	22.5	251.1	-	279.9
Disposals	-	(0.8)	(26.6)	-	(27.4)
Impairments	-	-	3.5	-	3.5
At 31st March 2008	**20.1**	**42.2**	**1,077.9**	**-**	**1,140.2**
Net book value at 31st March 2007	17.7	18.4	545.8	4.5	586.4
Net book value at 31st March 2008	**41.2**	**53.5**	**733.7**	**14.6**	**843.0**

	2008 £m	2007 £m
Net book value of land and buildings comprises:		
Freehold	**17.6**	-
Long leasehold	**1.4**	-
Short leasehold	**22.2**	17.7
	41.2	17.7

8. Tangible fixed assets (continued)

The cost of plant and machinery includes £7.6m (2007: £4.6m) in respect of assets held under finance leases on which accumulated depreciation at the end of the year was £Nil (2007: £1.4m) and for which the depreciation charge for the year was £1.1m (2007: £0.9m).

9. Fixed asset investments

	Shares in Subsidiary Undertakings £m
Cost	
At 1st April 2007	211.8
Additions	27.6
Disposals	(74.3)
At 31st March 2008	**165.1**
Provision	
At 1st April 2007	12.2
Movements	25.6
At 31st March 2008	**37.8**
Net book value at 31st March 2007	199.6
Net book value at 31st March 2008	**127.3**

The company has the following material investments:

	Incorporated in	Ordinary Shares Percentage owned %	Principal activities	Last financial year ended
Boots Health & Beauty Ltd	Great Britain*	100	Health & Beauty services	31st March 2008

*Registered in England and Wales

	Incorporated In	Preference Shares Percentage Owned %	Principal Activities	Last financial year ended
Boots Investments Ltd	Jersey	100	Investments	31st March 2008

9. Fixed asset investments (continued)

The company has investments in the following subsidiary undertakings acquired during the year:

	Incorporated in	Ordinary Shares Percentage Owned %	Principal activities	Last financial year ended
HF Healthcare Limited	Great Britain*	100	Pharmacy	31st March 2007
E.B. Gale Limited	Great Britain*	100	Pharmacy	31st August 2007
H.V. Briggs Limited	Great Britain*	100	Pharmacy	31st December 2006
J&L&N Forster Limited	Great Britain*	100	Pharmacy	31st December 2006
D.C. Healthcare Limited	Great Britain*	100	Pharmacy	31st May 2007

*Registered in England and Wales

10. Stocks

	2008 £m	2007 £m
Finished goods and goods for resale	**590.9**	389.4

11. Debtors

	2008 £m	2007 £m
Falling due within one year:		
Trade debtors	**360.7**	231.0
Amounts owed by group undertakings	**825.4**	289.1
Other debtors	**14.3**	2.0
Prepayments and accrued income	**91.7**	61.6
	1,292.1	583.7
Falling due after more than one year:		
Other debtors	**0.6**	0.3
Total debtors	**1,292.7**	584.0

12. Creditors: Amounts falling due within one year	2008 £m	2007 £m
Bank loans and overdrafts	**67.1**	-
Trade creditors	**141.9**	29.0
Amounts due to group undertakings	**1,679.8**	486.0
Corporation tax	**25.0**	41.0
Other taxation and social security	**53.9**	32.0
Other creditors	**135.3**	32.2
Accruals and deferred income	**325.9**	105.7
Finance lease obligations	**1.0**	0.1
	2,429.9	726.0

13. Creditors: Amounts falling due after more than one year	2008 £m	2007 £m
Accruals and deferred income	**20.0**	8.7
Finance lease obligations	**6.0**	0.1
	26.0	8.8
Finance leases are repayable:		
Between 2-5 years	**2.3**	0.1
After 5 years	**3.7**	-
	6.0	0.1

14. Provisions for liabilities and charges	Vacant property provisions £m	Refurbishment and reorganisation £m	Termination and closure £m	Deferred Taxation £m	Total £m
At 1st April 2007	5.8	58.4	-	48.4	112.6
Profit and loss account	4.9	-	-	(8.8)	(3.9)
Utilised	(2.0)	(17.3)	-	-	(19.3)
From acquired businesses	3.6	9.1	3.1	-	15.8
At 31st March 2008	**12.3**	**50.2**	**3.1**	**39.6**	**105.2**

14. Provisions for liabilities and charges (continued)

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.

The refurbishment and reorganisation provision relates to store refurbishments and supply chain reorganisations. The majority of these costs are expected to be incurred over the next two years.

The termination and closure provision relates to the costs arising as a result of the Halfords disposal. These costs are expected to be incurred over the next three years.

	2008 £m	2007 £m
Analysis of deferred tax liability:		
Accelerated capital allowances	**53.2**	51.7
Other timing differences	**(13.6)**	(3.6)
Share options	-	0.3
	39.6	48.4

15. Called up share capital

	2008 £m	2007 £m
709,750,000 Ordinary shares of £1 each:		
Authorised, allotted, called up and fully paid	**709.7**	709.7

16. Share capital and reserves

	Called up share capital £m	Other reserves £m	Profit and loss account £m	Total £m
At 1st April 2007	709.7	53.6	194.8	958.1
Profit for the year	-	-	356.7	356.7
Dividends paid	-	-	(254.0)	(254.0)
Share based payments	-	-	9.1	9.1
At 31st March 2008	**709.7**	**53.6**	**306.6**	**1,069.9**

17. Dividends	2008 £m	2007 £m
Amounts recognised as distributions to shareholders in the year:		
Final dividend for year ended 31st March 2007/2006	**254.0**	49.0

18. Commitments

a) Future capital expenditure approved by the directors and not provided for in these financial statements is £31.5m (2007: £34.2m)

b) Annual commitments under operating leases are as follows:	Land and Buildings £m	Other assets £m
At 31st March 2008		
Expiring:		
Within one year	**2.8**	**3.8**
Within two to five years	**40.9**	**13.9**
Over five years	**237.2**	**-**
	280.9	**17.7**
At 31st March 2007		
Expiring:		
Within one year	3.3	-
Within two to five years	24.8	-
Over five years	202.5	-
	230.6	-

19. Staff numbers and cost

	2008 Number	2007 Number
The average number of full time equivalents employed by the company during the year was:	**30,296**	29,459

All of the employees are based in stores.

	2008 £m	2007 £m
The aggregated payroll cost was as follows:		
Wages and salaries	**611.4**	579.6
Social security costs	**40.3**	39.5
Other pension costs	**40.9**	46.9
Share based payments	**12.3**	3.2
	704.9	669.2

20. Directors' remuneration

	2008 £m	2007 £m
i) Directors' emoluments for services to the company	**3.3**	1.7
ii) Compensation for loss of office	**-**	0.2
iii) Monies received from long term bonus schemes	**-**	-
iv) (a) The remuneration of the highest paid director, excluding pension contributions	**0.7**	0.9
(b) (i) Increase in accrued pension during the year, including inflation	**-**	-
(ii) Accumulated total accrued pension at year end	**0.1**	0.1

The highest paid director exercised 114,647 (2007: Nil) share options during the year.

	2008	2007
v) Number of directors who are members of defined benefit pension schemes	**9**	4
vi) Number of directors who had exercised options during the year	**3**	-

21. Pensions

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

Additionally, Boots also operates two Stakeholder Pension Plans, which are defined contribution pension arrangements.

As the company is unable to identify its share of the underlying assets and liabilities on a consistent and reasonable basis and therefore, as required by FRS17 'Retirement benefits', accounts for the scheme as if it were a defined contribution scheme. As a result the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

Contributions payable to the pension fund during the year were £39.9m (2007: £46.9m). There are no prepaid or accrued contributions at the year end.

Contributions payable to the stakeholder plans during the year were £1.0m (2007: Nil). There are no prepaid or accrued contributions at the year end.

At 31st March 2008 the scheme had a surplus on an IAS19 basis, which is not materially different to the surplus on an FRS17 basis, of £282.0m before tax. Detailed disclosures at 31st March 2008 can be found in the financial statements of Alliance Boots GmbH.

The scheme has entered into Memoranda of Understanding with the company. This resulted in the payment of £52m of additional contributions during the period, an agreement that conservative investment strategies would be maintained and that a further £366m of contributions will be made by participating employers over the next 10 years from August 2008, of which £20m will be paid in 2008/09 and each of the following four financial years.

Following the purchase of majority of the trade and assets of E Moss Limited by Boots UK Limited on 31st March 2008, the company will also participate in the Alliance UniChem UK Group Pension Scheme, a defined benefit scheme operated by the Alliance Boots Group. The pension scheme surplus of this scheme at 31 March 2008 is £29.0m (2007: deficit of £28.0m).

22. Share-based payments

On the acquisition of Alliance Boots by AB Acquisitions Limited all former Alliance Boots plc share based payments schemes that the company's employees participated in vested and were exercised on acquisition.

The number and weighted average exercise prices of executive options granted are as follows:

	Weighted average exercise price 2008 £	**Number of options 2008**	Weighted average exercise price 2007 £	Number of options 2007
Outstanding at the beginning of the year	**6.24**	**1,361,523**	6.26	1,872,451
Forfeited during the year	-	-	6.29	510,928
Exercised during the year	**6.24**	**(1,361,523)**	-	-
Outstanding at the end of the year	-	-	6.24	1,361,523
Exercisable at the end of the year	-	-	-	-

The exercise price range and average contractual life of executive options outstanding as at 31st March is as follows:

	2008	2007
Exercise price range	-	£5.76 to £7.10
Weighted average contractual life	-	5.7 years

The fair value at measurement date for equity instruments (other than share options) granted during the year was as follows:

	Weighted average fair value per share 2008 £	Weighted average fair value per share 2007 £
All employee share ownership plan	-	7.55
Co-investment plan awards	-	7.59
Performance share plan awards	-	7.47

The total expense recognised in the year in respect of share-based compensation was £12.3m (2007: £3.2m) arising entirely from equity settled share-based compensation transactions.

23. Contingent liability

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 2008 the contingent liability was £Nil (2007: £Nil).

On 21st December 2007, the company became a Guarantor under both a £8,270 million multi-currency Senior Facilities Agreement and a £750 million multi-currency Subordinated Facility Agreement (together the Agreements) between, amongst others, AB Acquisitions Limited (a fellow subsidiary undertaking within the Alliance Boots GmbH group) as a Borrower and Deutsche Bank AG as the Facility Agent for the Lenders. As a Guarantor under the Agreements, the company has guaranteed the liabilities of fellow subsidiary undertakings within the Alliance Boots GmbH group under the Agreements.

As at 31st March 2008 the gross borrowings outstanding under the Agreements in aggregate (including the impact of currency translation and capitalised interest) were £8,465 million.

24. Ultimate holding company

At 31st March 2008 the company's immediate parent company was Alliance Boots Holdings Limited and its ultimate parent company and controlling party was AB Acquisitions Holdings Limited. AB Acquisitions Holdings Limited is also the parent undertaking of the largest group in which the company is consolidated.

AB Acquisitions Holdings Limited is incorporated in Gibraltar, and its registered office is 57/63 Line Wall Road, Gibraltar. AB Acquisitions Holdings Limited is jointly controlled by certain funds advised by Kohlberg Kravis Roberts & Co. L.P. and Alliance Santé Participations S.A., a company indirectly wholly owned by S. Pessina.

The smallest group in which the results of the company are consolidated is that headed by Alliance Boots GmbH, a company incorporated in Switzerland. The consolidated financial statements of this group are available from the Alliance Boots website at www.allianceboots.com.

As a wholly owned subsidiary of Alliance Boots GmbH, 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.