

**Company Registration
Number
928555**

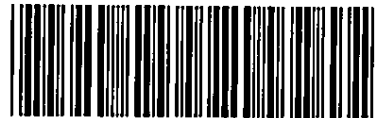
BOOTS UK LIMITED
FORMERLY KNOWN AS
BOOTS THE CHEMISTS LIMITED

DIRECTORS' REPORT

And

FINANCIAL STATEMENTS
YEAR ENDED 31ST MARCH 2007

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COMPANIES HOUSE

Registration
No. 928555

BOOTS THE CHEMISTS LIMITED

Board of Directors

Year ended 31st March 2007

Directors:

A W Gourlay
P Patel
P Fussey
S Wheway

Secretary.

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

Registered Office:

Nottingham, NG2 3AA

BOOTS THE CHEMISTS LIMITED

Directors' Report

Year ended 31st March 2007

The directors present their annual report together with the audited financial statements for the year ended 31st March 2007

Principal activities

The company is a wholly owned subsidiary of Alliance Boots plc. The company's principal activities during the year were dispensing and retail chemists. There have not been any significant changes in the company's principal activities in the year under review. The directors are not aware, at the date of this report, of any likely major changes in the company's activities next year.

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 focuses on the health and beauty markets and is 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 £162.8m (3.6%) as shown in the profit and loss account on page 8, a revenue growth that we feel is broadly in line with the market.

The performance of the Health business was strong in line with our strategy of Healthcare First. There was a strong performance in our dispensing business which exceeded market growth, contributed to by both our care homes service and our prescription collection service.

We continued to strengthen our position in the UK Beauty and Toiletries market with investment in new fragrance cabinets across more of our larger stores, the successful re-launch of Natural Collection and increased investment in our No7 product range following the positive press coverage of our No7 Protect and Perfect Beauty Serum.

In the Lifestyle category we lost ground in Electrical Beauty and Photo markets. We did however continue to increase our share of the digital photo market. The nutrition business was particularly encouraging due to increased "Meal Deal" participation. The seasonal business performed well supported by the Christmas 'Gorgeous' advertising campaign.

Operating profit was up £117.3m to £258.1m. This was driven by gross margin, which rose by 1.4% due to a combination of Better Buying, improved stock management and a more profitable promotional programme.

Alliance Boots plc manages its operations on a divisional basis. For this reason, the company's directors believe that further key performance indicators for the company are not necessary for an understanding of the development, performance or position of the business. Key performance indicators on a divisional basis are discussed in the group's annual report, which does not form part of this report.

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.

BOOTS THE CHEMISTS LIMITED

Directors' Report

Year ended 31st March 2007

Environment

Alliance Boots plc 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 report, 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.

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 number of days' purchases outstanding at 31st March 2007 was 17 (2006 19 days).

Staff

Details of the number of employees and related cost can be found in note 19.

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, which provides for three employee representatives of the group 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.

Profit and dividends

Details of profit for the year are shown in the profit and loss account on page 8. A dividend of £49m was paid in the year (2006 £180m).

BOOTS THE CHEMISTS LIMITED

Directors' Report

Year ended 31st March 2007

Directors

The details of directors in office on 31st March 2007 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>
P Fussey	26th September 2006
<u>Resignations</u>	<u>Date</u>
A R Gray	18th October 2006

Remuneration of directors

Details of the remuneration of the directors are included in note 20 on page 24


Auditors

A resolution to re-appoint the auditors, KPMG Audit Plc, will be proposed at the annual general meeting

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

By order of the board



Director **P. FUSSEY**

22nd June 2007
Date

BOOTS THE CHEMISTS LIMITED
Directors' Responsibilities Statement
Year ended 31st March 2007

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 2007

Independent Auditors' Report to the members of Boots The Chemists Limited

We have audited the financial statements of Boots The Chemists Limited for the year ended 31st March 2007, 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 5.

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.

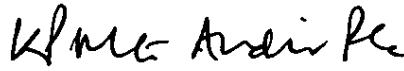
Independent Auditors' Report

Year ended 31st March 2007

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 2007 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
Chartered Accountants
Registered Auditor
Birmingham

22 June 2007
Date

BOOTS THE CHEMISTS LIMITED**Profit and Loss Account**

Year ended 31st March 2007

	Notes	2007 £m	2006 £m
Turnover	2	4,678.1	4,515.3
Cost of sales		(2,971.2)	(2,930.3)
Gross profit		1,706.9	1,585.0
Operating costs	3	(1,448.8)	(1,444.2)
Operating profit		258.1	140.8
Profit on disposal of fixed assets		6.7	-
Provision re sale and leaseback assets	4	-	(13.6)
Income from shares in subsidiary undertakings		6.5	10.0
Charge for provisions against investments		-	(0.3)
Loss on disposal of investments in subsidiary undertakings		-	(0.4)
Profit on ordinary activities before interest		271.3	136.5
Net interest receivable/(payable)	5	0.6	(7.0)
Profit on ordinary activities before taxation		271.9	129.5
Tax on profit on ordinary activities	6	(81.0)	(46.8)
Profit on ordinary activities after taxation and profit for the financial year attributable to shareholders	16	190.9	82.7

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

There is no material difference between the profit as stated above and the profit stated on an unmodified historical cost basis

BOOTS THE CHEMISTS LIMITED
Reconciliation of Movements in Shareholder's Funds
Year ended 31st March 2007

	2007 £m	2006 £m
Total gains and losses recognised since last annual report	190.9	82.7
Dividends paid	(49.0)	(180.0)
Share based payments	3.2	-
Net increase/(decrease) in shareholder's funds	145.1	(97.3)
Opening shareholder's funds	813.0	910.3
Closing shareholder's funds	958.1	813.0

BOOTS THE CHEMISTS LIMITED

Balance Sheet

At 31st March 2007

	Notes	2007 £m	2006 £m
Fixed assets			
Intangible assets	7	9.8	9.5
Tangible assets	8	586.4	587.7
Investments	9	199.6	195.6
		<u>795.8</u>	<u>792.8</u>
Current assets			
Stocks	10	389.4	391.4
Debtors falling due within one year	11	583.7	350.1
Debtors falling due after more than one year	11	0.3	0.3
		584.0	350.4
Cash at bank and in hand		36.3	87.3
		<u>1,009.7</u>	<u>829.1</u>
Creditors Amounts falling due within one year	12	(726.0)	(673.2)
		<u>283.7</u>	<u>155.9</u>
Net current assets			
		<u>1,079.5</u>	<u>948.7</u>
Total assets less current liabilities			
Creditors Amounts falling due after more than one year	13	(8.8)	(10.4)
Provisions for liabilities and charges	14	(112.6)	(125.3)
		<u>958.1</u>	<u>813.0</u>
Net assets			
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	194.8	49.7
		<u>958.1</u>	<u>813.0</u>
Shareholder's funds			

The financial statements were approved by the Board of Directors on
and are signed on its behalf by

22nd June 2007



Director

P. FUSSEY

BOOTS THE CHEMISTS LIMITED
Notes to the Financial Statements
Year ended 31st March 2007

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

Under FRS1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that Alliance Boots plc, the company's ultimate 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 plc, the company's ultimate 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. 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 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 stores 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

Investments

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

Stock

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

BOOTS THE CHEMISTS LIMITED
Notes to the Financial Statements
Year ended 31st March 2007

1. Accounting policies (continued)

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.

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 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.

BOOTS THE CHEMISTS LIMITED
Notes to the Financial Statements
Year ended 31st March 2007

1. Accounting policies (continued)

Pharmacy licences

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

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.

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). Consideration received from customers is only recorded as turnover when the company has completed full performance in respect of that consideration. All turnover is sourced and is destined for the United Kingdom.

BOOTS THE CHEMISTS LIMITED
Notes to the Financial Statements
Year ended 31st March 2007

3 Operating costs	2007	2006
	£m	£m
Selling, distribution and branch costs	1,339.5	1,340.4
Administrative expenses	109.3	103.8
Operating costs	1,448.8	1,444.2
Operating profit shown on page 8 is after charging/(crediting)		
Operating lease rentals		
- Property rents	230.0	231.6
- Computer and plant hire	1.4	1.4
Depreciation of tangible fixed assets		
- Owned assets	96.2	95.2
- Assets held under finance leases	0.9	0.9
Amortisation of goodwill	-	0.7
Remuneration of auditors – Audit fees ¹	-	0.2
Operating exceptionals		
- Supply chain reconfiguration ²	(1.3)	36.0
- Store refurbishment ³	-	31.0

¹ The 2007 audit fee was borne by a fellow group undertaking. The allocation that would have been incurred is £0.3m.

² Supply chain reconfiguration costs are those relating to the centralisation and automation programme announced on 14th March 2006.

³ Costs associated with the historic obligations under leases encompassed in the store investment programme announced on 14th March 2006.

4. Provision re sale and leaseback assets	2007	2006
	£m	£m
Provision re sale and leaseback assets	-	13.6

In July 2005 the group sold and leased back 312 stores. A provision was made in the prior year for the cost of repairs. Boots The Chemists is contractually required to make to those properties as a result of the transaction.

BOOTS THE CHEMISTS LIMITED
Notes to the Financial Statements
Year ended 31st March 2007

5 Net interest receivable/(payable)	2007	2006
	£m	£m
Interest receivable and similar income:		
From group undertakings	1.1	10.6
Bank interest	21.5	8.0
Other interest	0.5	0.2
	<u>23.1</u>	<u>18.8</u>
Interest payable and similar charges:		
Bank loans and overdrafts wholly repayable within 5 years	(0.2)	(0.4)
Finance leases	-	(0.1)
To group undertakings	(22.3)	(25.3)
	<u>(22.5)</u>	<u>(25.8)</u>
Net interest receivable/(payable)	<u>0.6</u>	<u>(7.0)</u>

6. Tax on profit on ordinary activities	2007	2006
	£m	£m
The tax charge on the profit for the year consists of:		
Current taxation		
UK corporation tax	84.8	61.1
Adjustment in respect of prior years	(11.7)	(3.9)
Relief for overseas taxation	(0.3)	-
Total UK current tax	<u>72.8</u>	<u>57.2</u>
Overseas taxation	1.2	-
Total current tax	<u>74.0</u>	<u>57.2</u>
Deferred tax		
Origination and reversal of timing differences	7.0	(10.4)
Tax on profit on ordinary activities	<u>81.0</u>	<u>46.8</u>

BOOTS THE CHEMISTS LIMITED
Notes to the Financial Statements
Year ended 31st March 2007

6. 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% (2006 30%) The actual tax charge for the current year is below (previous year is above) the standard rate for the reasons set out in the following reconciliation

	2007 £m	2006 £m
Profit on ordinary activities before tax	<u>271.9</u>	<u>129.5</u>
UK standard rate of corporation tax at 30%	81.6	38.9
Factors affecting charge for the year		
Changes in accelerated capital allowances	5.6	4.5
Other timing differences	-	13.1
Expenses not deductible for tax purposes	2.6	6.1
Non taxable income	(2.0)	(0.3)
Dividends from subsidiary companies	(2.0)	(3.0)
Loss on disposal of fixed assets	-	1.8
Prior year adjustments	(10.8)	(3.9)
Group tax adjustments	(1.0)	-
Total current tax charge for the year	<u>74.0</u>	<u>57.2</u>

Factors that may affect future current and total tax charge

On 21st March 2007 in its annual Budget statement, the British Government made certain announcements regarding corporation tax that will impact the company if and when passed into law. These announcements included a proposed reduction in the standard rate of UK corporation tax to 28% from 1st April 2008.

Under FRS 19, deferred taxation is provided in the balance sheet at the tax rate that is expected to be enacted or substantively enacted at the time it will reverse. Any timing differences which reverse before 1st April 2008 will be taxed or relieved at 30%, any timing differences that reverse after that date will reverse at 28%. Because of the inherent uncertainty as to when deferred tax will reverse it is not possible to quantify the full financial impact of this proposed change.

BOOTS THE CHEMISTS LIMITED
Notes to the Financial Statements
Year ended 31st March 2007

7. Intangible fixed assets	Pharmacy licences £m
Cost	
At 1st April 2006	13.4
Additions	0.3
At 31st March 2007	13.7
Amortisation	
At 1st April 2006	3.9
Charge for the year	-
At 31st March 2007	3.9
Net book value at 31st March 2006	9.5
Net book value at 31st March 2007	9.8

A revision has been made to the estimated life as it is considered indefinite in nature. On this basis it is inappropriate to continue amortising. Amortisation ceased on 1st April 2006.

In the prior year, the excess over the tangible asset value was recorded as goodwill.

BOOTS THE CHEMISTS LIMITED

Notes to the Financial Statements

Year ended 31st March 2007

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 2006	27.0	35.4	1,216.5	1.9	1,280.8
Additions	2.9	2.7	23.7	70.4	99.7
Disposals	(0.1)	(3.7)	(20.4)	-	(24.2)
Reclassifications	-	0.9	66.9	(67.8)	-
Intra-group transfers	-	-	1.6	-	1.6
At 31st March 2007	29.8	35.3	1,288.3	4.5	1,357.9
Depreciation					
At 1st April 2006	10.6	16.8	665.7	-	693.1
Charge for the year	1.5	2.9	92.7	-	97.1
Disposals	-	(2.8)	(18.8)	-	(21.6)
Impairments	-	-	2.2	-	2.2
Intra-group transfers	-	-	0.7	-	0.7
At 31st March 2007	12.1	16.9	742.5	-	771.5
Net book value at 31st March 2006	16.4	18.6	550.8	1.9	587.7
Net book value at 31st March 2007	17.7	18.4	545.8	4.5	586.4

	2007 £m	2006 £m
Net book value of land and buildings comprises:		
Short leasehold	<u>17.7</u>	<u>16.4</u>

The cost of plant and machinery includes £4.6m (2006 £4.2m) in respect of assets held under finance leases on which accumulated depreciation at the end of the year was £1.4m (2006 £1.2m) and for which the depreciation charge for the year was £0.9m (2006 £0.9m)

BOOTS THE CHEMISTS LIMITED
Notes to the Financial Statements
Year ended 31st March 2007

9 Fixed asset investments	Shares in Subsidiary Undertakings £m
Cost	
At 1st April 2006	207.8
Additions	4.0
At 31st March 2007	211.8
Provision	
At 1st April 2006 and 31st March 2007	12.2
Net book value at 31st March 2006	195.6
Net book value at 31st March 2007	199.6

	Incorporated in	Ordinary Shares Percentage owned %	Principal activities	Last financial year ended
Boots Stores Ltd	Great Britain*	100	Management	31st March 2007
Hammond and Hammond Ltd	Great Britain*	100	Inactive	31st March 2007
Seawade Ltd	Great Britain*	100	Inactive	31st March 2007
SCM Ltd	Republic of Ireland	100	Holding company	31st March 2007
Metcalfe – Proud Ltd	Great Britain*	100	Inactive	31st March 2007
Connors Holdings Ltd	Northern Ireland	100	Holding company	31st March 2007
Boots Dentalcare Ltd	Great Britain*	100	Inactive	31st March 2007
A B Arnott Ltd	Great Britain*	100	Inactive	31st March 2007
Newpast Ltd	Great Britain*	100	Inactive	31st March 2007
Boots The Chemists (Jersey) Ltd	Jersey	100	Dispensing Chemist	31st March 2007
Boots Holdings (BTC) Ltd	Great Britain*	100	Inactive	31st March 2007
Bootholdland Ltd	Great Britain*	100	Inactive	31st March 2007
Boots Retail (Ireland) Ltd	Republic of Ireland	100	Dispensing chemist	31st March 2007
Boots Health & Beauty Ltd	Great Britain*	100	Health & Beauty services	31st March 2007
Prouds Lane Pharmacy Ltd	Great Britain*	100	Inactive	31st March 2007
Canton and Riverside Centre Ltd	Great Britain*	100	Inactive	31st March 2007
Boots Card Handling Ltd	Great Britain*	100	Inactive	31st March 2007
John Frost Ltd	Great Britain*	100	Inactive	31st March 2007

*Registered in England and Wales

BOOTS THE CHEMISTS LIMITED
Notes to the Financial Statements
Year ended 31st March 2007

9. Fixed asset investments (continued)

	Incorporated in	Ordinary Shares Percentage Owned %	Principal activities	Last financial year ended
St Allans Properties (One) Limited	Great Britain*	100	Inactive	31st March 2007
St Allans Properties (Two) Limited	Great Britain*	100	Inactive	31st March 2007
Dovepharm Limited	Great Britain*	100	Inactive	31st March 2007

	Incorporated In	Preference Shares Percentage Owned %	Principal Activities	Last financial year ended
Boots Investments Ltd	Jersey	100	Investments	31st March 2007

*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 19

10. Stocks	2007	2006
	£m	£m
Finished goods and goods for resale	389.4	391.4

11. Debtors	2007	2006
	£m	£m
Falling due within one year:		
Trade debtors	231.0	203.5
Amounts owed by group undertakings	289.1	80.8
Other debtors	2.0	2.5
Prepayments and accrued income	61.6	63.3
	583.7	350.1
Falling due after more than one year:		
Other debtors	0.3	0.3
Total debtors	584.0	350.4

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12. Creditors: Amounts falling due within one year	2007	2006
	£m	£m
Trade creditors	29.0	17.1
Amounts due to group undertakings	486.0	499.1
Corporation tax	41.0	17.3
Other taxation and social security	32.0	30.1
Other creditors	32.2	19.2
Accruals and deferred income	105.7	90.3
Finance lease obligations	0.1	0.1
	<u>726.0</u>	<u>673.2</u>

13. Creditors: Amounts falling due after more than one year	2007	2006
	£m	£m
Accruals and deferred income	8.7	9.8
Finance lease obligations	0.1	0.6
	<u>8.8</u>	<u>10.4</u>

The obligations under finance leases are all due to mature within 2-5 years

14. Provisions for liabilities and charges	Vacant property provisions	Refurbishment and reorganisation	Deferred Taxation	Total
	£m	£m	£m	£m
At 1st April 2006	3.8	80.1	41.4	125.3
Profit and loss account	3.6	-	7.0	10.6
Utilised	(1.6)	(20.4)	-	(22.0)
Reversed	-	(1.3)	-	(1.3)
At 31st March 2007	<u>5.8</u>	<u>58.4</u>	<u>48.4</u>	<u>112.6</u>

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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

	2007 £m	2006 £m
Analysis of deferred tax liability:		
Accelerated capital allowances	51.7	52.8
Other timing differences	(3.6)	(11.4)
Share options	0.3	-
	48.4	41.4

15. Called up share capital

709,750,000 Ordinary shares of £1 each:

Authorised, allotted, called up and fully paid

	2007 £m	2006 £m
	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 2006	709.7	53.6	49.7	813.0
Profit for the year	-	-	190.9	190.9
Dividends paid	-	-	(49.0)	(49.0)
Share based payments	-	-	3.2	3.2
At 31st March 2007	709.7	53.6	194.8	958.1

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17. Dividends	2007	2006
	£m	£m
Amounts recognised as distributions to equity holders in the period:		
Final dividend for year ended 31st March 2006/2005	<u>49.0</u>	<u>180.0</u>
Proposed final dividend for the year ended 31st March 2007/2006	<u>-</u>	<u>-</u>
18. Commitments		
a) Future capital expenditure approved by the directors and not provided for in these financial statements is as follows	2007	2006
	£m	£m
Contracts placed	<u>34.2</u>	<u>16.3</u>
b) Annual commitments under operating leases are as follows	Land and Buildings	Other assets
	£m	£m
At 31st March 2007		
Expiring		
Within one year	3.3	-
Within two to five years	24.8	-
Over five years	202.5	-
	<u>230.6</u>	<u>-</u>
At 31st March 2006		
Expiring		
Within one year	2.4	-
Within two to five years	17.4	-
Over five years	182.0	-
	<u>201.8</u>	<u>-</u>

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19. Staff numbers and cost	2007 Number	2006 Number
The average number of full time equivalents employed by the company during the year was	<u>29,459</u>	<u>28,490</u>
All of the employees are based in stores		
	2007 £m	2006 £m
The aggregated payroll cost was as follows		
Wages and salaries	579.6	543.1
Social security costs	39.5	36.1
Other pension costs	46.9	39.3
Cash settled transactions	3.2	4.1
	<u>669.2</u>	<u>622.6</u>

20. Directors' remuneration	2007 £m	2006 £m
i) Directors' emoluments for services to the company	1.7	1.6
ii) Compensation for loss of office	0.2	1.0
iii) Monies received from long term bonus schemes	-	-
iv) (a) The remuneration of the highest paid director, excluding pension contributions	0.9	0.5
(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

	2007	2006
v) Number of directors who are members of defined benefit pension schemes	4	7
vi) Number of directors who had exercised options during the year (who are not directors of the ultimate holding company)	-	-

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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 £46.9m (2006: £39.3m).

At 31st March 2007 the scheme had a surplus on an IAS19 basis, which is not materially different to the surplus on an FRS17 basis, of £20m before tax. Details of the most recent actuarial valuation, which was on 1st April 2004, and detailed disclosures at 31st March 2007 can be found in the financial statements of Alliance Boots plc.

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22. Share-based payments

The Alliance Boots Group operates a number of share-based compensation schemes for employees. Certain employees of the company are eligible for participation in these schemes. The schemes take a variety of forms and details of active schemes are given below.

The Group operates an All Employee Share Ownership Plan (AESOP) for eligible employees. Under the free share part of the plan, employees in service for the whole of the preceding financial year are awarded a grant of free shares, conditional on completion of three years further service from the date of grant and a profit target being met. Shares are held in trust for employees from the date of grant. The cost of this plan is calculated by charging the entitlement to shares based on the Group's estimate of the number of shares likely to vest. Fair value is determined by an external valuer by reference to the market value of the share at the date of the grant incorporating future dividends.

The Group also has a Long Term Bonus Scheme under which executive Directors and certain senior executives can receive ordinary shares if a performance condition based on Total Shareholder Return (TSR) is met. Further details of the scheme are set out in the Board report on remuneration in Alliance Boots plc accounts. Awards are made from shares purchased in the market held in an ESOP trust. The performance condition is a market based condition. Fair value is estimated at the beginning of each performance period based on expected performance and thereafter adjusted only for the impact of leavers.

The Long Term Bonus Scheme was replaced with a new Performance Share Plan for performance periods commencing from 1 April 2005. Under the new scheme, executive Directors and certain senior executives can receive ordinary shares if a performance condition based on TSR relative to a UK retail index comprising the FTSE 350 General Retailers index and the FTSE 350 Food and Drug Retailers index (weighted 50% each) or based on the Group's Earnings Per Share growth depending on the individual's award. Further details of the scheme are set out in the Board report on remuneration in Alliance Boots plc accounts. Fair value for the TSR element is estimated at the beginning of each performance period based on expected performance and thereafter adjusted only for the impact of leavers. Fair value is determined by an external valuer using a monte carlo pricing model for the TSR element and by reference to the market value of the share at the date of the grant, with future dividends included.

Under an Executive Share Option Plan, executive Directors and certain senior executives have been granted options to subscribe for ordinary shares subject to a performance condition based on the Group's Earnings Per Share growth. Further details of the scheme are set out in the Board report on remuneration in Alliance Boots plc accounts. New shares are issued to satisfy awards under this scheme (none have so far vested). Latest estimates of future EPS performance predict that none of the awards granted after 7 November 2002 are likely to vest. These became exercisable on the acquisition of Alliance UniChem.

Under a Co-investment plan, executive Directors are entitled to invest up to 50% of their short term bonus for the previous year in Alliance Boots shares in return for a matching opportunity of up to 2:1, depending on Earnings Per Share performance over a three-year period. Short term bonus paid in respect of year ending 31 March 2006 was invested by some of the executive Directors. Further details of the scheme are set out in the Board report on remuneration in Alliance Boots plc accounts.

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22. Share-based payments (continued)

The terms and conditions of the grants made after 7th November 2002 whereby all rights will be satisfied by the delivery of shares are as follows

Grant date	Vesting conditions	Contractual life of shares/options
Executive Share Option Plan		
29th November 2002	EPS performance target after three years (retested if necessary at the end of 4, 5 and 6 years)	10 years
23rd June 2003	As above	10 years
18th September 2003	As above	10 years
4th December 2003	As above	10 years
14th June 2004	EPS performance target after three years (retested if necessary at the end of 5 years)	10 years
8th November 2004	As above	10 years
AESOP		
27th June 2003	Employment throughout the 3 year period from grant	-
2nd July 2004	As above	-
16th June 2005	As above	-
12th June 2006	As above	-
Long Term Bonus Scheme		
1st April 2004	Total shareholder return ranking against a peer Group of 10 other companies	-
Performance Share Plan		
1st April 2005	Total shareholder return relative to a UK Retail index (FTSE 350)	-
29th September 2006	Total shareholder return relative to a UK Retail index (FTSE 350)	-
	EPS performance over a three year period	-
Co-investment plan		
13th July 2006	EPS performance over a three year period	-
28th July 2006	As above	-

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22. Share-based payments (continued)

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

	Weighted average exercise price 2007 £	Number of options 2007	Weighted average exercise price 2006 £	Number of options 2006
Outstanding at the beginning of the year	6.26	1,872,451	6 26	2,343,762
Forfeited during the year	6.29	510,928	6 26	471,311
Exercised during the year	-	-	-	-
Outstanding at the end of the year	6.24	1,361,523	6 26	1,872,451
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

	2007	2006
Exercise price range	£5.76 to £7.10	£5 76 to £7 10
Weighted average contractual life	5 7 years	6 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 2007 £	Weighted average fair value per share 2006 £
All employee share ownership plan	7.55	5 95
Co-investment plan awards	7.59	-
Performance share plan awards	7.47	1 94

The total expense recognised in the year in respect of share-based compensation was £3 2m (2006 £4 1m) arising entirely from equity settled share-based compensation transactions

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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 2007 the contingent liability was £Nil (2006 £19.3m)

24. Ultimate holding company

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 Alliance Boots 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 Alliance Boots plc.

Copies of the group financial statements may be obtained from Sedley Place, 4th Floor, 361 Oxford Street, London, W1C 2JL, UK.

On 31st July 2006 Boots Group PLC acquired 100% of the ordinary shares of Alliance UniChem Plc ("Alliance UniChem") by means of a scheme of arrangement between Alliance UniChem and its shareholders. The scheme of arrangement was achieved by cancelling Alliance UniChem shares and issuing new shares in Boots Group PLC to existing Alliance UniChem shareholders under a fixed share ratio of 1.332 Boots Group PLC shares for each Alliance UniChem share. On completion of the transaction Boots Group PLC was renamed Alliance Boots plc.

As a wholly owned subsidiary of Alliance Boots plc, 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.