



Registration
Number
928555

BOOTS THE CHEMISTS LIMITED

DIRECTORS' REPORT

and

FINANCIAL STATEMENTS

YEAR ENDED 31ST MARCH 2003



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04/06/03

Registration
No: 928555

BOOTS THE CHEMISTS LIMITED

Board of Directors

Year ended 31st March 2003

Directors:

A D Emson
D A Kneale
P G Matthews
J S Sinclair

Secretary:

Sonia Fennell

Registered Office:

Nottingham, NG2 3AA

BOOTS THE CHEMISTS LIMITED

Directors' Report

Year ended 31st March 2003

The directors present their annual report together with the audited financial statements for the year ended 31st March 2003.

Principal activities

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

Review of the business

Boots The Chemists (BTC) halted the long term decline in footfall and transaction numbers, recording good sales growth across all core categories. At a time of slowing market growth BTC increased share of the health and beauty markets and maintained share in toiletries after a period of decline. Investment in store refurbishment and price competitiveness caused some tightening of margins, and operating profit decreased 12.4% to £318.7m.

Strategy

BTC's 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, understanding of consumer needs reinforced by analysis of Advantage Card data, and clear value positioning supported by tight control of operating costs.

Sales and margin

The sales increase was stronger in the second half than in the first, and growth over the Christmas period was the best for 10 years.

We made strong gains in cosmetics and fragrance with growth over 9%, although toiletries fared less well despite an increase of over a third in suncare sales. Overall baby, food and photo sales dipped slightly, as increases in baby and food were offset by a decline in photo.

Our market shares improved in beauty, baby and over the counter (OTC) healthcare; we held our share in toiletries and suffered a slight decline in pharmacy.

The number of transactions was slightly down for the year as a whole, but the long term decline slowed mid-year. The Advantage Card was a key driver. Since relaunching it last year with a wider range of benefits we have recruited one million new members – an encouraging development because Advantage Card members spend more at Boots, on average, than non-members.

Operating profit was impacted by investment in stores, keener pricing and increased pension charges.

BOOTS THE CHEMISTS LIMITED

Directors' Report

Year ended 31st March 2003

Products

Product innovation played an important role in the year's sales growth.

No7 had the best sales in its history, with Intelligent Colour Foundation proving to be its most successful product launch ever. This innovative foundation is a unique silicone gel/pigment blend which promises to match the skin tone of all women with just three shades. Other No7 debuts included the relaunch of DailyV Skincare, and is significantly outperforming the old range.

The most successful addition to the 17 range was Fat Lash, a volumising mascara in a innovative tube pack format which recorded excellent sales in its first six months. Over a third of buyers are new to the 17 brand.

We continued to extend the popular Botanics range. Its Face Renewal Cream was named best anti-ageing cream by M magazine. And the simple idea of bundling miniature packs of Botanics products into themed kits – such as the Facial Pamper Kit and Weekend Pamper Kit – has been a great success in introducing new customers to the brand.

The new Mediterranean range proved a fine example of our ability to turn consumer insights into successful brands. It capitalises on the current fashion for Mediterranean diets and lifestyle to create innovative toiletries that already have annual sales of over £4m.

Innovation and style are part of the whole Boots-brand offer, not confined to our premium products. We have given a fillip to sales of our everyday value products by bringing them together under the Boots Essentials brand, which has won an award for its packaging design. Essentials now covers all major toiletry categories – washing and bathing, haircare, dental and men's.

Store development

In addition to our store reinvigoration programme, we completed other developments including the extension of the London Liverpool Street Station store to 1200m². We also resumed our edge of town openings, with the first two in what we intend to be a substantial programme.

We reinvigorated 239 stores, focusing on 163 in London and 76 local destination stores across the country, as we started a four year programme of rolling refurbishment.

This year we will refurbish some 300 medium sized stores and enhance the offer to customers by upgrading dispensaries and introducing more premium ranges. We will also continue the rollout of premium cosmetics and accelerate the pace of edge of town openings.

Outlook

We will continue to drive growth through investment in stores, people, pricing and new product development. To offset this spending we have major programmes to improve operating efficiency so that we can maintain margins at current levels.

Profit, dividends and retentions

Details of profit, dividends and retentions are shown in the profit and loss account on page 7.

BOOTS THE CHEMISTS LIMITED

Directors' Report

Year ended 31st March 2003

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 2003 was 23 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

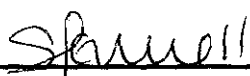
The details of directors in office on 31st March 2003 are shown on page 1. There have been the following changes to the board of directors during the year and up to the date of signing the financial statements:

<u>Resignations</u>	<u>Date</u>
C A Baldwin	26th July 2002
K S Piggott	31st December 2002
D A Stead	18th March 2003

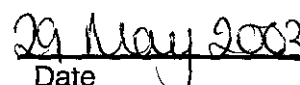
Remuneration of directors and directors' shareholding

Details of the remuneration and shareholdings of the directors are included in notes 19 and 20 on pages 21 to 24.

By order of the board



Director Secretary


Date

BOOTS THE CHEMISTS LIMITED
Directors' responsibilities statement
Year ended 31st March 2003

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 2003

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

We have audited the financial statements on pages 7 to 25.

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 5, 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 2003 and of its loss 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

29/5/03

Date

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

Year ended 31st March 2003

	Notes	2003 £m	2002 £m
Turnover	2	4,205.8	4,024.3
Cost of sales		(2,763.2)	(2,592.2)
Gross profit		1,442.6	1,432.1
Operating costs	3	(1,123.9)	(1,068.1)
Operating profit		318.7	364.0
Loss on disposal of fixed assets		(2.8)	(1.1)
Income from shares in subsidiary undertakings		71.4	10.1
Provision against investments		(8.9)	(0.4)
Profit on ordinary activities before interest		378.4	372.6
Net interest receivable/(payable)	4	8.1	(0.6)
Profit on ordinary activities before taxation		386.5	372.0
Tax on profit on ordinary activities	5	(91.2)	(113.7)
Profit on ordinary activities after taxation and profit for the financial year attributable to shareholders		295.3	258.3
Dividends paid and proposed	6	(297.5)	(200.0)
Retained (loss)/profit for the financial year		(2.2)	58.3

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.

There are no recognised gains and losses for the current financial year and preceding financial year other than as shown above.

BOOTS THE CHEMISTS LIMITED
Reconciliation of Movements in Shareholders' Funds
Year ended 31st March 2003

	2003 £m	2002 £m
Profit for the financial year attributable to shareholders	295.3	258.3
Dividends	(297.5)	(200.0)
Net (decrease)/increase in shareholders' funds	(2.2)	58.3
Opening shareholders' funds	712.3	654.0
Closing shareholders' funds	710.1	712.3

BOOTS THE CHEMISTS LIMITED

Balance Sheet

At 31st March 2003

	Notes	2003 £m	2002 £m
Fixed assets			
Intangible assets	7	9.6	9.5
Tangible assets	8	502.6	544.3
Investments	9	221.2	214.4
		<u>733.4</u>	<u>768.2</u>
Current assets			
Stocks	10	368.0	281.0
Debtors falling due within one year	11	224.4	237.0
Debtors falling due after more than one year	11	46.9	344.7
		271.3	581.7
Cash at bank and in hand		131.0	59.1
		<u>770.3</u>	<u>921.8</u>
Creditors: Amounts falling due within one year	12	(439.9)	(841.5)
		<u>330.4</u>	<u>80.3</u>
Net current assets			
		1,063.8	848.5
Total assets less current liabilities			
Creditors: Amounts falling due after more than one year	13	(284.2)	(53.0)
Provision for liabilities and charges	14	(69.5)	(83.2)
		<u>710.1</u>	<u>712.3</u>
Net assets			
Capital and reserves			
Called up share capital	15,16	709.7	709.7
Profit and loss account	16	0.4	2.6
		<u>710.1</u>	<u>712.3</u>
Equity shareholders' funds			

The financial statements were approved by the Board of Directors on
and are signed on its behalf by: J.S. SINCLAIR

29th May 2003



Director

BOOTS THE CHEMISTS LIMITED
Notes to the Financial Statements
Year ended 31st March 2003

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 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.

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 usefulness 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. 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 Boots Pension Scheme.

BOOTS THE CHEMISTS LIMITED
Notes to the Financial Statements
Year ended 31st March 2003

1. Accounting policies (continued)

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 2003

2. Turnover

Turnover comprises retail sales to external customers (excluding value added tax and other sales taxes).

3. Operating costs

	2003 £m	2002 £m
Selling, distribution and branch costs	1,024.6	950.0
Administrative expenses	99.3	118.1
Operating costs	1,123.9	1,068.1

Operating profit shown on page 7 is after charging

Operating lease rentals		
- Property rents	201.1	192.2
- Computer and plant hire	1.3	1.7
Depreciation of tangible fixed assets		
- Owned assets	71.9	74.1
- Assets held under finance leases	0.9	1.0
Amortisation of goodwill	0.6	0.6
Remuneration of auditors – Audit fees	0.1	0.1
QUEST	0.1	1.0
Operating Exceptionals		
- Restructuring costs	-	5.0

4. Net interest receivable/(payable)

	2003 £m	2002 £m
Interest receivable and similar income:		
From group undertaking	13.8	5.5
Other interest	0.4	0.1
	14.2	5.6
Interest payable and similar charges:		
Bank loans and overdrafts wholly repayable within 5 years	(0.5)	(0.1)
Finance leases	(0.2)	(0.2)
Other interest	-	(0.4)
To group undertaking	(4.3)	(5.5)
Exchange losses on foreign currency borrowings	(1.1)	-
	(6.1)	(6.2)
	8.1	(0.6)

BOOTS THE CHEMISTS LIMITED
Notes to the Financial Statements
Year ended 31st March 2003

5. Tax on profit on ordinary activities	2003	2002
	£m	£m
The tax charge on the profit for the year consists of:		
Current taxation		
UK corporation tax	108.4	106.3
Adjustment in respect of prior years	(4.2)	(2.2)
Total current tax	104.2	104.1
Deferred tax		
Origination and reversal of timing differences	(13.0)	9.6
Tax on profits on ordinary activities	91.2	113.7

Reconciliation of current tax charge

The standard rate of tax for the year, based on the UK standard rate of corporation tax, is 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.

	2003	2002
	£m	£m
Profit on ordinary activities before tax	386.5	372.0
UK standard rate of corporation tax at 30%	115.9	111.6
Factors affecting charge for the year:		
Changes in accelerated capital allowances	9.0	(2.7)
Changes in pension fund prepayment	4.9	(6.0)
Other timing differences	(0.2)	1.2
Disallowable expenses	(2.4)	5.1
Dividends from UK companies	(21.4)	(3.0)
Provision against investments in and current accounts with subsidiary undertakings	2.7	0.1
Exceptional items	(0.1)	-
Prior year adjustments	(4.2)	(2.2)
Total current tax charge for the year	104.2	104.1

BOOTS THE CHEMISTS LIMITED
Notes to the Financial Statements
Year ended 31st March 2003

6. Dividends	2003	2002
	£m	£m
Interim proposed	<u>297.5</u>	<u>200.0</u>

7. Intangible fixed assets	Purchased goodwill
	£m
Cost	
At 1st April 2002	10.9
Purchase of pharmacies	0.7
At 31st March 2003	<u>11.6</u>
Amortisation	
At 1st April 2002	1.4
Charge for the year	0.6
At 31st March 2003	<u>2.0</u>
Net book value at 31st March 2002	9.5
Net book value at 31st March 2003	<u>9.6</u>

BOOTS THE CHEMISTS LIMITED
Notes to the Financial Statements
Year ended 31st March 2003

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 2002	19.6	61.4	1,002.5	11.1	1,094.6
Additions	0.2	4.4	48.1	6.3	59.0
Disposals	-	(3.1)	(152.4)	-	(155.5)
Reclassifications and transfers	-	(0.3)	16.0	(11.1)	4.6
At 31st March 2003	19.8	62.4	914.2	6.3	1,002.7
Depreciation					
At 1st April 2002	6.9	28.1	515.3	-	550.3
Charge for the year	0.9	10.0	61.9	-	72.8
Disposals	-	(2.3)	(120.4)	-	(122.7)
Reclassifications and transfers	-	(0.3)	-	-	(0.3)
At 31st March 2003	7.8	35.5	456.8	-	500.1
Net book value at 31st March 2002	12.7	33.3	487.2	11.1	544.3
Net book value at 31st March 2003	12.0	26.9	457.4	6.3	502.6
			2003		2002
			£m		£m

Net book value of land and buildings comprises:

Short leasehold	<u>12.0</u>	<u>12.7</u>
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The cost of plant and machinery includes £4.5m (2002: £4.5m) in respect of assets held under finance leases on which accumulated depreciation at the end of the year was £1.3m (2002: £1.6m) and for which the depreciation charge for the year was £0.9m (2002: £1.0m).

BOOTS THE CHEMISTS LIMITED
Notes to the Financial Statements
Year ended 31st March 2003

9. Fixed asset investments	Shares in subsidiary undertakings £m	Loans to Subsidiary Undertakings £m	Total £m
Cost			
At 1st April 2002	134.3	91.4	225.7
Additions	0.4	4.3	4.7
Currency adjustments	-	11.0	11.0
At 31st March 2003	134.7	106.7	241.4
Provision			
At 1st April 2002	11.3	-	11.3
Provided in the year	-	8.9	8.9
At 31st March 2003	11.3	8.9	20.2
Net book value at 31st March 2002	123.0	91.4	214.4
Net book value at 31st March 2003	123.4	97.8	221.2

	Incorporated in	Ordinary Shares Percentage owned %	Principal activities	Last financial year ended
Boots Stores Ltd	Great Britain*	100	Management	31st March 2003
Hammond and Hammond Ltd	Great Britain*	100	Inactive	31st March 2003
Seawade Ltd	Great Britain*	100	Inactive	31st March 2003
SCM Ltd	Republic of Ireland	100	Holding company	31st March 2003
Metcalfe – Proud Ltd	Great Britain*	100	Inactive	31st March 2003
Connors Holdings Ltd	Northern Ireland	100	Holding company	31st March 2003
Boots Dentalcare Ltd	Great Britain*	100	Dentistry	31st March 2003
A B Arnott Ltd	Great Britain*	100	Inactive	31st March 2003
Newpast Ltd	Great Britain*	100	Inactive	31st March 2003
Boots The Chemists (Jersey) Ltd	Jersey	100	Dispensing Chemist	31st March 2003
The Centre for the Study of Complementary Medicine Ltd	Great Britain*	100	Inactive	31st March 2003
Boots Card Handling Ltd	Great Britain*	100	Card handling services to customers of Boots	31st March 2003
Bootholdland Ltd	Great Britain*	100	Health Centre Pharmacy	31st May 2002
Boots Retail (Ireland) Ltd	Republic of Ireland	100	Inactive	31st March 2003
Boots Health & Beauty Ltd	Great Britain*	100	Health & Beauty services	31st March 2003
Prouds Lane Pharmacy Ltd	Great Britain*	100	Inactive	31st March 2003
Canton and Riverside Centre Ltd	Great Britain*	100	Inactive	31st March 2003
Portland Ceramics Ltd	Great Britain*	100	Dentistry	31st March 2003
St Allans Properties (One) Limited	Great Britain*	100	Inactive	31st March 2003
St Allans Properties (Two) Limited	Great Britain*	100	Inactive	31st March 2003

BOOTS THE CHEMISTS LIMITED
Notes to the Financial Statements
Year ended 31st March 2003

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 2003

*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 17.

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

10. Stocks	2003 £m	2002 £m
Finished goods and goods for resale	368.0	281.0

11. Debtors	2003 £m	2002 £m
Falling due within one year:		
Trade debtors	168.6	154.4
Amounts owed by group undertakings	14.2	11.1
Other debtors	4.8	37.0
Prepayments and accrued income	36.8	34.5
	224.4	237.0
Falling due after more than one year:		
Amounts owed by group undertakings	1.9	315.0
Other debtors	45.0	29.7
	46.9	344.7
Total debtors	271.3	581.7

BOOTS THE CHEMISTS LIMITED
Notes to the Financial Statements
Year ended 31st March 2003

12. Creditors: Amounts falling due within one year	2003 £m	2002 £m
Debenture loans	-	1.1
Bank overdraft	0.2	1.1
Trade creditors	8.9	7.4
Amounts due to group undertakings	0.2	473.2
Corporation tax	37.6	50.4
Other taxation and social security	39.9	39.0
Other creditors	28.9	40.7
Accruals and deferred income	25.5	27.4
Finance lease obligations	1.2	1.2
Proposed dividend	297.5	200.0
	<u>439.9</u>	<u>841.5</u>

13. Creditors: Amounts falling due after more than one year	2003 £m	2002 £m
Debenture loans	0.5	5.1
Amounts due to group undertakings	278.2	32.1
Amounts due to joint ventures	-	8.6
Accruals and deferred income	3.5	5.5
Finance lease obligations	2.0	1.7
	<u>284.2</u>	<u>53.0</u>

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

Obligations under finance leases	2003 £m	2002 £m
Less than one year	1.2	1.2
Within one to two years	1.0	1.0
Within two to five years	1.0	0.7
	<u>3.2</u>	<u>2.9</u>

BOOTS THE CHEMISTS LIMITED
Notes to the Financial Statements
Year ended 31st March 2003

14. Provisions for liabilities and charges	Vacant property provisions £m	Deferred Taxation £m	Total £m
At 1st April 2002	5.3	77.9	83.2
Profit and loss account	2.5	(13.0)	(10.5)
Utilised	(1.4)	-	(1.4)
Reversed	(1.8)	-	(1.8)
At 31st March 2003	4.6	64.9	69.5

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.

	2003 £m	2002 £m
Analysis of deferred tax liability:		
Accelerated capital allowances	51.1	59.2
Pension prepayment	13.4	18.3
Other timing differences	0.4	0.4
	<u>64.9</u>	<u>77.9</u>

Factors affecting future charges

Capital losses of £9.7m (2002: £9.9m) are available for offset against any future chargeable gains arising in this company or across the group.

15. Called up share capital	2003 £m	2002 £m
709,750,000 Ordinary shares of £1 each:		
Authorised, allotted, called up and fully paid	<u>709.7</u>	<u>709.7</u>

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16. Share capital and reserves	Called up Share Capital £m	Profit and Loss Account £m	Total £m
At 1st April 2002	709.7	2.6	712.3
Loss retained	-	(2.2)	(2.2)
At 31st March 2003	709.7	0.4	710.1

17. Commitments			
a) Future capital expenditure approved by the directors and not provided for in these financial statements is as follows:		2003 £m	2002 £m
Contracts placed		10.9	7.5

b) 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	-
	193.3	0.8

Annual commitments under operating leases at 31st March 2002 are as follows:	Land and Buildings £m	Other assets £m
Expiring:		
Within one year	2.9	-
Within two to five years	15.0	1.2
Over five years	166.1	-
	184.0	1.2

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18. Staff numbers and cost	2003 Number	2002 Number
The average number of full time equivalents employed by the company during the year was:	<u>31,089</u>	<u>30,668</u>

	2003 £m	2002 £m
The aggregated payroll cost was as follows:		
Wages and salaries	479.5	449.5
Social security costs	25.5	24.9
Other pension costs	16.1	2.5
	<u>521.1</u>	<u>476.9</u>

19. Directors' remuneration	2003 £m	2002 £m
i) Directors' emoluments for services to the company	1.3	1.1
ii) Monies received from long term bonus schemes	-	-
iii) (a) The remuneration of the highest paid director, excluding pension contributions	0.3	0.2
(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 and exercised share options during the year.

	2003	2002
iv) Number of directors who are members of defined benefit pension schemes	4	7
v) Number of directors who had exercised options during the year (who are not directors of the ultimate holding company)	1	1

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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 2003 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 2003	Ordinary shares 2002	Ordinary shares under options 2003	Average option price 2003	Exercised during the year	Exercise price	Market Price at Date of Exercise	Granted during the year	Ordinary shares under options 2002
A D Emson	5,727	4,802	23,744	£6.409	-	-	-	10,787	12,957
D A Kneale	855	855	29,527	£6.350	-	-	-	29,527	-
P G Matthews	14,462	11,905	65,818	£5.903	(5,000)	£4.375	£6.095	20,580	50,238
J S Sinclair	7,546	5,261	25,140	£6.319	-	-	-	12,913	12,227

The market price of the ultimate holding company's shares at 31st March 2003 was 530.5p. The range of market prices during the year was 492p to 725p. Prices shown for options exercised during the year represent the weighted average of prices. The average option price for 2003 represents the weighted average price for options outstanding at 31st March 2003.

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 1990 executive share option scheme certain directors were granted options to subscribe for ordinary shares in Boots Group PLC. Such options (the last of which were granted in 1995) are exercisable up to February 2005 at option prices ranging from 437p to 531p.

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 630p and 594p.

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20. Directors' shareholdings and share options (continued)

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 is paid in cash and half is paid as a share award.

Ordinary shares conditional awards

	31st March 2003	Exercised during the year	Lapsed during the year	Granted during The year	31st March 2002
Long Term Bonus scheme					
A D Emson	2,659	(1,249)	-	-	3,908
P G Matthews	5,718	(4,196)	-	-	9,914
J S Sinclair	3,415	(3,329)	-	1,100	5,644

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.

**Conditional entitlement
award under the All Employee Share Ownership Plan 2000**

	31st March 2003	Awarded during the year	31st March 2002
A D Emson	114	55	59
P G Matthews	81	39	42
J S Sinclair	81	39	42

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20. Directors' shareholdings and share options (continued)

As a potential beneficiary, each director is deemed to have an interest in a total of 16,848,663 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).

21. Pensions

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 2003 the scheme had a surplus on an FRS 17 basis of £154m before tax.

Details of the most recent actuarial valuation and FRS 17 disclosures at 31st March 2003 can be found in the financial statements of Boots Group PLC.

22. 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 2003 the contingent liability was £108.5m (2002: £48.7m).

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23. 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 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.