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# AAH Retail Pharmacy Limited

## Annual report for the year ended 31 December 1997

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**Directors and advisers**

**Executive directors**

C Couturier (appointed 10 February 1997)

P England (resigned 30 May 1997)

G Greenhalgh (resigned 31 March 1997)

M E Major

C McSorley (appointed 16 May 1997)

S M Meister

A M Murdock (appointed 16 May 1997)

A C Sanders

B M Stewart (resigned 2 February 1997)

N Stokes (appointed 2 September 1997)

J M Troughton

M A Ward (appointed 23 April 1997)

G A Kershaw (appointed 31 January 1997)

**Secretary and registered office**

J R B Davies  
Unit C  
Hampton Court  
Tudor Road  
Manor Park  
Runcorn  
WA7 1TX

**Registered auditors**

Coopers & Lybrand  
Embankment Place  
London  
WC2N 6NN

**Directors' report for the year ended 31 December 1997**

The directors present their report and the audited financial statements for the year ended 31 December 1997.

**Results**

Details of the results for the financial year are set out in the profit and loss account on page 6.

**Principal activities**

The principal activities of the business throughout the year were the management of retail pharmacies and the operation of a chain of franchised pharmacies.

**Review of business and future prospects**

Excluding the reorganisation expenses resulting from the acquisition of the Lloyds Chemists plc group by GEHE in January 1997, the underlying performance of AAH Retail Pharmacy Limited has been satisfactory.

During the course of 1997, we have concentrated our activities around the integration of the Lloyds businesses. That has led to the opening of a new Head Office for the enlarged Group in Coventry in November and the closure of the Hills Hook site beginning of 1998. All staff have been treated fairly with outplacement support in case of redundancies.

During the last months of 1997 we have been establishing the strategy that will support the launch of our new retail brand "Lloyds pharmacy". The rebranding plan will be our major project from 1998 to 2000 in order to complete the integration of the Hills and Lloyds retail chains.

Whilst maintaining our traditional role of dispensing, we will be developing our retail offer towards "wellness" and expanding the advice role of the Pharmacist. In doing so we will address today's customer requirements, develop a unique proposition and create a new brand to be recognised as the people's favourite pharmacy.

**Dividends and transfers to reserves**

The directors do not recommend the payment of a dividend for the year ended 31 December 1997 (1996: £3,161,000).

**Directors**

The directors of the company during the year ended 31 December 1997, all of whom have been directors for the whole of the year, except where otherwise stated, are listed on page one.

## **Directors' interests**

No director had any interest in the ordinary shares of the company or was beneficially interested in the issued share capital of any other company in the group or of the parent undertakings, GEHE AG and Franz Haniel Cie GmbH, or had any material interest in any contracts with groups companies at any time during the period.

## **Directors' responsibilities**

The directors are required by UK Company Law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 1997. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

## **Directors' interests in contracts**

None of the directors had a significant interest in any contract or arrangement to which the company was party during the year.

## **Employees**

The company's policy is to consult and discuss with employees at staff meetings matters likely to affect employees' interests.

Information on matters of concern to employees is given through information bulletins and reports which seek to achieve a common awareness on the part of all employees of the financial and economic factors affecting the company's performance.

The company's policy is to recruit disabled workers for those vacancies that they are able to fill. All necessary assistance with initial training courses is given. Once employed, a career plan is developed so as to ensure suitable opportunities for each disabled person. Arrangements are made, wherever possible, for retraining employees who become disabled, to enable them to perform work identified as appropriate to their aptitude and abilities.

## Creditor payment policy

The policy of the company regarding the payment of trade creditors is determined internally rather than drawing upon any published supplier payment code. For the company the policy is to:

- (a) settle the terms of payment with those suppliers when agreeing the terms of each transaction;
- (b) ensure that those suppliers are made aware of the terms of the payment by inclusion of the relevant terms in contracts; and
- (c) pay in accordance with its contractual and other legal obligations.

The payment policy applies to all payments to creditors for revenue and capital supplies of goods and services without exception.

The company had 44 days purchases outstanding at 31 December 1997 based on the average daily amount invoiced by suppliers during the year ended 31 December 1997.

## Charitable contributions

The company made charitable contributions in the year totalling £1,764.

## Auditors

A resolution to reappoint the auditors, Coopers & Lybrand, will be proposed at the annual general meeting.

**By order of the Board**



Director

12/5/98

**Report of the auditors  
to the members of AAH Retail Pharmacy Limited**

We have audited the financial statements on pages 6 to 16.

**Respective responsibilities of directors and auditors**

As described on page 3, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

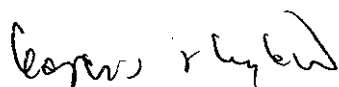
**Basis of opinion**

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 the company's affairs at 31 December 1997 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**Coopers & Lybrand**  
Chartered Accountants and Registered Auditors

London 12 May 1998

## Profit and loss account for the year ended 31 December 1997

	Notes	Continuing operations Year ended 31 December 1997 £'000	Acquisitions Year ended 31 December 1997 £'000	Total Year ended 31 December 1997 £'000	Total Year ended 31 December 1996 £'000
Turnover	2	212,419	10,175	222,594	199,072
Cost of sales		(168,731)	(8,101)	(176,832)	(151,004)
Gross profit		43,688	2,074	45,762	48,068
Net operating expenses	3	(37,906)	(1,354)	(39,260)	(35,945)
Exceptional operating expenses	4	(2,105)	-	(2,105)	-
Operating profit		3,677	720	4,397	12,123
Profit on sale of fixed assets		3	-	3	103
Profit on disposal of businesses		-	-	-	818
Investment income		42	-	42	32
Profit on ordinary activities before interest		3,722	720	4,442	13,076
Interest receivable	7			781	806
Interest payable	7			(7,164)	(5,764)
(Loss)/profit on ordinary activities before taxation	8			(1,941)	8,118
Tax on (loss)/profit on ordinary activities	9			562	(2,313)
(Loss)/profit for the financial period	20			(1,379)	5,805
Dividends	10			-	(3,161)
Retained (loss)/profit for the year	21			(1,379)	2,644

The company has no recognised gains and losses other than the (losses)/profits above and therefore no separate statement of total recognised gains and losses has been presented.

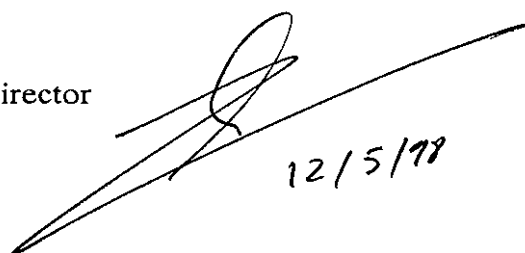
There is no difference between the profit on ordinary activities before taxation and the retained loss for the period stated above and their historical cost equivalents.

## Balance sheet at 31 December 1997

	Notes	31 December 1997 £'000	31 December 1996 £'000
<b>Fixed assets</b>			
Tangible assets	11	12,355	12,184
Investments	12	84	84
		<u>12,439</u>	<u>12,268</u>
<b>Current assets</b>			
Stocks	13	20,158	19,424
Debtors	14	37,989	36,257
Cash at bank and in hand		709	894
		<u>58,856</u>	<u>56,575</u>
Creditors: amounts falling due within one year	15	(27,528)	(38,237)
<b>Net current assets</b>		<u>31,328</u>	<u>18,338</u>
<b>Total assets less current liabilities</b>		<u>43,767</u>	<u>30,606</u>
Creditors: amounts falling due after more than one year	16	(37,197)	(22,322)
<b>Provisions for liabilities and charges</b>			
Deferred taxation	17	214	(121)
		<u>(36,983)</u>	<u>(22,443)</u>
<b>Net assets</b>		<u>6,784</u>	<u>8,163</u>
<b>Capital and reserves</b>			
Called-up share capital	19	242	242
Share premium account	21	63	63
Revaluation reserve	21	86	86
Profit and loss account	21	6,393	7,772
<b>Equity shareholders' funds</b>	20	<u>6,784</u>	<u>8,163</u>

The financial statements on pages 6 to 16 were approved by the board of directors on  
and were signed on its behalf by:

Director



12/5/98



**Notes to the financial statements  
for the year ended 31 December 1997****1 Principal accounting policies**

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

**Basis of accounting**

The financial statements have been prepared under the historical cost convention.

**Goodwill**

Goodwill represents the excess of purchase consideration over the fair value of net assets acquired. Such goodwill is written off to reserves.

**Tangible fixed assets**

Tangible fixed assets are stated at cost which comprise purchase cost together with any incidental expenses of acquisition.

Depreciation is calculated by reference to the expected lives of the assets concerned. Depreciation of assets bought and sold in the year is based on the number of months that the assets have been owned.

The following annual depreciation rates are applied on a straight line basis:

Freehold buildings	2%
Short leasehold land and buildings	life of lease
Long leasehold land and buildings	2%
Motor vehicles	40%
Plant and equipment	10%-33 $\frac{1}{3}$ %

Freehold land and long leasehold investment properties are not depreciated.

**Provisions for vacant leasehold premises**

At the end of each accounting period an assessment is made of the required provision to cover rent and rates for vacant leasehold premises. This assessment is made on a property by property basis in conjunction with the Group's property services department and takes account of the anticipated period until the lease is assigned or disposed of.

## **Operating leases**

Operating lease costs are charged against trading profit on a straight line basis over the lease term.

## **Stocks**

Stocks are stated at the lower of cost and net realisable value. Cost is determined on a first in first out basis. Net realisable value is the price at which stocks can be sold in the normal course of business after allowing for the cost of realisation. Provision is made where necessary for obsolete, slow moving and defective stocks.

## **Foreign currencies**

Trading transactions denominated in foreign currencies are translated into sterling at the exchange rate ruling when the transaction was entered. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rate ruling at the balance sheet date. Exchange gains or losses are included in operating profit.

## **Turnover**

Turnover, which excludes value added tax and trade discount, represents the invoiced value of goods and services supplied.

## **Deferred taxation**

Tax deferred or accelerated is accounted for, using the liability method, in respect of all material timing differences to the extent that it is probable that a liability or asset will crystallise. Full provision is made for deferred taxation on timing differences arising from the provision of employee pensions.

## **Pension costs**

The company participates in two pension schemes, one defined benefit and one defined contribution, operated by its immediate parent company, AAH plc. The assets of the schemes are independent of the company's and the group's finances. Contributions to the schemes are determined by a professionally qualified independent actuary. They are based upon pension costs across the group as a whole and are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. The most recent actuarial valuation of the group's principal defined benefit scheme was carried out on 1 April 1997, particulars of which are disclosed in the financial statements of AAH plc.

The company provides no other post retirement benefits to its employees.

**Cash flow statement**

The company takes advantage of the exemption in FRS1 (revised) not to prepare a cashflow statement on the grounds that the company is a wholly owned subsidiary whose ultimate parent prepares consolidated financial statements which are publicly available.

**Related party transactions**

The company has taken advantage of the exemption available in the Financial Reporting Standard No. 8 not to disclose related party transactions which are eliminated on consolidation.

**2 Turnover**

All turnover arises from sales in the United Kingdom in healthcare services.

**3 Net operating expenses**

	Continuing operations Year ended 31 December 1997 £'000	Acquisitions Year ended 31 December 1997 £'000	Total 1997 £'000	Total 1996 £'000
Distribution costs	32,043	1,354	33,397	30,019
Administrative expenses	6,945	-	6,945	6,851
Other operating income	(1,082)	-	(1,082)	(925)
	<u>37,906</u>	<u>1,354</u>	<u>39,260</u>	<u>35,945</u>

**4 Exceptional operating expenses**

	1997 £'000	1996 £'000
Relocation of divisional head office functions	276	-
Surplus property provisions not related to relocation of offices	672	-
Consultancy costs relating to rebranding	1,157	-
	<u>2,105</u>	<u>-</u>

**5 Directors emoluments**

	1997 £'000	1996 £'000
Aggregate emoluments	449	307
Compensation for loss of office	264	-
Company pension contributions to money purchase schemes	-	-
	<u>-</u>	<u>-</u>

Retirement benefits are accruing to 1 director under a money purchase pension scheme and to 12 directors under a defined benefit scheme.

Mr Kershaw, Mr Major, Mr Meister and Mr Ward are directors of AAH plc, the UK holding company. Their emoluments are disclosed in the accounts of that company.

The emoluments of Mr Greenhalgh, Mr Kershaw, Mr Major, Mr Meister and Mr Ward are disclosed in the financial statements of AAH Subsidiaries Limited.

	1997 £'000	1996 £'000
Highest paid director		
Aggregate emoluments	108	68
Defined benefit pension scheme:		
Accrued pension at end of year	3	1

## 6 Employees

The average weekly number of persons (including executive directors) employed during the year was:

	1997	1996
<b>By function</b>		
Selling and distribution	2,497	2,346
Administration	113	97
	<u>2,610</u>	<u>2,443</u>
	£'000	£'000
<b>Staff costs for the above persons were:</b>		
Wages and salaries	20,526	17,020
Social security costs	1,418	2,167
Other pension costs	242	250
	<u>22,186</u>	<u>19,437</u>

## 7 Interest

	1997 £'000	1996 £'000
<b>Interest payable</b>		
On finance leases	4	9
Group interest payable	7,151	5,755
Other interest payable	9	-
	<u>7,164</u>	<u>5,764</u>
<b>Bank interest receivable</b>	(768)	(800)
Other interest receivable	(13)	(6)
	<u>(781)</u>	<u>(806)</u>

**8 (Loss)/profit on ordinary activities before taxation**

	1997 £'000	1996 £'000
(Loss)/profit on ordinary activities before taxation is stated after crediting:		
Rent receivable (net of outgoings)	340	358
Profit on disposal of fixed assets	3	-
	<u>          </u>	<u>          </u>
And after charging:		
Depreciation charge for the period		
Tangible owned fixed assets	1,914	1,818
Assets held under finance leases	119	43
Auditors' remuneration		
- for audit	54	47
Hire of plant and machinery - operating leases	113	91
Exceptional operating expenses (note 4)	2,105	-
	<u>          </u>	<u>          </u>

**9 Taxation**

	1997 £'000	1996 £'000
United Kingdom corporation tax at 31.5% (1996: 33%)		
Current	(130)	2,934
Deferred	(335)	(376)
Over provision in respect of prior years	(97)	(245)
	<u>          </u>	<u>          </u>
	(562)	2,313

**10 Dividends**

	1997 £'000	1996 £'000
Ordinary:		
Final proposed	-	3,161
	<u>          </u>	<u>          </u>

**11 Tangible fixed assets**

	Freehold land and buildings £'000	Long leasehold land and buildings £'000	Short leasehold land and buildings £'000	Plant and equipment £'000	Motor vehicles £'000	Total £'000
<b>Cost</b>						
At 1 January 1997	5,929	333	1,088	12,168	1,086	20,604
New businesses	64	-	-	18	-	82
Additions	-	-	824	1,107	296	2,227
Group transfers in	492	21	-	343	14	870
Disposals	(250)	-	-	(1,076)	(908)	(2,234)
<b>At 31 December 1997</b>	<b>6,235</b>	<b>354</b>	<b>1,912</b>	<b>12,560</b>	<b>488</b>	<b>21,549</b>
<b>Depreciation</b>						
At 1 January 1997	626	65	793	6,377	559	8,420
Charge for year	125	6	24	1,636	242	2,033
Group transfers in	71	21	-	238	10	340
Disposals	(37)	-	-	(995)	(567)	(1,599)
<b>At 31 December 1997</b>	<b>785</b>	<b>92</b>	<b>817</b>	<b>7,256</b>	<b>244</b>	<b>9,194</b>
<b>Net book value</b>						
<b>At 31 December 1997</b>	<b>5,450</b>	<b>262</b>	<b>1,095</b>	<b>5,304</b>	<b>244</b>	<b>12,355</b>
At 31 December 1996	5,303	268	295	5,791	527	12,184

The net book value of tangible fixed assets includes an amount of £40,906 (1996:£116,578) in respect of assets held under finance leases.

**12 Fixed asset investments**

	£'000
<b>Other investments:</b>	
At 1 January 1997 and 31 December 1997	84

**13 Stocks**

	1997 £'000	1996 £'000
Finished goods and goods for resale	20,158	19,424

**14 Debtors**

	1997 £'000	1996 £'000
<b>Amounts falling due within one year:</b>		
Trade debtors	22,064	29,057
Amounts owed by parent and fellow subsidiaries	1,145	1,255
Amounts owed by fellow group companies	4,971	-
Corporation tax recoverable	75	-
Group relief receivable	1,743	-
Other debtors	4,874	4,689
Prepayments and accrued income	1,132	1,256
	<u>36,004</u>	<u>36,257</u>
<b>Debtors</b>		
Amounts falling due after one year		
Amounts owed by parent and fellow subsidiaries	<u>1,985</u>	<u>-</u>

**15 Creditors: amounts falling due within one year**

	1997 £'000	1996 £'000
Bank loans and overdrafts	1,258	11,959
Trade creditors	960	1,370
Amounts owed to parent and fellow subsidiary undertakings	19,862	16,857
Corporation tax	-	2,877
Group relief payable	1,437	-
Other taxation and social security payable	405	393
Finance lease obligations	4	29
Other creditors	788	754
Accruals and deferred income	2,673	837
Dividends payable	-	3,161
Amounts owed by fellow group companies	141	-
	<u>27,528</u>	<u>38,237</u>

**16 Creditors: amounts falling due after more than one year**

	1997 £'000	1996 £'000
Amounts owed to parent company and fellow subsidiary undertakings	37,197	22,319
Finance lease obligations	-	3
	<u>37,197</u>	<u>22,322</u>

Amounts owed to group undertakings represent an unsecured loan from the company's immediate parent company. This loan bears interest at a rate of 1% above bank base rate and has no fixed repayment terms.

**17 Deferred taxation**

Deferred taxation provided in the financial statements, and the amounts unprovided of the total potential liability, are as follows:

	Amount provided		Amount unprovided	
	At 31 December 1997 £'000	At 31 December 1996 £'000	At 31 December 1997 £'000	At 31 December 1996 £'000
<b>Tax effect of timing differences</b>				
Excess of tax allowances over depreciation	317	490	-	-
Deferred gains	-	-	-	135
Other timing differences	(531)	(369)	-	-
	<u>(214)</u>	<u>121</u>	<u>-</u>	<u>135</u>

The movements in the year are as follows:

	£'000
Provision at 1 January 1997	121
Transferred to profit and loss account (note 9)	(335)
Acquisitions in the period	-
At 31 December 1997	<u>(214)</u>

**18 Pension obligations**

The company participates in two pension schemes, one defined contribution and one defined benefit, operated by its parent company, AAH plc. Particulars of the latest actuarial valuation, which was performed as at 1 April 1997, are disclosed in the financial statements of AAH plc.

**19 Called-up share capital**

	1997 £'000	1996 £'000
<b>Authorised</b>		
250,000 ordinary shares of £1 each	<u>250</u>	<u>250</u>
<b>Allotted, called up and fully paid</b>		
242,450 ordinary shares of £1 each	<u>242</u>	<u>242</u>



**20 Reconciliation of movements in shareholders' funds**

	1997 £'000	1996 £'000
Profit/(loss) for the financial period	(1,379)	5,805
Dividends	-	(3,161)
Goodwill written off	-	(20)
Opening shareholders' funds	8,163	5,539
Closing shareholders' funds	<u>6,784</u>	<u>8,163</u>

**21 Reserves**

	Share premium account £'000	Revaluation reserve £'000	Profit and loss account £'000
At 1 January 1997	63	86	7,772
Retained loss for the period	-	-	(1,379)
At 31 December 1997	<u>63</u>	<u>86</u>	<u>6,393</u>

**22 Financial commitments**

At 31 December 1997 the company had annual commitments under non-cancellable operating leases as follows:

	1997 £'000	1996 £'000
Expiring within one year	4	10
Expiring between two and five years	210	49
	<u>214</u>	<u>59</u>

**23 Ultimate parent company**

The ultimate parent undertaking and controlling party is Franz Haniel & Cie GmbH by virtue of its majority shareholding in GEHE AG and its consolidation of the GEHE AG Group results into its own consolidated financial statements.

Consolidated financial statements for the largest group of undertakings are prepared by Franz Haniel & Cie GmbH and may be obtained from Franz Haniel Platz 1 D47119 Duisburg, Ruhrort, Germany.

Consolidated accounts for the smallest group of companies are prepared by GEHE AG and may be obtained from Neckartalstrasse 155, Postfach 500426, 70334 Stuttgart, Germany.