

Lloyds Healthcare Holdings Limited

Annual Report for the year ended 31 December 1998

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Lloyds Healthcare Holdings Limited

Directors' report for the year ended 31 December 1998

The directors present their report and the audited financial statements for the year ended 31 December 1998.

Results

Details of the results for the financial year are set out in the profit and loss account on page 5.

Principal activities

The principal activity of the company is that of holding shares in its subsidiary companies.

Review of business and future prospects

There were no significant changes to the company's investments during the year. Immediately post year end the company sold its investment in Barclay Pharmaceuticals Limited to AAH Subsidiaries Limited for its underlying net assets value. No further significant changes in the investment portfolio are anticipated in the immediate future.

Dividends

Interim dividends of £115 million were paid during the year. No final dividend is proposed. (1997: £Nil).

Directors

The directors of the company during the year ended 31 December 1998, all of whom have been directors for the whole of the year, except where otherwise stated, were as follows:

G A Kershaw
S M Meister *
M A Ward
R C H Vizard

* On 1 January 1999, Mr S Meister resigned and Mr G Mischke was appointed director.

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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 group companies, at any time during the year.

Impact of the Euro

An initial assessment of the impact of the Euro on the Group has been performed except in the Republic of Ireland where there has been an ongoing programme of work to deal with its introduction.

Within the United Kingdom this assessment established that little immediate work was required during 1998 and accordingly no significant costs were borne during the year.

Impact of Year 2000

The directors are aware of the Year 2000 issue and are taking steps to address it fully. A Year 2000 steering group was formed at the beginning of 1998 in order to co-ordinate better the compliance effort within the GEHE UK Group. It is not practical to apportion time spent on the project on an individual entity basis.

The compliance task has been divided into three elements. The first element is the assessment of existing systems and hardware to determine whether or not they are compliant. This stage is followed by the planning and performance of necessary rectification work. Finally the third element is the testing, quality assurance and sign off of any work required. Implicit within the assessment process has been a grading of systems to determine whether or not they are critical to the business. Maximum effort is being directed towards those systems that are business critical.

Given the complexity of the problem, it is not possible for any organisation to guarantee that no Year 2000 problems will remain. However the Board believes that an acceptable state of readiness will be achieved. The costs associated with ensuring compliance are both capital and revenue in their nature. All revenue costs have been charged to the profit and loss account as incurred and no provision for future revenue costs has been included within the accounts. Where appropriate, costs of hardware and third party software have been capitalised and will be depreciated over the normal term. In all cases items capitalised are in accordance with existing criteria and do not include costs associated solely with ensuring Year 2000 compliance. Wherever possible the costs of compliance have been mitigated by incorporating necessary work into current capital and system replacement programmes.

Since the compliance programme has been integrated with ongoing business projects it is not practical to identify separately the costs involved. On a Group basis time spent on Year 2000 related activities in 1998 has been assessed at 13.4 man years. Plans and estimates for 1999 anticipate a further 13.4 man years of work will be required. The assessment for 1999

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is considered to be very prudent and has a significant contingency element built in. Adequate resources are considered to be available to complete the work programme in time.

Statement of 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.

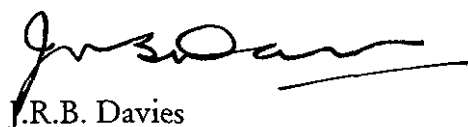
The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 1998. The directors also confirm that applicable accounting 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.

Auditors

On 1 July 1998, the company's auditors Coopers & Lybrand merged with Price Waterhouse and chose not to stand for re-election. The new firm, PricewaterhouseCoopers, was appointed at the 1998 annual general meeting, and a resolution to re-appoint PricewaterhouseCoopers will be proposed at the forthcoming annual general meeting.

By order of the Board



J.R.B. Davies
Secretary
24 March 1999

Lloyds Healthcare Holdings Limited

Report of the auditors to the members of Lloyds Healthcare Holdings Limited

We have audited the financial statements on pages 5 to 13 which have been prepared under the historical cost convention and the accounting policies set out on page 7.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described on page 3 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and 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. 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 is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

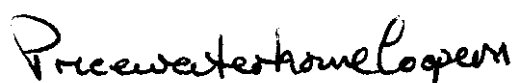
Basis of opinion

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 1998 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Sheffield
29 March 1999

Lloyds Healthcare Holdings Limited

Profit and loss account for the year ended 31 December 1998

		Year ended 31 December 1998 £'000	18 months ended 31 December 1997 £'000
	Notes		
Amounts written off investments		(500)	(5,000)
Profits on transfer of investment		-	73,838
Income from shares in group undertakings		25,000	-
Profit on ordinary activities before interest and taxation		24,500	68,838
Interest receivable		-	1,416
Profit on ordinary activities before taxation	4	24,500	70,254
Taxation on profit on ordinary activities	5	-	(1,112)
Profit on ordinary activities after taxation		24,500	69,142
Dividends payable	6	(115,000)	-
Retained (loss)/profit for the financial period	13	(90,500)	69,142

All items dealt with in arriving at profit on ordinary activities before taxation relate to continuing activities.

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

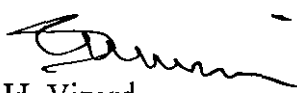
There is no difference between the result above and the result on an unmodified historical cost basis.

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Balance sheet at 31 December 1998

		31 December 1998 £'000	31 December 1997 £'000
	Notes		
Fixed assets			
Investments	7	25,000	25,500
		<u>25,000</u>	<u>25,500</u>
Current assets			
Debtors	8	147,001	177,501
Creditors: amounts falling due within one year	9	(160,149)	(1,149)
Net current (liabilities) / assets		<u>(13,148)</u>	<u>176,352</u>
Total assets less current liabilities		11,852	201,852
Creditors: amounts falling due after more than one year	10	(5,500)	(105,000)
Net assets		<u><u>6,352</u></u>	<u><u>96,852</u></u>
Capital and reserves			
Called-up share capital	12	10	10
Profit and loss account	13	6,342	96,842
Equity shareholders' funds	14	<u><u>6,352</u></u>	<u><u>96,852</u></u>

The financial statements on pages 5 to 13 were approved by the board of directors on 24 March 1999 and were signed on its behalf by:


R.C.H. Vizard
Director

Lloyds Healthcare Holdings Limited

Notes to the financial statements for the year ended 31 December 1998

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 and in accordance with applicable Accounting Standards.

Consolidated accounts

In accordance with Section 228 of the Companies Act 1985 the company is not required to submit group accounts as the whole of the issued share capital is held by Lloyds Chemists plc, a company registered in England and Wales, which in turn is ultimately owned by Franz Haniel & Cie GmbH and which prepares consolidated accounts.

Taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for accounting and taxation purposes. Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that a liability or asset will crystallise.

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.

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2 Directors' emoluments

The emoluments of Mr Meister , Mr Kershaw and Mr Ward are paid by a fellow group company (AAH Subsidiaries Limited) which makes no recharge to the company. Mr Meister, Mr Kershaw and Mr Ward are directors of a number of fellow group companies and it is not possible to make an accurate apportionment of their emoluments in respect of each of the companies. Accordingly, no emoluments in respect of Mr Meister, Mr Kershaw and Mr Ward are disclosed. Their total emoluments are included in the aggregate of directors' emoluments disclosed in the financial statements of AAH Subsidiaries Limited.

The emoluments of Mr Vizard are paid by AAH Subsidiaries Limited. Mr Vizard's services to this company and to a number of fellow group companies are of a non-executive nature and his emoluments are deemed to be wholly attributable to his services to AAH Subsidiaries Limited. Accordingly, no emoluments in respect of Mr Vizard are disclosed.

3 Employees

The company had no employees during the year (1997: nil).

4 Profit on ordinary activities before taxation

The profit on ordinary activities before taxation is stated after charging the following:

	Year ended 31 December 1998 £'000	18 months ended 31 December 1997 £'000
Write down of investments	500	5,000
Auditors' remuneration	-	2
	=====	=====

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5 Tax on loss on ordinary activities

	Year ended 31 December 1998 £'000	18 months ended 31 December 1997 £'000
UK corporation tax at 31% (1997: 32%)	-	1,112

6 Dividends

	1998 £'000	1997 £'000
Ordinary – Interim paid	115,000	-

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7 Investments

	Shares in subsidiary undertakings £'000
Cost or valuation	
At 1 January 1998 and 31 December 1998	<u>31,500</u>
Provision for permanent diminution in value	
At 1 January 1998	6,000
Additional provision during the year	<u>500</u>
At 31 December 1998	<u>6,500</u>
Net book value	
At 31 December 1998	<u>25,000</u>
At 31 December 1997	<u>25,500</u>

The directors consider that the aggregate value of the company's shares in its subsidiary undertakings is not less than the aggregate of the amounts at which such shares are included in the company's balance sheet.

The subsidiaries of the company at the year end and the nature of their businesses were as follows:

Subsidiary	Nature of business	Class of capital	% held
Lloyds Retail Chemists Limited	Retail pharmacies	£1 ordinary shares	100
Lloyds Supersave Limited	Retailing toiletries	£1 ordinary shares	100
Barclay Pharmaceuticals Limited	Distribution of pharmaceuticals	£1 ordinary shares	100
Lloyds Properties Limited	Property management	£1 ordinary shares	100

The investment in Barclay Pharmaceuticals Limited was transferred to AAH Subsidiaries Limited on 4 January 1999.

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8 Debtors

	1998 £'000	1997 £'000
Amounts owed by parent and fellow subsidiaries	87,501	80,501
Amounts owed by subsidiaries	<u>59,500</u>	<u>97,000</u>
	<u>147,001</u>	<u>177,501</u>

9 Creditors: amounts falling due within one year

	1998 £'000	1997 £'000
Amounts payable to parent and fellow subsidiaries	159,037	-
Amounts payable to other group companies	659	-
Corporation tax	453	1,112
Other creditors	-	37
	<u>160,149</u>	<u>1,149</u>

10 Creditors: amounts falling due after more than one year

	1998 £'000	1997 £'000
Amounts owed to parent and fellow subsidiaries	5,000	72,500
Amounts owed to subsidiaries	500	32,500
	<u>5,500</u>	<u>105,000</u>

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11 Deferred taxation

The company had no potential liability for deferred taxation at 31 December 1998 (1997: £Nil).

12 Called-up share capital

	1998 £'000	1997 £'000
Authorised, allotted, called up and fully paid 10,000 ordinary shares of £1 each	<u>10</u>	<u>10</u>

13 Reserves

	Profit and loss account £'000
At 1 January 1998	96,842
Retained loss for the year	(90,500)
At 31 December 1998	<u>6,342</u>

14 Reconciliation of movements in shareholders' funds

	Year ended 31 December 1998 £'000	18 months ended 31 December 1997 £'000
Profit for the year after taxation	24,500	69,142
Dividends	(115,000)	-
Opening shareholders' funds	96,852	27,710
Closing shareholders' funds	<u>6,352</u>	<u>96,852</u>

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15 Related party transactions

The company has taken advantage of the exemption under Financial Reporting Standard Number 8 from disclosure of intra-group transactions and balances as these are eliminated on consolidation in the financial statements of the ultimate parent undertaking.

16 Ultimate parent undertaking and ultimate controlling party

In the opinion of the directors the company's ultimate controlling party is the ultimate parent undertaking, Franz Haniel & Cie GmbH, a company registered in Germany, by virtue of its majority shareholding in the intermediate parent 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 GEHE AG, Neckartalstrasse 155, D-70376 Stuttgart, Germany.