
ABC DRUG STORES LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017

ABC DRUG STORES LIMITED

COMPANY INFORMATION

Directors	Dr C Parkhurst Mr J C Patel Jnr Miss H Patel
Company secretary	Mr A R Patel
Registered number	02825947
Registered office	2 Peterwood Way Croydon Surrey CR0 4UQ
Independent auditor	KPMG LLP, Statutory Auditor Chartered Accountants 1 Forest Gate Brighton Road Crawley RH11 9PT

ABC DRUG STORES LIMITED

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**STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2017**

Business review

The company operates 29 retail pharmacies and all are performing to budget. The company's strategy is to continue driving growth through its existing portfolio.

Retail pharmacy

The English pharmacy sector represents a secure, growing market, underpinned by an increasing need for dispensing of prescription drugs and a government that wants to see community pharmacies expand and improve the range of services they offer to relieve the burden on an overstretched NHS.

Day Lewis is a patient orientated service provider which dispenses pharmaceutical and other retail and over the counter products and provides a wide range of clinical services to its patients.

The group's pharmacies are typically located in local communities, in or near health centres and GP surgeries, helping to deliver increased footfall amongst customers, develop strong relationships with the local healthcare community and build Day Lewis's brand as a trusted healthcare provider.

Day Lewis prides itself on its service led approach; putting the patient at the heart of its decisions is a key differentiator for the business enabling it to build a large base of loyal, recurring customers, evidenced by repeat prescriptions making up at least 70% of the group's dispensing activities.

Prescription dispensing across the country has grown steadily over the last ten years. Growth in prescriptions during the year ended 31 March 2017 finished at 2% above the previous year at a national level. This growth is forecast to continue, driven by an ageing population, an increased prevalence of long term conditions and advancements in drugs. Day Lewis's broad portfolio of attractively located stores, strength of brand and knowledgeable and experienced staff means that the business is well positioned to take advantage of this growth and continue driving its retail business going forward.

Principal risks and uncertainties

Principal risks and uncertainties and risk management objectives and policies

Price risk

The company, through its investments, is exposed to the inherent risks of economic and financial market developments, including recession, inflation, availability of affordable credit and currency fluctuations that could lower revenues. The current system of correcting generic reimbursement prices through the mechanism of "Category M" has continued through the current financial year. Category M was introduced with the new pharmacy contract in 2005 and allows the retail pharmacy industry to retain an amount of £800m of generic procurement profit annually. The system is therefore used retrospectively by the Department of Health to claw back surplus procurement profits from the Pharmacy industry. Through a continual business review process and monitoring of the business environment, the Directors of the company and the wider group seek to mitigate these potential risks.

Liquidity risk

The company is no longer financed by way of bank loans, overdrafts or other loans. The Directors believe the company has sufficient current and future cash reserves and facilities available for it to meet its liabilities including financing obligations for at least twelve months from the signing of the financial statements.

The Directors' assessment of the group's and the company's ability to adopt the going concern basis of accounting is set out in note 2 on page 11.

ABC DRUG STORES LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2017

Interest rate risk

During the year, a forward start hedge instrument was entered into by the group. The instrument is a plain vanilla swap, commences in January 2018 and is for a fixed amount of £100m of debt at a fixed rate of 1.099%.

Cash flow risk

The group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The group uses interest rate swap contracts to hedge interest rate exposures. Foreign currency rates risk is mitigated by buying currency at spot and one month forward rate.

Interest bearing assets and liabilities are held at fixed rate to ensure certainty of cash flows.

Credit risk

The group's principal financial assets are bank balances and cash, trade and other receivables. The credit risk on trade and other receivables is limited as the group's exposure is with Department of Health and retail and wholesales customers. Exposure to credit risk on wholesale customers is mitigated through credit insurance taken out on the wholesales debtors book. The amounts presented in the balance sheet are net of allowances for doubtful receivables. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

Financial key performance indicators

The directors have significantly improved profitability of the shops in the portfolio. Head office overhead costs have been reduced and this has resulted in an operating profit for the year of £2.0m (2016: £2.9m)

Turnover in the year finished at £26.9m (2016: £22.1m).

Gross margins decreased by 2.7% to 30.8% in 2016 (2016: 33.5%) based on a gross profit of £8.3m for the year (2016: £7.4m)

Total administrative costs decreased by £0.8m to £6.2m (2016: £5.4m). The business has enhanced its infrastructure and support office function during the year to enable sustained future progress.

Interest costs have decreased to £nil (2016: £0.45m).

Ongoing Government action continues to reduce reimbursement prices. The company has undertaken measures to mitigate the effect of this including enhanced purchasing and stock control processes and thorough appraisals of individual branch profitability.

This report was approved by the board and signed on its behalf.

Miss H Patel

Director

Date: 27 October 2017

ABC DRUG STORES LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2017

The Directors present their report and the financial statements for the year ended 31 March 2017.

Directors' responsibilities statement

The Directors are responsible for preparing the Strategic Report, 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 the Directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the Directors must not approve the financial statements unless they are satisfied that they 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 for the Company's financial statements and then apply them consistently;
- make judgments and accounting 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;
- 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 adequate accounting records that are sufficient to show and explain the Company's transactions and 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 2006. 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.

Principal activity

The principal activity of the company continued to be that of retail pharmacy.

Results and dividends

The loss for the year, after taxation, amounted to (£863,276) (2016 - profit £3,830,793).

The Directors have not recommended a dividend (2016: £nil)

Directors

The Directors who served during the year were:

Mr K C Patel (deceased 16 July 2016)
Dr C Parkhurst
Mr K C Patel Jnr (resigned 16 July 2016)
Mr J C Patel Jnr
Miss H Patel

ABC DRUG STORES LIMITED

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2017**

Disclosure of information to auditor

Each of the persons who are Directors at the time when this Directors' Report is approved has confirmed that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the Director has taken all the steps that ought to have been taken as a Director in order to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

Under section 487(2) of the Companies Act 2006, KPMG LLP, Statutory Auditor will be deemed to have been reappointed as auditor 28 days after these financial statements were sent to members or 28 days after the latest date prescribed for filing the accounts with the registrar, whichever is earlier.

This report was approved by the board and signed on its behalf.

Miss H Patel

Director

Date: 27 October 2017

2 Peterwood Way
Croydon
Surrey
CR0 4UQ

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ABC DRUG STORES LIMITED

We have audited the financial statements of ABC Drug Stores Limited for the year ended 31 March 2017, set out on pages 7 to 29. The relevant financial reporting framework that has been applied in their preparation is applicable law and the United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 Auditor

As explained more fully in the Directors' Responsibilities Statement on page 3, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements. Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ABC DRUG STORES LIMITED (CONTINUED)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Timothy Rush (Senior Statutory Auditor)

for and on behalf of

KPMG LLP, Statutory Auditor

Chartered Accountants

1 Forest Gate
Brighton Road
Crawley
RH11 9PT

27 October 2017

ABC DRUG STORES LIMITED

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2017**

	Note	2017 £	2016 £
Turnover	4	26,891,504	22,095,343
Cost of sales		(18,598,251)	(14,695,375)
Gross profit		8,293,253	7,399,968
Administrative expenses		(6,219,674)	(5,402,122)
Net (loss)/profit on disposal of pharmacy branches	12	(73,162)	2,028,689
Other operating income	5	-	289,255
Operating profit	6	2,000,417	4,315,790
Amounts written off investments		(3,354,185)	(100)
Interest receivable and similar income		4,516	-
Interest payable and similar expenses	10	-	(455,966)
(Loss)/profit before tax		(1,349,252)	3,859,724
Tax on (loss)/profit	11	485,976	(28,931)
(Loss)/profit for the financial year		(863,276)	3,830,793

There were no recognised gains and losses for 2017 or 2016 other than those included in the profit and loss account.

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2017**

	Note	2017 £	2016 £
(Loss)/profit for the financial year		(863,276)	3,830,793
Other comprehensive income			
Total comprehensive income for the year		(863,276)	3,830,793

The notes on pages 10 to 29 form part of these financial statements.

ABC DRUG STORES LIMITED
REGISTERED NUMBER: 02825947

BALANCE SHEET
AS AT 31 MARCH 2017

	Note	2017 £	2016 £
Fixed assets			
Intangible assets	13	14,948,382	16,785,116
Tangible assets	14	464,574	559,927
Investments	15	5,021,121	8,375,306
		<u>20,434,077</u>	<u>25,720,349</u>
Current assets			
Stocks	16	1,549,017	1,583,619
Debtors: amounts falling due within one year	17	18,151,144	8,787,745
Cash at bank and in hand	18	728,374	1,113,101
		<u>20,428,535</u>	<u>11,484,465</u>
Creditors: amounts falling due within one year	19	(42,606,127)	(37,374,141)
Net current liabilities		<u>(22,177,592)</u>	<u>(25,889,676)</u>
Total assets less current liabilities		<u>(1,743,515)</u>	<u>(169,327)</u>
Provisions for liabilities			
Deferred tax	21	(1,007,721)	(1,718,633)
Net assets		<u><u>(2,751,236)</u></u>	<u><u>(1,887,960)</u></u>
Capital and reserves			
Called up share capital	22	327,001	327,001
Profit and loss account	23	(3,078,237)	(2,214,961)
		<u><u>(2,751,236)</u></u>	<u><u>(1,887,960)</u></u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:

Miss H Patel
Director

Date: 27 October 2017

The notes on pages 10 to 29 form part of these financial statements.

ABC DRUG STORES LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2017**

	Called up share capital	Profit and loss account	Total equity
	£	£	£
At 1 April 2016	327,001	(2,214,961)	(1,887,960)
Comprehensive income for the year			
Loss for the year	-	(863,276)	(863,276)
Total comprehensive income for the year	-	(863,276)	(863,276)
At 31 March 2017	<u>327,001</u>	<u>(3,078,237)</u>	<u>(2,751,236)</u>

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2016**

	Called up share capital	Profit and loss account	Total equity
	£	£	£
At 1 April 2015	327,001	(6,045,754)	(5,718,753)
Comprehensive income for the year			
Profit for the year	-	3,830,793	3,830,793
Total comprehensive income for the year	-	3,830,793	3,830,793
At 31 March 2016	<u>327,001</u>	<u>(2,214,961)</u>	<u>(1,887,960)</u>

The notes on pages 10 to 29 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

1. General information

ABC Drug Stores Limited (the "Company") is a private company limited by shares and incorporated, domiciled and registered in England in the United Kingdom. The address of the registered office is given on company information page.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The functional currency of ABC Drug Stores Limited is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates. The financial statements are also presented in pounds sterling and rounded to nearest £.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 3).

The following principal accounting policies have been applied:

2.2 Financial reporting standard 102 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d) Statement of Cash Flows;
- certain disclosures required by FRS102.11 Basic financial instruments;
- key management personnel compensation;
- reconciliation of shares outstanding from the beginning to end of the period;
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of Day Lewis Plc as at 31 March 2017 and these financial statements may be obtained from 2 Peterwood Way, Croydon, Surrey, CR0 4UQ.

2.3 Going concern

The financial statements have been prepared on a going concern basis as the parent undertaking, Day Lewis PLC, has formally indicated its intention to continue to provide financial support to the Company to meet its obligations as they fall due for the foreseeable future, and for a period of at least 12 months from the date of approval of these financial statements. The directors have no reason to believe that the parent company will not be in a position to provide the support referred to above and, accordingly, they have prepared the financial statements on a going concern basis.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

2. Accounting policies (continued)

2.4 Exemption from preparing consolidated financial statements

The Company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

2.5 Turnover

Turnover comprises revenue recognised by the Company in respect of goods and services supplied during the year, exclusive of Value Added Tax and trade discounts.

A revenue recognition adjustment is made in respect of the estimated recovery of excess profit from NHS income paid through the Category M Pricing Policy in the following year.

2.6 Intangible assets

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

All intangible assets are considered to have a finite useful life. If a reliable estimate of the useful life cannot be made, the useful life shall not exceed ten years.

The estimated useful lives range as follows:

Retail pharmacy licence	-	100	years
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2.7 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives.

Depreciation is provided on the following basis:

Leasehold land and buildings	- Over the life of the lease
Plant and machinery	- 25% per annum straight line
Fixtures, fittings and equipment	- 15% per annum reducing balance

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Profit and Loss Account.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

2. Accounting policies (continued)

2.8 Impairment of intangible fixed assets and goodwill

Assets that are subject to depreciation or amortisation are assessed at each balance sheet date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash-generating unit to which the asset has been allocated) is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets that have been previously impaired are reviewed at each balance sheet date to assess whether there is any indication that the impairment losses recognised in prior periods may no longer exist or may have decreased.

2.9 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

2.10 Stocks

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis.

At each balance sheet date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

2.11 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

2.12 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

2.13 Financial instruments

The Company only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in case of an out-right short-term loan not at market rate,

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

2. Accounting policies (continued)

2.13 Financial instruments (continued)

the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Investments in non-convertible preference shares and in non-puttable ordinary and preference shares are measured:

- at fair value with changes recognised in the Profit and Loss Account if the shares are publicly traded or their fair value can otherwise be measured reliably;
- at cost less impairment for all other investments.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Profit and Loss Account.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate of the recoverable amount, which is an approximation of the amount that the Company would receive for the asset if it were to be sold at the balance sheet date.

Financial assets and liabilities are offset and the net amount reported in the Balance Sheet when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Other financial instruments not meeting the definition of Basic Financial Instruments are recognised initially at fair value. Subsequent to initial recognition other financial instruments are measured at fair value with changes recognised in profit or loss.

2.14 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

2.15 Finance costs

Finance costs are charged to the Profit and Loss Account over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

2. Accounting policies (continued)

2.16 Operating leases: the Company as lessor

Rentals income from operating leases is credited to the Profit and Loss Account on a straight line basis over the term of the relevant lease.

Amounts paid and payable as an incentive to sign an operating lease are recognised as a reduction to income over the lease term on a straight line basis, unless another systematic basis is representative of the time pattern over which the lessor's benefit from the leased asset is diminished.

2.17 Operating leases: the Company as lessee

Rentals paid under operating leases are charged to the Profit and Loss Account on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the lease term, unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

2.18 Pensions

Defined contribution pension plan

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in the Profit and Loss Account when they fall due. Amounts not paid are shown in accruals as a liability in the Balance Sheet. The assets of the plan are held separately from the Company in independently administered funds.

2.19 Interest Income

Interest income is recognised in the Profit and Loss Account using the effective interest method.

2.20 Borrowing costs

All borrowing costs are recognised in the Profit and Loss Account in the year in which they are incurred.

2.21 Provisions for liabilities

Provisions are made where an event has taken place that gives the Company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the Profit and Loss Account in the year that the Company becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

2. Accounting policies (continued)

2.22 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Profit and Loss Account, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Balance Sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits;
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met; and
- Where they relate to timing differences in respect of interests in subsidiaries, associates, branches and joint ventures and the Company can control the reversal of the timing differences and such reversal is not considered probable in the foreseeable future.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

2.23 Exceptional items

Exceptional items are transactions that fall within the ordinary activities of the Company but are presented separately due to their size or incidence.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

3. Judgments in applying accounting policies and key sources of estimation uncertainty

In the application of the company's accounting policies, which are described in note 2, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the company's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Key source of estimation uncertainty - impairment of retail pharmacy licences

Determining whether retail pharmacy license is impaired requires an estimation of the value in use of the cash-generating units to which retail pharmacy license has been allocated. The carrying amount of retail pharmacy license at the balance sheet date was £14.9m (2016: £16.78m) after an impairment loss of £nil was recognised during the year 2017 (2016: £nil)

Key source of estimation uncertainty - useful life of retail pharmacy licences

The directors believe that the right for dispensing UK NHS prescriptions, being the pharmacy licence which is attached to a particular pharmacy, has a continuing value. Such rights, conferred by the Department of Health as contracts to dispense prescriptions, are not generally granted to new pharmacies in the same locality. Consequently the Directors consider that the value of retail pharmacy licences have a long life of 100 years and therefore are amortised over that period.

4. Turnover

The whole of the turnover is attributable to be that of retail pharmacy.

Analysis of turnover by country of destination:

	2017 £	2016 £
United Kingdom	26,891,504	22,095,343
	<u>26,891,504</u>	<u>22,095,343</u>

ABC DRUG STORES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017**

5. Other operating income

	2017	2016
	£	£
Net rents receivable	-	289,255
	<u>-</u>	<u>289,255</u>
	<u>-</u>	<u>289,255</u>

6. Operating profit

The operating profit is stated after charging:

	2017	2016
	£	£
Depreciation of tangible fixed assets	166,758	100,396
Amortisation of intangible assets	153,126	170,147
Other operating lease rentals	855,339	712,863
Defined contribution pension cost	22,335	24,516
	<u>22,335</u>	<u>24,516</u>

7. Auditor's remuneration

	2017	2016
	£	£
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements	<u>34,233</u>	<u>34,233</u>

ABC DRUG STORES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017**

8. Employees

Staff costs were as follows:

	2017 £	2016 £
Wages and salaries	3,436,621	2,705,936
Social security costs	293,187	242,066
Contribution to defined contribution scheme	22,335	24,516
	<u>3,752,143</u>	<u>2,972,518</u>

The average monthly number of employees, including the Directors, during the year was as follows:

	2017 No.	2016 No.
Pharmacists	60	45
Sales assistants	115	85
	<u>175</u>	<u>130</u>

9. Directors' remuneration

Directors remuneration was born by the parent company Day Lewis Plc.

10. Interest payable and similar charges

	2017 £	2016 £
Bank interest payable	-	4,095
Other loan interest payable	-	451,871
	<u>-</u>	<u>455,966</u>

ABC DRUG STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

11. Taxation

	2017 £	2016 £
Corporation tax		
Current tax on profits for the year	-	57,604
Adjustments in respect of previous periods	(57,604)	(5,060)
	<u>(57,604)</u>	<u>52,544</u>
Total current tax	<u>(57,604)</u>	<u>52,544</u>
Deferred tax		
Origination and reversal of timing differences	257,811	(18,642)
Changes to tax rates	(95,480)	(4,971)
Prior year adjustment	(590,703)	-
Total deferred tax	<u>(428,372)</u>	<u>(23,613)</u>
Taxation on (loss)/profit on ordinary activities	<u>(485,976)</u>	<u>28,931</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017**

11. Taxation (continued)**Factors affecting tax charge for the year**

The tax assessed for the year is lower than (2016 - *lower than*) the standard rate of corporation tax in the UK of 20% (2016 - 20%). The differences are explained below:

	2017 £	2016 £
Profit on ordinary activities before tax	<u>(1,349,252)</u>	<u>3,859,724</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2016 - 20%)	(269,850)	771,945
Effects of:		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	680,201	(76,491)
Adjustments to tax charge in respect of prior periods	(57,604)	(5,060)
Non-taxable income	-	(323,977)
Tax rate changes	(95,480)	-
Deferred tax not recognised previously	(151,153)	(290,400)
Deferred tax prior year adjustment	(590,703)	-
Other tax adjustments	(1,387)	(47,086)
Total tax charge for the year	<u><u>(485,976)</u></u>	<u><u>28,931</u></u>

Factors that may affect future tax charges

Reductions in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and 18% (effective from 1 April 2020) were substantively enacted on 26 October 2015. A further reduction to the UK corporation tax rate was announced in the 2016 Budget to further reduce the tax rate to 17% from 18% (to be effective from 1 April 2020). This will reduce the company's future current tax charge accordingly.

The company has estimated tax losses of £315,940 (2016: £2,804,919) available for carry forward against future trading profits.

As at 31 March 2017 a deferred tax asset existed in respect of losses carried forward of £447,287 (2016: £1,452,000), based on tax rate of 17% (2016: 20%).

ABC DRUG STORES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017**

12. Exceptional items

	2017 £	2016 £
Disposal of pharmacy branches	(73,162)	2,028,689
	<u>(73,162)</u>	<u>2,028,689</u>

During the year, the company disposed of the two of its pharmacies. The net proceeds and loss on disposal are

	£
Cash proceeds	1,327,906
	<u>1,327,906</u>
Net assets disposed of:	
Intangible fixed assets	(1,683,608)
Deferred tax	282,540
	<u>1,401,068</u>
Loss on disposal before tax	<u><u>(73,162)</u></u>

The net inflow of cash in respect of the sale of the two disposed pharmacies is as follows:

	£
Cash consideration	1,327,906
Net inflow of cash	<u><u>1,327,906</u></u>

ABC DRUG STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

13. Intangible assets

	Retail pharmacy licence £
Cost	
At 1 April 2016	17,014,713
Disposals	(1,701,953)
	<hr/>
At 31 March 2017	15,312,760
	<hr/>
Amortisation	
At 1 April 2016	229,597
Charge for the year	153,126
On disposals	(18,345)
	<hr/>
At 31 March 2017	364,378
	<hr/>
Net book value	
At 31 March 2017	<u>14,948,382</u>
At 31 March 2016	<u>16,785,116</u>

ABC DRUG STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

14. Tangible fixed assets

	Leasehold Property £	Plant and machinery £	Fixtures, fittings and equipment £	Total £
Cost or valuation				
At 1 April 2016	370,807	122,526	1,683,790	2,177,123
Additions	-	-	116,093	116,093
Disposals	(53,499)	-	(130,219)	(183,718)
At 31 March 2017	317,308	122,526	1,669,664	2,109,498
Depreciation				
At 1 April 2016	332,182	122,526	1,162,488	1,617,196
Charge for the year on owned assets	(318)	-	167,076	166,758
Disposals	(36,428)	-	(102,602)	(139,030)
At 31 March 2017	295,436	122,526	1,226,962	1,644,924
Net book value				
At 31 March 2017	21,872	-	442,702	464,574
At 31 March 2016	38,625	-	521,302	559,927

The net book value of land and buildings may be further analysed as follows:

	2017 £	2016 £
Short leasehold	21,872	38,625
	<u>21,872</u>	<u>38,625</u>

ABC DRUG STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

15. Fixed asset investments

	Investments in subsidiary companies £
Cost or valuation	
At 1 April 2016	8,375,306
Amounts written off	(3,354,185)
	<hr/>
At 31 March 2017	5,021,121
	<hr/>
Net book value	
At 31 March 2017	<u>5,021,121</u>
At 31 March 2016	<u>8,375,306</u>

Amounts written off represent lower carrying value of investment.

Direct subsidiary undertakings

The following were subsidiary undertakings of the Company:

Name	Class of shares	Holding	Principal activity
Community Stores Limited	Ordinary shares £1 each	100 %	Investment holding

Indirect Subsidiary undertakings

The following were subsidiary undertakings of the Company:

Name	Class of shares	Holding	Principal activity
H. Carson Limited	Ordinary shares £1 each	100 %	Dormant
Siddys Limited	Ordinary shares £1 each	100 %	Dormant

The above companies only have one class of share capital and were registered at 2 Peterwood Way, Croydon, Surrey, CR0 4UQ

ABC DRUG STORES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017**

16. Stocks

	2017 £	2016 £
Finished goods and goods for resale	1,549,017	1,583,619
	<u>1,549,017</u>	<u>1,583,619</u>

Stock recognised in cost of sales during the year as an expense was £18,598,251 (2016 - £14,698,375).

An impairment loss of £nil (2016 - £nil) was recognised in cost of sales against stock during the year due to slow-moving and obsolete stock.

17. Debtors

	2017 £	2016 £
Trade debtors	3,514,694	3,646,027
Amounts owed by group undertakings	13,503,038	3,235,540
Other debtors	905,619	1,467,762
Prepayments and accrued income	227,793	438,416
	<u>18,151,144</u>	<u>8,787,745</u>

18. Cash and cash equivalents

	2017 £	2016 £
Cash at bank and in hand	728,374	1,113,101
Less: bank overdrafts	-	(36,043)
	<u>728,374</u>	<u>1,077,058</u>

ABC DRUG STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

19. Creditors: Amounts falling due within one year

	2017 £	2016 £
Bank overdrafts	-	36,043
Trade creditors	3,707,456	902,261
Amounts owed to group undertakings	29,974,023	27,013,091
Amounts owed to other participating interests	8,375,056	8,375,056
Corporation tax	-	140,227
Other taxation and social security	73,089	65,629
Other creditors	298,165	612,641
Accruals and deferred income	178,338	229,193
	<u>42,606,127</u>	<u>37,374,141</u>

20. Financial instruments

	2017 £	2016 £
Financial assets		
Financial assets measured at fair value	728,374	1,113,101
Financial assets that are measured at amortised cost	17,923,350	8,349,328
	<u>18,651,724</u>	<u>9,462,429</u>
Financial liabilities		
Financial liabilities measured at amortised cost	(42,533,038)	(37,168,285)
	<u>(42,533,038)</u>	<u>(37,168,285)</u>

ABC DRUG STORES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017**

21. Deferred taxation

	2017 £	2016 £
At beginning of year	(1,718,633)	250,294
Charged to profit or loss	428,372	23,613
Arising on business combinations	-	(2,447,583)
Business combinations disposals	282,540	455,043
At end of year	(1,007,721)	(1,718,633)

The provision for deferred taxation is made up as follows:

	2017 £	2016 £
Accelerated capital allowances	(31,819)	6,052
Tax losses carried forward	76,039	290,400
Other timing difference	932	3,548
Deferred tax re pharmacy licences	(1,052,873)	(2,018,633)
	(1,007,721)	(1,718,633)

22. Share capital

	2017 £	2016 £
Shares classified as equity		
Allotted, called up and fully paid		
327,000 Ordinary shares of £1 each	327,000	327,000
1 Ordinary A share of £1	1	1
	327,001	327,001

23. Reserves

Profit and loss account

The profit and loss reserve represents cumulative profits or losses, including net of dividends paid and other adjustments.

ABC DRUG STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

24. Contingent liabilities

The company is a party to intra-group cross guarantees in respect of bank borrowing within the group.

- Unlimited inter-company guarantees supported by legal charges over various properties and other respective associated assets.

25. Pension commitments

The Company operates a defined contributions pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund and amounted to £22,335 (2016: £24,516). Contributions totalling £5,487 (2016: £5,051) were payable to the fund at the balance sheet date and are included in creditors

26. Commitments under operating leases

At 31 March 2017 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2017 £	2016 £
Ending not later than 1 year	781,967	711,403
Ending later than 1 year and not later than 5 years	2,328,305	2,243,723
Ending later than 5 years	2,539,669	2,747,207
	<u>5,649,941</u>	<u>5,702,333</u>

27. Related party transactions

The company paid rent to the following:

Rupa Patel, K C Patel's daughter, £26,000 (2016: £24,250)

The company purchased goods of £55,927 (2016: £145,303) from Swingward Limited, a company in which the executors of the Kirit Patel Estate has a controlling interest. At the balance sheet date £nil (2016: £15,073) was payable to Swingward Limited.

The company owed £8,375,056 (2016: £8,375,056) to Horizon Drugstores Limited, a company registered in Jersey and is a subsidiary of ultimate parent company.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

28. Controlling party

The company's parent company is Healthcare Drugstores Limited, a company registered in England and Wales.

Healthcare Drugstores Limited is a subsidiary of Day Lewis Plc, a company registered in England and Wales. It prepares group accounts which are available at Day Lewis House, 2 Peterwood Way, Croydon, Surrey, CR0 4UQ.

The ultimate parent company is Day Lewis Holdings Limited, a company registered in Cyprus and controlled by the executors of the Kirit Patel Estate.

Copies of the ultimate parent and of its group financial statements are not publicly available.

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