
ABC DRUG STORES LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2020

ABC DRUG STORES LIMITED

COMPANY INFORMATION

Directors	Dr C Parkhurst Mr J C Patel 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

CONTENTS

	Page
Strategic Report	1 - 3
Directors' Report	4 - 5
Independent Auditor's Report to the Members of ABC Drug Stores Limited	6 - 7
Profit and Loss Account	8
Statement of Comprehensive Income	8
Balance Sheet	9
Statement of Changes in Equity	10
Notes to the Financial Statements	11 - 29

STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2020

Business review

The company operates 28 retail pharmacies and all are performing to budget. The company's strategy is to continue driving growth through its existing portfolio. The company forms part of the Day Lewis Plc retail business.

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, delivering increased footfall, developing strong relationships with the local healthcare community and building 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 70% of the group's dispensing activities. The Day Lewis group once again had positive like for like prescription items growth, well above the sector nationally.

Following the end of the severe funding clawbacks seen in the year to 31 March 2019, and with the new five-year NHS funding contract agreement in place from July 2019 Day Lewis believes that this has brought much needed stability to the industry.

In the final month of the financial year (March 2020) saw the impact of the COVID-19 pandemic. Additional prescriptions were received, many with additional periods of treatment indicated, as GPs brought forward future prescribing. This upside also saw increased associated costs of doing business (mainly in drug costs and staffing expenses). Day Lewis saw a sharp reduction in the additional patient services performed during this time as face-to-face consultations were not possible. With the inherent supply risks during this situation Day Lewis prudently chose to hold a higher level of stock to protect its supply chain.

With the COVID-19 effect at the end of the year, dispensing across the country increased by 1.4% during the year at a national level (1.2% decline in the year to 31 March 2019). Day Lewis's broad portfolio of attractively located stores, strength of brand and knowledgeable and experienced staff means that the business has maintained its position in the market. During the year under review, the Day Lewis group dispensed 23.1m prescriptions which was up 3.5% on the prior year (like for like).

Principal risks and uncertainties

Principal risks and uncertainties and risk management objectives and policies are managed by the group.

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

STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2020

these potential risks.

Liquidity risk

ABC Drug Stores is part of the Group's banking covenants and it is dependant on continuing support of the Group.

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 12.

Interest rate risk

The interest rate risk is limited due to the interest rate swap arrangement in place at a fixed rate of 1.099% for a fixed amount of £100m and is in place until February 2021.

Macroeconomic and political environment risk

The company could be adversely affected by the impact of the current macroeconomic and political environment on key suppliers and customer groups. In particular, Brexit has the potential to affect the company.

The company has a rigorous process for identifying and monitoring all business-critical suppliers and develops appropriate contingency plans for suppliers that are considered to be vulnerable. The company also has a rigorous planning process to assess the impact of macroeconomic and political developments on key customer groups.

The impact of the COVID pandemic remains to be fully understood. Increased funding has been seen following the increase in period of treatments being prescribed by GPs but this has been offset by the increased costs of operating in the COVID environment. It is currently unclear as to how this will be reconciled within the £800m generic procurement profit agreement.

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 majority of the group's retail exposure is with Department of Health. 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.

ABC DRUG STORES LIMITED

**STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2020**

Financial key performance indicators

Turnover in the year finished at £ 25.2m (2019: £ 24.7m).

Gross margins increased by 2.0% to 31.0% in 2020 (2019: 29.0%) based on a gross profit of £ 7.8m for the year (2019: £ 7.2m)

Total administrative costs decreased by £ 0.2m to £ 6.4m (2019: £ 6.6m). The business has enhanced its infrastructure and support office function during the year to enable sustained future progress.

An operating profit for the year increased by £ 0.6m to £ 1.3m (2019: £ 0.7m)

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

Mr J C Patel

Director

Date: 29 September 2020

**DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2020**

The Directors present their report and the financial statements for the year ended 31 March 2020.

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 they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 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 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;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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 profit for the year, after taxation, amounted to £809,434 (2019 - £537,703).

The Directors have not recommended a dividend (2019: £nil)

Directors

The Directors who served during the year were:

Dr C Parkhurst
Mr J C Patel
Miss H Patel

ABC DRUG STORES LIMITED

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2020**

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

The auditor, KPMG LLP, Statutory Auditor, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

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

Mr J C Patel

Director

Date: 29 September 2020

2 Peterwood Way
Croydon
Surrey
CR0 4UQ

Opinion

We have audited the financial statements of ABC Drug Stores Limited ("the company") for the year ended 31 March 2020 which comprise the Profit and Loss Account, the Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 4, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities

The purpose of our audit work and to whom we owe our responsibilities

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.

Timothy Rush (Senior statutory auditor)

for and on behalf of
KPMG LLP, Statutory Auditor

Chartered Accountants

1 Forest Gate
Brighton Road
Crawley
RH11 9PT

30 September 2020

ABC DRUG STORES LIMITED

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2020**

	Note	2020 £	2019 £
Turnover	4	25,164,127	24,751,501
Cost of sales		(17,361,326)	(17,571,389)
Gross profit		7,802,801	7,180,112
Administrative expenses		(6,416,630)	(6,564,504)
Impairment of pharmacy licences		(195,585)	-
Other operating income	5	79,750	81,918
Operating profit	6	1,270,336	697,526
Income from shares in group undertakings		-	5,020,872
Amounts written off investments		-	(5,021,021)
Interest payable and similar expenses	10	(15,723)	(12,841)
Profit before tax		1,254,613	684,536
Tax on profit	11	(445,179)	(146,833)
Profit for the financial year		809,434	537,703

There were no recognised gains and losses for 2020 or 2019 other than those included in the profit and loss account.

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2020**

	2020 £	2019 £
Profit for the financial year	809,434	537,703
Other comprehensive income	-	-
Total comprehensive income for the year	809,434	537,703

The notes on pages 11 to 29 form part of these financial statements.

ABC DRUG STORES LIMITED
REGISTERED NUMBER:02825947

BALANCE SHEET
AS AT 31 MARCH 2020

	Note	2020 £	2019 £
Fixed assets			
Intangible assets	13	14,114,075	14,640,033
Tangible assets	14	449,946	429,375
Investments	15	100	100
		<u>14,564,121</u>	<u>15,069,508</u>
Current assets			
Stocks	16	1,597,127	1,591,381
Debtors: amounts falling due within one year	17	18,136,913	20,703,422
Cash at bank and in hand	18	1,475,777	1,175,219
		<u>21,209,817</u>	<u>23,470,022</u>
Creditors: amounts falling due within one year	19	(34,699,916)	(38,391,263)
Net current liabilities		<u>(13,490,099)</u>	<u>(14,921,241)</u>
Total assets less current liabilities		<u>1,074,022</u>	<u>148,267</u>
Provisions for liabilities			
Deferred tax	21	(1,167,100)	(1,050,779)
		<u>(1,167,100)</u>	<u>(1,050,779)</u>
Net liabilities		<u>(93,078)</u>	<u>(902,512)</u>
Capital and reserves			
Called up share capital	22	327,001	327,001
Profit and loss account	23	(420,079)	(1,229,513)
		<u>(93,078)</u>	<u>(902,512)</u>

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

Mr J C Patel
Director

Date: 29 September 2020

The notes on pages 11 to 29 form part of these financial statements.

ABC DRUG STORES LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2020

	Called up share capital £	Profit and loss account £	Total equity £
At 1 April 2019	327,001	(1,229,513)	(902,512)
Comprehensive income for the year			
Profit for the year	-	809,434	809,434
Total comprehensive income for the year	-	809,434	809,434
At 31 March 2020	327,001	(420,079)	(93,078)

The notes on pages 11 to 29 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2019

	Called up share capital £	Profit and loss account £	Total equity £
At 1 April 2018	327,001	(1,767,216)	(1,440,215)
Comprehensive income for the year			
Profit for the year	-	537,703	537,703
Total comprehensive income for the year	-	537,703	537,703
At 31 March 2019	327,001	(1,229,513)	(902,512)

The notes on pages 11 to 29 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020

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);
- the requirements of Section 11 Financial Instruments paragraphs 11.42, 11.44 to 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c);
- the requirements of Section 12 Other Financial Instruments paragraphs 12.26 to 12.27, 12.29(a), 12.29(b) and 12.29A;
- the requirements of Section 26 Share-based Payment paragraphs 26.18(b), 26.19 to 26.21 and 26.23;
- 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 2020 and these financial statements may be obtained from 2 Peterwood Way, Croydon, Surrey, CR0 4UQ.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020

2. Accounting policies (continued)

2.3 Going concern

In assessing the validity of the going concern basis, the Directors have prepared financial forecasts for the period until 31 December 2021. In doing so they have considered the level of bank facilities available to the Company and the Group, and its compliance with bank covenant tests both during the period and for the period ahead. During September 2020, the company refinanced its banking facility with 4 banks and now have in place a RCF facility of £125m until at least 2023.

Those forecasts are dependent on the company's immediate parent company, Healthcare Drugstores Limited and a fellow subsidiary, Day Lewis Medical Limited not seeking repayment of the amounts currently due to them, which at 31 March 2020 amounted to £24,901,698. Healthcare Drugstores Limited and Day Lewis Medical Limited have indicated that they do not intend to seek repayment of these amounts for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

The Directors have assessed the impact of COVID-19 on the business, which has been limited. Based on their examination of its revenue sources, funding arrangements and operational soundness, they do not expect the impact of the current COVID-19 pandemic to present any risk of material degradation of the entity's revenue and margins within the next twelve months.

Having considered the Company's financial forecasts and investment and financing commitments for the year until 31 December 2021, 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.

Having considered the above, the Directors conclude that it is appropriate to adopt the going concern basis of accounting because there are no material uncertainties related to events or conditions that may cast significant doubt about the ability of the company to continue as a going concern. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

2.4 Exemption from preparing consolidated financial statements

The Company is a parent Company that is also a subsidiary included in the consolidated financial statements of its immediate parent undertaking established under the law of an EEA state and is therefore exempt from the requirement to prepare consolidated financial statements under section 400 of the Companies Act 2006.

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020

2. Accounting policies (continued)

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 profit or loss.

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020

2. Accounting policies (continued)

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. Work in progress and finished goods include labour and attributable overheads.

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 instrument 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 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 in case of an out-right short-term loan that is not at market rate, the financial asset or liability is measured, initially at the present value of future cash flows discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost, unless it qualifies as a loan from a director in the case of a small company, or a public benefit entity concessionary loan.

Investments in non-derivative instruments that are equity to the issuer 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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020

2. Accounting policies (continued)

2.13 Financial instruments (continued)

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.

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 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Profit and Loss Account within 'finance income or costs'. All other foreign exchange gains and losses are presented in profit or loss within 'other operating income'.

2.16 Finance costs

Finance costs are charged to profit or loss 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 2020

2. Accounting policies (continued)

2.17 Operating leases: the Company as lessor

Rentals income from operating leases is credited to profit or loss 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.

2.18 Operating leases: the Company as lessee

Rentals paid under operating leases are charged to profit or loss 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.

2.19 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 profit or loss 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.

2.20 Interest income

Interest income is recognised in profit or loss using the effective interest method.

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 profit or loss 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 2020

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 profit or loss 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020**

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. During this financial year we have changed our judgment on what basis CGUs are formed from Acquisition & Geographical location to CGUs managed by Retail Pharmacist Managers. The impairment value is based on applicable discount rate and turnaround plan for cash-generating units that may have been impaired. The carrying amount of retail pharmacy license at the balance sheet date was £14.1m (2019: £14.6m) after an impairment loss of £195.5k was recognised during the year 2020 (2019: £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:

	2020 £	2019 £
United Kingdom	25,164,127	24,751,501
	<u>25,164,127</u>	<u>24,751,501</u>

ABC DRUG STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020

5. Other operating income

	2020 £	2019 £
Net rents receivable	79,750	81,918
	<u>79,750</u>	<u>81,918</u>

6. Operating profit

The operating profit is stated after charging:

	2020 £	2019 £
Depreciation of tangible fixed assets	75,402	75,988
Amortisation of intangible assets	152,163	153,106
Other operating lease rentals	843,665	841,457
Defined contribution pension cost	<u>88,115</u>	<u>84,062</u>

7. Auditor's remuneration

The Company has taken advantage of the exemption not to disclose amounts paid for non audit services as these are disclosed in the group accounts of the parent Company.

The audit fee was borne by the parent company Day Lewis Plc for the year ended 31 March 2020.

ABC DRUG STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020

8. Employees

Staff costs were as follows:

	2020 £	2019 £
Wages and salaries	3,605,180	3,790,082
Social security costs	277,266	303,397
Contribution to defined contribution scheme	88,115	84,062
	<u>3,970,561</u>	<u>4,177,541</u>

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

	2020 No.	2019 No.
Pharmacists	40	61
Sales assistants	132	113
	<u>172</u>	<u>174</u>

9. Directors' remuneration

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

10. Interest payable and similar expenses

	2020 £	2019 £
Bank interest payable	15,723	12,841
	<u>15,723</u>	<u>12,841</u>

ABC DRUG STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020

11. Taxation

	2020 £	2019 £
Corporation tax		
Current tax on profits for the year	331,517	160,742
Adjustments in respect of previous periods	(2,659)	(52)
	<u>328,858</u>	<u>160,690</u>
Total current tax	<u><u>328,858</u></u>	<u><u>160,690</u></u>
Deferred tax		
Origination and reversal of timing differences	3,209	(13,904)
Changes to tax rates	101,393	-
Prior year adjustment	11,719	47
	<u>116,321</u>	<u>(13,857)</u>
Total deferred tax	<u><u>116,321</u></u>	<u><u>(13,857)</u></u>
Taxation on profit on ordinary activities	<u><u>445,179</u></u>	<u><u>146,833</u></u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020**

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

The tax assessed for the year is higher than (2019 - *higher than*) the standard rate of corporation tax in the UK of 19% (2019 - 19%). The differences are explained below:

	2020 £	2019 £
Profit on ordinary activities before tax	<u>1,254,613</u>	<u>684,536</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2019 - 19%)	238,376	130,062
Effects of:		
Non-tax deductible amortisation of goodwill and impairment	93,138	22,296
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	3,212	958,602
Adjustments to tax charge in respect of prior periods	(2,659)	(52)
Non-taxable income	-	(953,966)
Tax rate changes	101,393	-
Deferred tax prior year adjustment	11,719	47
Other tax adjustments	-	(10,156)
Total tax charge for the year	<u><u>445,179</u></u>	<u><u>146,833</u></u>

Factors that may affect future tax charges

At Budget 2020, the government announced that the Corporation Tax main rate for the years starting 01 April 2020 and 2021 would remain at 19%.

12. Exceptional items

	2020 £	2019 £
Impairment of pharmacy licences	195,585	-
	<u><u>195,585</u></u>	<u><u>-</u></u>

ABC DRUG STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020

13. Intangible assets

	Retail pharmacy licence £
Cost	
At 1 April 2019	15,310,555
Disposals	(188,582)
	<hr/>
At 31 March 2020	15,121,973
	<hr/>
Amortisation	
At 1 April 2019	670,522
Charge for the year on owned assets	152,163
On disposals	(10,372)
Impairment charge	195,585
	<hr/>
At 31 March 2020	1,007,898
	<hr/>
Net book value	
At 31 March 2020	<u>14,114,075</u>
<i>At 31 March 2019</i>	<u>14,640,033</u>

ABC DRUG STORES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020**

14. Tangible fixed assets

	Leasehold Property £	Plant and machinery £	Fixtures, fittings and equipment £	Total £
Cost or valuation				
At 1 April 2019	317,308	123,291	1,793,353	2,233,952
Additions	-	-	99,011	99,011
Disposals	-	(6,213)	(17,531)	(23,744)
	<u>317,308</u>	<u>117,078</u>	<u>1,874,833</u>	<u>2,309,219</u>
At 31 March 2020	<u>317,308</u>	<u>117,078</u>	<u>1,874,833</u>	<u>2,309,219</u>
Depreciation				
At 1 April 2019	307,537	122,583	1,374,457	1,804,577
Charge for the year on owned assets	2,052	106	73,244	75,402
Disposals	-	(6,213)	(14,493)	(20,706)
	<u>309,589</u>	<u>116,476</u>	<u>1,433,208</u>	<u>1,859,273</u>
At 31 March 2020	<u>309,589</u>	<u>116,476</u>	<u>1,433,208</u>	<u>1,859,273</u>
Net book value				
At 31 March 2020	<u>7,719</u>	<u>602</u>	<u>441,625</u>	<u>449,946</u>
At 31 March 2019	<u>9,771</u>	<u>708</u>	<u>418,896</u>	<u>429,375</u>

The net book value of assets held under finance leases or hire purchase contracts, included above, are as follows:

	2020 £	2019 £
Short leasehold	7,719	9,771
	<u>7,719</u>	<u>9,771</u>

ABC DRUG STORES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020**

15. Fixed asset investments

	Investments in subsidiary companies £
Cost or valuation	
At 1 April 2019	100
	<hr/>
At 31 March 2020	100
	<hr/>

The subsidiary have ceased trading and following the final distribution of reserves, the investment carrying value has been written down to the net asset value of the company.

Subsidiary undertakings

The following were subsidiary undertakings of the Company:

Name	Registered office	Principal activity	Class of shares	Holding
Community Stores Limited	2 Peterwood Way, Croydon, Surrey CR0 4UQ	Investment holding	Ordinary shares £1 each	100 %
H. Carson Limited	2 Peterwood Way, Croydon, Surrey CR0 4UQ	Dormant	Ordinary shares £1 each	100 %

16. Stocks

	2020 £	2019 £
Finished goods and goods for resale	1,597,127	1,591,381
	<hr/>	<hr/>
	1,597,127	1,591,381
	<hr/>	<hr/>

Stock recognised in cost of sales during the year as an expense was £17,361,326 (2019 - £17,402,074) .

An impairment loss of £nil (2019 - £nil) was recognised in cost of sales against stock during the year due to slow-moving and obsolete stock.

ABC DRUG STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020

17. Debtors

	2020 £	2019 £
Trade debtors	2,127,783	1,973,527
Amounts owed by group undertakings	15,455,329	17,627,588
Other debtors	354,325	891,876
Prepayments and accrued income	199,476	210,431
	<u>18,136,913</u>	<u>20,703,422</u>

18. Cash and cash equivalents

	2020 £	2019 £
Cash at bank and in hand	1,475,777	1,175,219
	<u>1,475,777</u>	<u>1,175,219</u>

19. Creditors: Amounts falling due within one year

	2020 £	2019 £
Trade creditors	2,733,099	3,387,389
Amounts owed to group undertakings	24,901,698	25,994,520
Amounts owed to other participating interests	6,375,056	8,375,056
Corporation tax	331,464	160,690
Other taxation and social security	-	64,490
Other creditors	264,688	303,060
Accruals and deferred income	93,911	106,058
	<u>34,699,916</u>	<u>38,391,263</u>

ABC DRUG STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020

20. Financial instruments

	2020 £	2019 £
Financial assets		
Financial assets measured at fair value	1,475,777	1,175,219
Financial assets measured at amortised cost	17,937,437	20,492,991
	<u>19,413,214</u>	<u>21,668,210</u>
Financial liabilities		
Financial liabilities measured at amortised cost	<u>(34,606,005)</u>	<u>(38,285,205)</u>

21. Deferred taxation

	2020 £	2019 £
At beginning of year	(1,050,779)	(1,064,636)
Charged to profit or loss	(116,321)	13,857
At end of year	<u>(1,167,100)</u>	<u>(1,050,779)</u>

The provision for deferred taxation is made up as follows:

	2020 £	2019 £
Accelerated capital allowances	(20,750)	(17,487)
Other timing difference	-	1,461
Deferred tax re pharmacy licences	(1,146,350)	(1,034,753)
	<u>(1,167,100)</u>	<u>(1,050,779)</u>

ABC DRUG STORES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020**

22. Share capital

	2020 £	2019 £
Allotted, called up and fully paid		
327,000 (2019 - 327,000) Ordinary shares of £1.00 each	327,000	327,000
1 (2019 - 1) Ordinary A share of £1.00	1	1
	<u>327,001</u>	<u>327,001</u>

23. Reserves

Profit and loss account

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

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 £88,115 (2019: £84,062). Contributions totalling £Nil (2019: £17,741) were payable to the fund at the balance sheet date and are included in creditors.

26. Commitments under operating leases

At 31 March 2020 the Company had future minimum lease payments due under non-cancellable operating leases for each of the following periods:

	2020 £	2019 £
Ending not later than 1 year	635,991	731,018
Ending later than 1 year and not later than 5 years	2,120,478	1,968,181
Ending later than 5 years	1,858,082	1,864,247
	<u>4,614,551</u>	<u>4,563,446</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020

27. Related party transactions

The company paid rent to the following:

Rupa Patel, K C Patel's daughter, £26,000 (2019: £26,000).

The company purchased goods of £169,970 (2019: £169,065) from Eaststone Limited, a company in which the KCTP Will Trust has a controlling interest. At the balance sheet date £40,999 (2019: £38,090) was payable to Eaststone Limited.

During the year, the company paid £5,965 (2019: £nil) for expenses recharged by the Health Counter Limited, a company under common control. Included in the other creditors as an amount owed by the company £7,241 (2019: £nil). Included in trade debtors as an amount owed to the company £678 (2019: £nil)

The company owed £nil (2019: £8,375,056) to Horizon Drugstores Limited, a company registered in Jersey and is a subsidiary of ultimate parent company.

The company owed £6,375,056 (2019: £nil) to Day Lewis Holdings Limited, a company registered in Cyprus and is a ultimate parent company.

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 smallest and largest group in which the results of the Company and its group are consolidated is that headed by Day Lewis plc, 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 KCTP Will Trust.

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

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