

Donald Wardle and Son Limited

Directors' report and financial statements

Registered number 2914910

5 January 2013



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## Directors' report

The Directors present their report and financial statements for the 53 week period ended 5 January 2013.

### Principal activities

The principal activities of the Company during the period related to the wholesale distribution and retail of medical and surgical supplies to pharmacy stores both internal and external customers. The future developments of the company are to grow organically via the wholesale distribution and retail outlets.

### Business review

The results for the period are set out on page 6 of the financial statements. During the period, the Company made a profit before taxation of £2,364,963 (period ended 31 December 2011: profit of £2,218,095). The increase in profit has been driven by a 7% increase in revenue in the period.

### Parent Key Performance Indicators

In addition to monitoring revenue and profitability of the Company, the Directors also monitor a number of key performance indicators of the Co-operative Group ("the group"). These include financial performance, growth in and engagement of members of the group, growing customer loyalty and corporate reputation of the group. Further details on these key measures can be found on pages 10-11 of the group's annual report.

### Principal risks and uncertainties

The key business risks and uncertainties affecting the group are considered to relate to government funding policy for community pharmacy, competition from both national and independent retailers, employee retention and product availability. Further discussion of these risks and uncertainties in the context of the group as a whole is provided on pages 26-29 of the group's annual report which does not form part of this report.

### Dividend

The Directors do not recommend the payment of a dividend (period ended 31 December 2011: £nil).

### Directors

The Directors who held office during the period were as follows:

J B Nuttall

A J Smith

### Employees

Employees are provided with business specific communication and these are supported by two corporate publications: Magma magazine and Us magazine. All managers are kept informed about the group's performance through annual, interim and social accountability reports, management bulletins and Newswire, the electronic weekly new service.

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

### Creditor payment terms

The Group has a central accounts payable team for all businesses. Therefore, it is not possible to calculate a representative creditor days figure for Donald Wardle and Son Limited. The Group trade creditors figure as at 5 January 2013, expressed as a number of days outstanding, was 39 days (31 December 2011: 24 days).

### Corporate responsibility and the environment

The Company closely follows the group's corporate responsibility and environmental policies. The group provides a sustainable development section in its annual report. This can be found on pages 24-25. In addition, the group's Sustainability Report, which will be published towards the latter half of 2013, describes how the group manages its social, ethical and environmental impact.

### Political and charitable contributions

The Company made no political or charitable donations or incurred any political expenditure during the period (period ended 31 December 2011: £nil).

### Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

**Directors' report (continued)**

**Auditors**

Pursuant to Section 497 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office

By order of the Board

  
C J Sellers  
Secretary

Date

18 July 2013

Registered Office  
1 Angel Square  
Manchester  
M60 0AG

**Statement of Directors' responsibilities in respect of the Directors' report and the financial statements**

The Directors are responsible for preparing 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 IFRSs as adopted by the EU and applicable law.

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 judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping 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 its 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.



KPMG Audit Plc

St James' Square  
Manchester  
M2 6DS  
United Kingdom

**Independent auditor's report to the members of Donald Wardle and Son Limited**

We have audited the financial statements of Donald Wardle and Son Limited for the period ended 5 January 2013 set out on pages 6 to 20. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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 auditors**

As explained more fully in the Directors' Responsibilities 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. Our responsibility is to audit 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](http://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 5 January 2013 and of its profit for the period then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; 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 Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

**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.

Mick Davies (Senior Statutory Auditor)  
for and on behalf of KPMG Audit Plc, Statutory Auditor  
Chartered Accountants  
St James' Square  
Manchester  
M2 6DS

22 July 2013

**Income statement**  
*for the period ended 5 January 2013*

	Notes	For period ended 5 January 2013 £'000	For period ended 31 December 2011 £'000
Revenue		48,612	45,299
Cost of sales		(35,977)	(33,091)
Gross profit		12,635	12,208
Administrative expenses		(6,095)	(6,058)
Distribution Costs		(4,175)	(3,932)
Operating profit		2,365	2,218
Profit before taxation	2	2,365	2,218
Taxation	5	-	-
Profit for the period		2,365	2,218

All amounts relate to continuing activities

**Statement of comprehensive income**  
*for the period ended 5 January 2013*

The Company has no recognised income or expenses in the current or prior period other than those included in the income statement shown above

**Balance Sheet**  
**at 5 January 2013**

	Notes	As at 5 January 2013 £'000	As at 5 January 2013 £'000	As at 31 December 2011 £'000	As at 31 December 2011 £'000
<b>Non-current assets</b>					
Property, plant and equipment	6	<u>172</u>		<u>122</u>	
<b>Total non-current assets</b>			172		122
<b>Current assets</b>					
Inventories	7	1,139		1,956	
Trade and other receivables	8	9,920		6,911	
Cash and cash equivalents		<u>27,184</u>		<u>24,727</u>	
<b>Total current assets</b>			<u>38,243</u>		<u>33,584</u>
<b>Total assets</b>			<u>38,415</u>		<u>33,716</u>
<b>Current liabilities</b>					
Trade and other payables	9	25,481		23,330	
Provisions	10	<u>1,398</u>		<u>1,215</u>	
<b>Total current liabilities</b>			<u>26,879</u>		<u>24,545</u>
<b>Total liabilities</b>			<u>26,879</u>		<u>24,545</u>
<b>Net assets</b>			<u>11,536</u>		<u>9,171</u>
<b>Equity</b>					
Called up share capital	11		50		50
Retained earnings			<u>11,486</u>		<u>9,121</u>
<b>Total equity</b>			<u>11,536</u>		<u>9,171</u>

These financial statements were approved by the Board of Directors on and were signed on its behalf by 18/7/13

A J Smith  
Director





**Statement of changes in equity  
for the period ended 5 January 2013**

	Called up share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 31 December 2011	50	9,121	9,171
Profit for the period		2,365	2,365
<b>Balance at 5 January 2013</b>	<b>50</b>	<b>11,486</b>	<b>11,536</b>
Balance at 1 January 2011	50	6,903	6,953
Profit for the period	-	2,218	2,218
<b>Balance at 31 December 2011</b>	<b>50</b>	<b>9,121</b>	<b>9,171</b>

All items are shown net of tax

Statement of cash flows  
for the period ended 5 January 2013

	Notes	For period ended 5 January 2013 £'000	For period ended 31 December 2011 £'000
Profit before taxation		2,365	2,218
Adjustments for non-cash items and changes in working capital	12	176	9,474
Cash generated from operations	12	<u>2,541</u>	<u>11,692</u>
Cash flows from investing activities			
Acquisition of property, plant and equipment	6	(84)	(86)
Net cash from investing activities		<u>(84)</u>	<u>(86)</u>
Net increase in cash and cash equivalents		2,457	11,606
Cash and cash equivalents at 31 December 2013		24,727	13,121
Cash and cash equivalents at 5 January 2013		<u>27,184</u>	<u>24,727</u>

**Notes**  
*(forming part of the financial statements)*

**1 Accounting policies**

**Reporting entity**

Donald Wardle and Son Limited (the Company) is a Company domiciled in England and Wales. The address of the Company's registered office is 1 Angel Square, Manchester, M60 0AG.

**Basis of preparation**

The financial statements have been prepared in accordance with applicable International Financial Reporting Standards as endorsed by the EU (IFRS) for the period ended 5 January 2013 and are prepared on the historical cost basis. The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare consolidated accounts as it is a wholly owned subsidiary of Co-operative Group Limited, a Society incorporated in England and Wales. These financial statements present information about the Company as an individual undertaking only. The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

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.

**Accounting date**

The financial statements for the period are prepared for the 53 weeks to 5 January 2013. The corresponding figures for the previous period are prepared for the 52 weeks to 31 December 2011. Therefore, the comparative amounts are not entirely comparable as they are based on a shorter period.

**Going concern**

The Company meets its day to day working capital requirements through cash generated from operations and participation in facility arrangements provided by external lenders to the Co-operative Group and certain of its subsidiaries ("the Group").

The Co-operative Group's and the Co-operative Bank's ("the Bank's") joint statement of 17 June explained that it had developed a comprehensive plan ("the plan") which will meet the short and long term capital needs of the Bank, which is a subsidiary of the Group. As explained in that announcement, the Group sees the Bank as core to its operations and intends to provide extra capital to the Bank as part of that plan. The Group and the Bank are currently working on the details of the plan which has been and continues to be discussed in full with the Prudential Regulation Authority. To proceed with the plan, the Bank will require approval of the relevant Regulators and sufficient participation of its bondholders in the proposed exchange offer and the Group will require the consent of its existing lenders. As the terms of the existing group facilities will require amendment to enable the plan to be implemented, the plan can only proceed if such approvals are received.

As part of their planning, the directors of the Group have prepared sensitised forecasts for a period in excess of 12 months from the date of authorisation of these financial statements. Those forecasts make assumptions as to the future performance of the Group, including the amount and timing of proceeds from the planned disposals of certain businesses. The sensitised forecasts indicate that the Group and the Society can continue to operate within the revised terms expected to be agreed if the Group's plan for increasing the capital of the Bank proceeds.

In the statement of 17 June the Group and the Bank noted that implementation of the plan will prevent more severe adverse consequences for all stakeholders that might otherwise occur. Whilst the Directors of the Group believe that it is unlikely that the plan will not proceed, in that event the Directors of the Group do not believe that, aside from any impact on the Bank, there would be a material adverse impact on the financial position of the rest of the Group and this Company, and the sensitised forecasts indicate that they would continue to operate within the terms of the existing facilities.

Having considered the impact of the above on the Company's intra group balances and on the ability of the Company to meet its day to day working capital and funding requirements, the Directors of this Company consider that it is appropriate to prepare the financial statements of the Company on a going concern basis.

**Standards and interpretations issued but not yet effective**

The Company has not early adopted the following standards and statements which have been endorsed by the EU, but are not yet effective. The adoption of these standards is not expected to have a material impact on the Company's accounts when adopted, except where stated.

Amended IFRS 7 Disclosures - Transfers of financial assets (2010)

IFRS 13 Fair value measurement (2011)

Amended IAS 1 Presentation of financial statements on the statement of comprehensive income (2010)

Amended IAS 12 Income taxes - Deferred Tax - Recovery of underlying assets (2010)

Revised IAS 19 Employee Benefits (2011)

IFRS 9 Financial Instruments - Classification and Measurement (2010) has still yet to be endorsed by the EU

**Notes (continued)**

**1 Accounting policies (continued)**

**Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

**Cash flow statement**

In the cash flow statement the reconciliation to cash has been performed from operating profit in note 12 in order that the cash flows of the entity can be compared consistently with those of the group accounts.

**Property, plant and equipment and depreciation**

**(i) Owned assets**

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Depreciation is provided to write off the cost less the estimated residual value of property, plant and equipment by equal instalments over their estimated useful economic lives as follows:

Vehicles	- 33% per annum
Fixtures and fittings	10 - 12.5% per annum
The residual value, if not insignificant, is reassessed annually.	

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

**Impairment**

The carrying amount of the Company's assets, other than inventories, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount of the Company's assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In respect of these assets, an impairment loss is reversed if there has been a change in the estimates based on an event subsequent to the initial impairment used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined net of depreciation or amortisation, if no impairment loss had been recognised. An impairment loss recognised for goodwill shall not be reversed in a subsequent period.

**Pensions and other post-retirement benefits**

The Company's employees are members of a group-wide pensions scheme, the Co-operative Group Pension (Average Career Earnings) Scheme (the PACE Scheme). The Company contributes to the PACE Scheme in respect of its employees who are members of the Scheme. The PACE Scheme is a defined benefit scheme, but the Company is unable to identify its share of the underlying assets and liabilities of the scheme, and therefore contributions to the scheme are accounted for as if it were a defined contribution scheme. There is no contracted agreement or stated group policy for charging the net defined benefit cost for the plan as a whole measured in accordance with IAS 19 to individual group entities; therefore Donald Wardle and Son Limited, in its individual financial statements, cannot recognise the net defined cost so charged. Refer to disclosure of information relevant to the scheme on note 4.

**Inventories**

Inventories and work in progress are stated at the lower of cost, including attributable overheads, and net realisable value.

**Operating segments**

The Company's chief operating decision makers are the Board of Directors. The Company does not have any different components of its business which would need to be disclosed separately under IFRS 8 Operating Segments.

**Taxation**

Provision for corporation and deferred taxation is not made because the ultimate parent organisation has indicated that it will meet any taxation liabilities.

**Revenue**

Revenue represents the amounts (excluding value added tax) derived from the provision of goods and services including the construction contracts to customers during the period.

All revenue is derived from the Company's principal activity of the wholesale distribution and retail of medical and surgical supplies in the United Kingdom.

Notes (continued)

1 Accounting policies (continued)

Operating Leases

Operating lease rentals are charged to the profit and loss account on a straight-line basis over the period of the lease.

Lease incentives received are recognised in the income statement as an integral part of the total lease expense

Provisions

A provision is recognised in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

2 Profit before taxation	For period ended 5 January 2013 £'000	For period ended 31 December 2011 £'000
<i>Profit before taxation is stated after charging</i>		
Depreciation	34	53
Operating lease rental charges	78	82

The auditor's remuneration of £5 480 (2011: £5 250) is borne by the ultimate parent undertaking. The Company is exempt by virtue of s494 of the Companies Act 2006 from further disclosures in relation to auditors' remuneration as it is a wholly owned subsidiary of Co-operative Group Limited for which consolidated financial statements are prepared disclosing non-audit fee information on a group wide basis.

3 Staff numbers and costs

The staff were employed by the ultimate parent undertaking and associated costs incurred and recharged amounted to £2 114 505 (period ended 31 December 2011: £2 013 083).

Directors' remuneration in respect of services provided to the Company were £nil (for the period ended 31 December 2011: £nil).

4 Pension Scheme

The Co-operative Group Pension (Average Career Earnings) Scheme (PACE)

The group is a wholly owned subsidiary of Co-operative Group Limited which operates a defined benefit pension scheme (the PACE Scheme) the assets of which are held in a separate trust fund.

The pension costs are assessed in accordance with actuarial advice using the projected unit method.

The most recent valuation of the PACE Scheme carried out by a qualified actuary was 5 April 2010. The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which may not necessarily be borne out in practice.

The actuarial valuations of the PACE Scheme have been updated to 5 January 2013 in accordance with IAS 19.

	For period ended 5 January 2013	For period ended 31 December 2011
<b>The principal assumptions used to determine the liabilities of the group's pension schemes were</b>		
Discount rate	4.60%	4.60%
Rate of increase in salaries	4.80%	4.80%
Future pension increases where capped at 5.0% pa	3.30%	3.30%
Future pension increases where capped at 2.5% pa	2.50%	2.50%

The average life expectancy (in years) for mortality tables used to determine scheme liabilities for the schemes at 5 January 2013 are as follows:

Member currently aged 65 (current life expectancy)		Member currently aged 40 (life expectancy at age 65)	
Male	Female	Male	Female
22.4	24.0	24.2	25.9

Notes (continued)

4 Pension Scheme (continued)

The fair value of the PACE Scheme's assets which are intended to be realised in the future, may be subject to significant change before they are realised

	For period ended 5 January 2013 £m	For period ended 31 December 2011 £m
The amounts recognised in the balance sheet are as follows		
Present value of funded obligations	(6,532)	(6,243)
Present value of unfunded liabilities	(4)	(4)
Fair value of plan assets	6,919	6,611
Net retirement benefit asset	383	364

	For period ended 5 January 2013 £m	For period ended 31 December 2011 £m
Changes in the present value of the scheme liabilities are as follows		
Opening defined benefit liabilities	6,247	5,798
Current service cost	68	59
Interest on liabilities	284	298
Contributions by members	22	21
Actuarial losses recognised in equity	140	278
Past service costs	-	-
Benefits paid	(225)	(205)
Gains on settlements and curtailments	-	(2)
Closing defined benefit liabilities	6,536	6,247

	For period ended 5 January 2013 £m	For period ended 31 December 2011 £m
Changes in the fair value of the scheme assets are as follows		
Opening fair value of scheme assets	6,611	6,071
Expected return on scheme assets	334	373
Actuarial gains recognised in equity	96	279
Contributions by the employer	81	72
Contributions by members	22	22
Benefits paid	(225)	(206)
Closing fair value of scheme assets	6,919	6,611

	For period ended 5 January 2013 £m	For period ended 31 December 2011 £m
The weighted-average asset allocations at the year end were as follows		
Equities	31%	29%
Liability-driven instruments	30%	32%
Alternative growth	14%	14%
Property	4%	5%
Bonds	19%	19%
Other	2%	1%

Notes (continued)

4 Pension Scheme (continued)

	For period ended 5 January 2013 £m	For period ended 31 December 2011 £m
The amounts recognised in the income statement are as follows		
Current service cost	68	59
Interest on liabilities	284	298
Expected return on scheme assets	(334)	(373)
Gains on settlement and curtailments	-	(2)
	18	(18)
Actual return on scheme assets	431	652

To develop the expected long term rate of return on assets assumption, the group considered the current level of expected returns on risk-free investments (primarily government bonds) the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long term rate of return on assets assumption for the portfolio. This resulted in the selection of the 5.1% assumption for the period ended 5 January 2013.

	For period ended 5 January 2013 £m	For period ended 31 December 2011 £m	For period ended 1 January 2011 £m	For period ended 2 January 2010 £m	For period ended 11 January 2009 £m
Amounts recognised in the balance sheet					
Defined benefit liabilities	(6,536)	(6,247)	(5,798)	(5,513)	(4,803)
Scheme assets	6,919	6,611	6,071	5,515	5,204
Surplus	383	364	273	2	401
History of experience gains and losses					
Experience adjustment on scheme liabilities			(377)		-
% of scheme liabilities	0%	0%	-7%	0%	0%
Experience adjustment on scheme assets	(97)	(279)	(334)	107	(535)
% of scheme assets	-1%	-4%	-6%	2%	10%

The Group expects to contribute £41.1m to the Pace scheme and £4.5m to the new defined contribution section in 2013.

There is no contractual agreement or stated group policy for charging the net defined benefit cost for the plan as a whole measured in accordance with IAS 19 to individual group entities; therefore Donald Wardle and Son Limited (the Company) in its individual financial statements cannot recognise the net defined cost so charged. The net defined benefit cost of the pension plan is recognised fully by the sponsoring employer which is Co-operative Group Limited.

The Company contributes towards the same pension scheme as the ultimate parent Society Co-operative Group Limited. The scheme is a defined benefit scheme but the Company is unable to identify its share of the underlying assets and liabilities of the scheme and therefore contributions to the scheme are accounted for as if it were a defined contribution. The Company then recognises a cost equal to its contribution payable for the period. Based on advice from a qualified actuary the contributions payable by the participating entities were 16% of pensionable salaries.

5 Taxation

The tax charge arising on the profit for the period of £2,365,000 (at the current tax rate of 24.5%) has been surrendered as group relief, for which no payment will be required.

Notes (continued)

6 Property, plant and equipment

For the period ended 5 January 2013

	Land and Buildings	Fixtures and fittings	Motor vehicles	Total
	£'000	£'000	£'000	£'000
<b>Cost</b>				
At 31 December 2011	2	863	90	955
Additions	11	73	-	84
<b>At 5 January 2013</b>	<b>13</b>	<b>936</b>	<b>90</b>	<b>1 039</b>
<b>Depreciation</b>				
At 31 December 2011	-	743	90	833
Charge for the period	-	34	-	34
<b>At 5 January 2013</b>	<b>-</b>	<b>777</b>	<b>90</b>	<b>867</b>
<b>Net book value</b>				
At 5 January 2013	13	159	-	172
At 31 December 2011	2	120	-	122

For the period ended 31 December 2011

	Fixtures and fittings	Motor vehicles	Total
	£'000	£'000	£'000
<b>Cost</b>			
At 1 January 2011	779	90	869
Additions	86	-	86
<b>At 31 December 2011</b>	<b>865</b>	<b>90</b>	<b>955</b>
<b>Depreciation</b>			
At 1 January 2011	690	90	780
Charge for the period	53	-	53
<b>At 31 December 2011</b>	<b>743</b>	<b>90</b>	<b>833</b>
<b>Net book value</b>			
At 31 December 2011	122	-	122
At 1 January 2011	89	-	89



Notes (continued)

7 Inventories	For period ended 5 January 2013 £'000	For period ended 31 December 2011 £'000
Finished goods	1 139	1 956
	<hr/>	<hr/>
8 Trade and other receivables	For period ended 5 January 2013 £'000	For period ended 31 December 2011 £'000
<i>Current assets:</i>		
Trade receivables	9,897	6 891
Prepayments and accrued income	23	20
	<hr/>	<hr/>
	9,920	6 911
	<hr/>	<hr/>

All of the above financial assets are classified as loans and receivables. Trade receivables are stated net of a bad debt provision of £66 883 (period ended 31 December 2011 £59 279). The adjustment to the level of provision is recognised within the income statement in operating profit.

Trade debtors include amounts totalling £223 000 (period ended 31 December 2011 £248 000) which are overdue but not considered to be impaired, age analysed as follows:

	For period ended 5 January 2013 £'000	For period ended 31 December 2011 £'000
Amounts overdue		
Less than 3 months	159	193
3 to 6 months	64	55
More than 6 months	-	-
	<hr/>	<hr/>
	223	248
	<hr/>	<hr/>

Amounts overdue but not impaired typically comprise high volume/low value balances for which the individual trading businesses do not seek collateral but continue to work with counterparties to secure settlement. No other debtors are overdue.

Amounts owed by group undertakings are repayable on demand.

Notes (continued)

9 Trade and other payables	For period ended 5 January 2013 £'000	For period ended 31 December 2011 £'000
<i>Current liabilities:</i>		
Trade payables	4,611	8,165
Amounts owed to group undertakings	20,234	14,589
Accruals and deferred income	636	576
	<u>25,481</u>	<u>23,330</u>
 10 Provisions	 For period ended 5 January 2013 Total £'000	 For period ended 31 December 2011 Total £'000
At the beginning of the period	1,215	1,036
Additional provisions made in the period	183	179
At the end of the period	<u>1,398</u>	<u>1,215</u>
Non-current		-
Current	1,398	1,215
	<u>1,398</u>	<u>1,215</u>

In the period the delapidation provision has been increased by 5% (£19,396) and now totals £407,322 (year ended 31 December 2011: £387,925). This delapidations provision relates to two sites. The lease at Upper Huntbach Street expired in 2010 and is still being renegotiated. Remedial work is ongoing and we expect the provision will begin to be utilised in 2013. The provision relating to Upper Huntbach Street totals £62,521. The remaining delapidations provision of £344,801 relates to the warehouse and offices situated at Ratton Street, Hanley. This lease expires in April 2012 and again remedial work will need to be carried out at which point the provision will be utilised.

The remaining £990,923 relates to the discount provision. The period ended 5 January 2013 saw an increase in the discount provision of £163,522 (year ended 31 December 2011: £827,401). We anticipate that the provision will begin being utilised during 2013 due to increased customer queries as a result of changes in the customer statement issued which will make the level of discounts applied in the past more visible.

11 Called up share capital	For period ended 5 January 2013 £'000	For period ended 31 December 2011 £'000
<i>Authorised</i>		
50,000 Ordinary shares of £1 each	50	50
<i>Allotted, called up and fully paid</i>		
50,000 Ordinary shares of £1 each	<u>50</u>	<u>50</u>

IFRIC 2 determines the features which allow shares to be classified as equity capital.

Notes (continued)

12 Cash flows from operating activities

	For period ended 5 January 2013 £'000	For period ended 31 December 2011 £'000
Cash flows from operating activities		
Profit before tax	2,365	2,218
Adjustments for Depreciation	34	53
Operating profit before changes in working capital and provisions	2,399	2,271
Decrease in inventories	817	327
Increase in trade and other receivables	(3,009)	1,005
Increase in trade and other payables	2,151	7,910
Increase in provisions	183	179
Cash generated from the operations	2,541	11,692

13 Commitments and contingent liabilities

(i) There are no capital commitments at the end of the current period and preceding financial year

(ii) The future minimum lease payments under non-cancellable operating leases are as follows

	For period ended 5 January 2013 Land and buildings £'000	For period ended 31 December 2011 Land and buildings £'000
Operating leases which expire		
Within one year	6	18
In the second to fifth years inclusive	9	-
Over five years	-	-
	15	18

14 Group Entities

Ultimate parent company

The Company is a wholly owned subsidiary of Co-operative Group Limited (formerly Co-operative Group (CWS) Limited) an Industrial and Provident Society registered in England and Wales. This is the smallest and largest group of which the Society is a member and for which consolidated accounts are prepared. A copy of the group accounts can be obtained from the Secretary Co-operative Group Limited, 1 Angel Square, Manchester, M60 0AG.

15 Related parties

Identity of related parties

The group has a related party relationship with its subsidiaries, associates and with its Directors and key management.

Other related party transactions

Transactions with other Trading group subsidiaries

Company	For the period ended 5 January 2013		For the period ended 31 December 2011	
	Sales	Period-end balance	Sales	Period-end balance
	£'000	£'000	£'000	£'000
Co-operative Healthcare Limited	6,360	131	7,110	98
National Co-operative Chemists Limited	11,773	88	11,736	173

The Company is involved in a group set-off scheme whereby the bank accounts within the Trading group are netted off against each other and any interest payable or receivable is settled or received by the ultimate parent Society Co-operative Group Limited.

*Notes (continued)*

**16 Financial instruments and financial risk management**

*(a) Financial risk management*

The principal financial risk of the Company relates to the generation and availability of sufficient funds to meet business needs including payments to members. The Company has exposure to commodity prices which can impact on financial performance.

The Board is responsible for approving the Company's strategy, its principal markets and the level of acceptable risks. The Company operates a risk management process that identifies the key risks to the business. Each operation has a risk register that identifies the likelihood and impact of those risks occurring and the actions being taken to manage those risks.

*(b) Determination of fair values of financial instruments*

*Trade and other receivables*

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

*Trade and other payables*

The fair value of trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

*Cash and cash equivalents*

The fair value of cash and cash equivalents is estimated as its carrying amount where the cash is repayable on demand. Where it is not repayable on demand then the fair value is estimated at the present value of future cash flows, discounted at the market rate of interest at the balance sheet date.

*Fair values*

The fair values for each class of financial assets and financial liabilities together with their carrying amounts shown in the balance sheet are as follows:

	For the period ended 5 January 2013		For the period ended 31 December 2011	
	Carrying amount	Fair Value	Carrying amount	Fair Value
	£'000	£'000	£'000	£'000
Trade and other receivables	9,920	9,920	6,911	6,911
Cash and cash equivalents	27,184	27,184	24,727	24,727
<b>Total financial assets</b>	<b>37,104</b>	<b>37,104</b>	<b>31,638</b>	<b>31,638</b>
Trade and other payables	25,481	25,481	23,330	23,330
<b>Total financial liabilities</b>	<b>25,481</b>	<b>25,481</b>	<b>23,330</b>	<b>23,330</b>

*(c) Credit risk*

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers.

*Trade Receivables*

The Company is exposed to trade receivable credit risk through normal on-going business trade to a small number of customers. The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Company's customer base, including the default risk and the industry and country in which customers operate, has less of an influence on credit risk.

Approximately 41% of the Company's revenue is attributable to sales transactions with other trading group subsidiaries, reducing the Company's exposure to credit risk. These customers accounted for £132k of trade receivables at the end of the reporting period.

Approximately 17% of the Company's revenue is attributable to sales transactions with a single customer and this single customer accounted for £100k of trade receivables at the end of the reporting period.

Geographically, there is no concentration of credit risk.

Credit risk is managed as follows:

- aged analysis is performed on trade receivable balances and reviewed on a monthly basis
- credit ratings are obtained on any new customers and the credit ratings of existing customers are monitored on an on-going basis
- credit limits are set for customers and
- Customers considered "high risk" are placed on a restricted customer list, monitored and future sales are

Notes (continued)

## 16 Financial instruments and financial risk management (continued)

### Credit quality of financial assets and impairment losses

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified.

The Company does not hold any collateral against the above debtors (period ended 31 December 2011: £nil).

### (d) Liquidity risk

#### Financial risk management

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The policy on overall liquidity is to ensure that the Company has sufficient funds to facilitate all on-going operations. As part of the annual budgeting and long term planning process, the Company's cash flow forecast is reviewed and approved by the Board. The cash flow forecast is amended for any material changes identified during the period, e.g. material acquisitions and disposals.

Where funding requirements are identified from the cash flow forecast, appropriate measures are taken to ensure these requirements can be satisfied.

Cash held at 5 January 2013 amounted to £27,212,160 (period ended 31 December: £24,727,000).

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

	For the period ended 5 January 2013					
	Carrying amount £'000	Contractual cash flows £'000	1 year or less £'000	1 to <2 years £'000	2 to <5 years £'000	5 years and over £'000
<b>Non-derivative financial liabilities</b>						
Trade and other payables	25,481	-	25,481		-	
	For the period ended 31 December 2011					
	Carrying amount £'000	Contractual cash flows £'000	1 year or less £'000	1 to <2 years £'000	2 to <5 years £'000	5 years and over £'000
<b>Non-derivative financial liabilities</b>						
Trade and other payables	23,330	-	23,330	-	-	

### (e) Market Risk

#### Financial risk management

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's income or the value of its holdings of financial instruments.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

## 17 Capital Management

The Company's objectives when managing capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for the shareholder and benefit for other stakeholders; and
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Company sets the amount of capital in proportion to the risk. The Company manages the capital structures and makes adjustment to it in light of changes in economic conditions and the risk characteristic of the underlying assets. In assessing the level of capital, all components of equity are taken into account.

There were no changes to the Company's approach to capital management in the years.