

OTC DIRECT LTD

Report and Financial Statements

31 March 2007

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OTC DIRECT LTD

REPORT AND FINANCIAL STATEMENTS 2007

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OTC DIRECT LIMITED

REPORT AND FINANCIAL STATEMENTS 2007

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

H J Barkwill
J J Donovan
A D Foreman
P Forster-Jones
A G Ker
A G Worboys

SECRETARY

AU Cosec Limited

REGISTERED OFFICE

Third Floor
Page House
40 East Street
Epsom
Surrey
KT17 1BH

BANKERS

National Westminster Bank Plc
1 Princes Street
London
EC2R 8PA

AUDITORS

Deloitte & Touche LLP
Chartered Accountants
London

OTC DIRECT LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the 15 months ended 31 March 2007

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

The company is a wholly owned subsidiary of Alliance Boots plc and operates as part of the group's UK wholesale division. The year end has changed from 31 December to 31 March in line with the new group accounting period.

The company supplies pharmaceutical products predominantly to chemists and wholesalers, and sources product on behalf of its parent company for which it receives a commission. There have not been any significant changes in the company's principal activity in the period under review. The directors are not aware, at the date of this report, of any likely major changes in the company's activities in the next year.

As shown in the company's profit and loss account on page 8, the company's sales have increased by 29% on a twelve month basis over the previous year. Margin reduced (as a percentage of sales) by 3.1% and reflects a different mix of turnover. Administrative expenses were up in line with the increase in underlying volumes, whilst interest costs reflect the timing of working capital flows during the period. The dividend payments are in line with group instructions.

The directors consider the performance of the business to be satisfactory and in line with the market environment. Profit on ordinary activities after taxation was £11,477,000 (2005: £8,397,000). A dividend of £14.752 per ordinary share (2005: £6.602 per ordinary share) has been paid during the period.

The balance sheet on page 9 of the financial statements shows that the company's financial position at the period end is, in both net assets and cash terms, improved compared to the prior year. Amounts due from and owed to group undertakings are shown in notes 11 and 12.

The Alliance Boots plc group manages its operations on a divisional basis. For this reason, the company's directors believe that further key performance indicators for the company are not necessary or appropriate for an understanding of the development, performance or position of the business. The performance of the wholesale division of Alliance Boots plc, which includes the company, is discussed in the group's Annual Report which does not form part of this report.

Principal risks and uncertainties

Increased competitive pressure is a continuing risk to the company. The company manages this risk by providing a competitive offer allied to a strong focus on customer service from initial customer contact through to the collection of debt. Customers also face pressure from changes to reimbursement mechanisms, and credit policies within the company recognise this risk.

The company principally operates in the short line pharmaceutical wholesale market, which by its nature is a potentially volatile environment. Market changes, government regulations, supplier behaviours and exchange rate movements mean there is always a possibility of either over or under supply of product in the immediate term. The business is organised to maintain a close awareness of these factors and to take immediate action to minimise the product and financial risks as necessary.

Environment

The Alliance Boots plc group recognises the importance of its environmental responsibilities and monitors its impact on the environment.

Employees

Details of the number of employees and the related costs can be found in note 6 to the financial statements.

The company actively encourages the involvement of employees and the company provides all members of staff with an individual training programme as appropriate. The methods of involvement include regular team briefings and individual one to ones. The company operates a company wide bonus scheme.

The employment policy does not discriminate between employees or potential employees on the grounds of sex, colour, race, ethnic or national origin, marital status or religious beliefs. In the case of the disabled, the company gives full consideration to applications for employment from disabled persons who can demonstrate that they have the necessary abilities. If an employee became disabled whilst in employment and, as a result, was unable to perform his/her normal duties, every effort would be made to offer suitable alternative employment and assist with retraining.

OTC DIRECT LIMITED

DIRECTORS' REPORT (CONTINUED)

Creditors and supplier payment policy

The company applies a policy of abiding by the payment terms negotiated with each of its suppliers wherever it is satisfied that the invoiced goods or services have been ordered and have been supplied in accordance with agreed terms and conditions. The trade creditors of the company at 31 March 2007 were equivalent to 52 days (2005 38 days) of purchases, based on the average daily amount invoiced by suppliers during the period.

DIRECTORS AND THEIR INTERESTS

The directors who served throughout the period, except as stated, were

H J Barkwill
J J Donovan
N J Epps (resigned 2 July 2007)
A D Foreman
P Forster-Jones (appointed 2 July 2007)
A G Ker
A G Worboys

None of the directors held any interests in the company or other group companies except as detailed below.

The interests of the directors in the ordinary share capital of Alliance UniChem Plc and Alliance Boots plc, the ultimate parent company, are detailed below.

Interests in fully paid shares

| 10 pence ordinary shares of Alliance UniChem Plc | 1 January 2006 | Sold | Bought | 31 July 2006 |
|--|-------------------|---------|--------|-----------------|
| H J Barkwill | 11,376 | - | 69 | 11,445 |
| J J Donovan | 3,479 | - | - | 3,479 |
| N J Epps | - | - | - | - |
| A D Foreman | 42,086 | - | - | 42,086 |
| A G Ker | 4,998 | (1,055) | - | 3,943 |
| A G Worboys | 2,927 | (927) | - | 2,000 |

| 37 7/39 pence ordinary shares of Alliance Boots plc | 1 August 2006 | Sold | Bought | 31 March 2007 |
|---|------------------|---------|--------|------------------|
| H J Barkwill | 15,243 | - | 1,997 | 17,240 |
| J J Donovan | 4,634 | - | - | 4,634 |
| N J Epps | - | - | - | - |
| A D Foreman | 56,058 | - | - | 56,058 |
| A G Ker | 5,252 | (5,252) | - | - |
| A G Worboys | 2,664 | (252) | - | 2,412 |

Interests in options over shares

| 10 pence ordinary shares of Alliance UniChem Plc | 1 January 2006 | Granted | Exercised | Lapsed | 31 July 2006 |
|--|-------------------|---------|-----------|--------|-----------------|
| H J Barkwill | 39,734 | - | (37,457) | - | 2,277 |
| J J Donovan | 79,949 | - | (78,000) | - | 1,949 |
| N J Epps | 18,500 | - | (18,500) | - | - |
| A D Foreman | 80,343 | - | (78,000) | - | 2,343 |
| A G Ker | 27,465 | - | (24,000) | - | 3,465 |
| A G Worboys | 28,227 | - | (24,000) | - | 4,227 |

During the period 1 January 2006 to 31 July 2006 the mid-market price of shares of Alliance UniChem Plc ranged between 798.00 pence on 3 January 2006 and 1068.00 pence on 28 July 2006.

OTC DIRECT LIMITED

DIRECTORS' REPORT (CONTINUED)

DIRECTORS AND THEIR INTERESTS (continued)

| 37 7/39 pence ordinary shares of Alliance Boots plc | 1 August 2006 | Granted | Exercised | Lapsed | 31 March 2007 |
|---|---------------|---------|-----------|--------|---------------|
| H J Barkwill | 3,033 | 4,379 | - | - | 7,412 |
| J J Donovan | 2,596 | 889 | - | - | 3,485 |
| N J Epps | - | - | - | - | - |
| A D Foreman | 3,120 | - | - | - | 3,120 |
| A G Ker | 4,614 | - | - | - | 4,614 |
| A G Worboys | 5,628 | - | - | - | 5,628 |

Interests in performance share plan

| 37 7/39 pence ordinary shares of Alliance Boots plc | 1 August 2006 | Granted | Exercised | Lapsed | 31 March 2007 |
|---|---------------|---------|-----------|--------|---------------|
| H J Barkwill | - | 3,352 | - | - | 3,352 |
| J J Donovan | - | 21,930 | - | - | 21,930 |
| N J Epps | - | 7,334 | - | - | 7,334 |
| A D Foreman | - | 21,930 | - | - | 21,930 |
| A G Ker | - | 3,453 | - | - | 3,453 |
| A G Worboys | - | 3,453 | - | - | 3,453 |

During the period 1 August 2006 to 31 March 2007 the mid-market price of shares of Alliance Boots plc ranged between 755 00 pence on 19 September 2006 and 1036 50 pence on 23 March 2007. At 31 March 2007 the price was 1026 50 pence.

AUDITORS

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Each of the persons who is a director at the date of approval of this report confirms that

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Approved by the Board of Directors
and signed on behalf of the Board



A G Worboys
Director

17 December 2007

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are required by United Kingdom company law to prepare financial statements for each financial period that give a true and fair view of the state of affairs of the company as at the end of the financial period and of the profit or loss of the company for the financial period

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable United Kingdom accounting standards have been followed, and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for ensuring that the company keeps proper accounting records which disclose, with reasonable accuracy, at anytime, the financial position of the company and which enables them to ensure that the financial statements comply with United Kingdom legislation

The directors are also responsible for

- the system of internal control,
- safeguarding the assets of the company, and
- taking reasonable steps for the prevention and detection of fraud and other irregularities

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF OTC DIRECT LIMITED

We have audited the financial statements of OTC Direct Limited for the fifteen months ended 31 March 2007 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 20. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors' 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

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF OTC DIRECT LIMITED (CONTINUED)

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2007 and of its profit for the period then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

Deloitte & Touche LLP

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
London, United Kingdom

17 December 2007

OTC DIRECT LIMITED

PROFIT AND LOSS ACCOUNT

15 months ended 31 March 2007

| | Note | 15 months ending 31 March 2007 £'000 | 12 months ending 31 December 2005 Restated £'000 |
|---|------|--|---|
| TURNOVER | | | |
| Cost of sales | 1,2 | 154,653 (129,775) | 95,971 (77,563) |
| Gross profit | | 24,878 | 18,408 |
| Administrative expenses | | (8,667) | (6,363) |
| OPERATING PROFIT | 3 | 16,211 | 12,045 |
| Interest receivable and similar income | 4 | 205 | 53 |
| Interest payable and similar charges | 5 | (183) | (170) |
| PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION | | 16,233 | 11,928 |
| Tax on profit on ordinary activities | 7 | (4,756) | (3,531) |
| PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION | 15 | 11,477 | 8,397 |
| Dividends paid | 8 | (7,376) | (3,301) |
| RETAINED PROFIT FOR THE FINANCIAL YEAR TRANSFERRED TO RESERVES | | 4,101 | 5,096 |

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

15 months ended 31 March 2007

| | Note | 15 months ending 31 March 2007 £'000 | 12 months ending 31 December 2005 Restated £'000 |
|--|------|--|---|
| TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE PERIOD | | 11,477 | 8,397 |
| Prior year adjustment on adoption of FRS20 | 16 | 27 | - |
| TOTAL GAINS AND LOSSES RECOGNISED SINCE THE LAST ANNUAL REPORT AND FINANCIAL STATEMENTS | | 11,504 | 8,397 |

All activities derived from continuing operations

OTC DIRECT LIMITED

BALANCE SHEET 31 March 2007

| | Note | 31 March 2007 £'000 | 31 December 2005 Restated £'000 |
|---|------|---------------------------|--|
| FIXED ASSETS | | | |
| Tangible assets | 10 | 330 | 447 |
| CURRENT ASSETS | | | |
| Debtors | 11 | 40,439 | 33,802 |
| Cash at bank and in hand | | 6,576 | 2,477 |
| | | 47,015 | 36,279 |
| CREDITORS: amounts falling due within one year | 12 | (30,401) | (23,946) |
| NET CURRENT ASSETS | | 16,614 | 12,333 |
| NET ASSETS | | 16,944 | 12,780 |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 14 | 500 | 500 |
| Profit and loss account | 15 | 16,444 | 12,280 |
| EQUITY SHAREHOLDERS' FUNDS | 15 | 16,944 | 12,780 |

These financial statements were approved by the Board of Directors on 17 December 2007

Signed on behalf of the Board of Directors



17/12/07

P Forster-Jones
Director

OTC DIRECT LIMITED

NOTES TO THE ACCOUNTS 15 months ended 31 March 2007

1. ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared under the historical cost convention in accordance with generally accepted accounting principles and applicable United Kingdom law and accounting standards. The principal accounting policies adopted within that convention are set out below. These have been applied consistently throughout the period and the prior year except for the adoption of FRS 20 'Share-Based Payments', details of which are set out in note 9.

The company is exempt from the requirement to prepare group accounts by virtue of section 228 of the Companies Act 1985 as the company is included in the accounts of Alliance Boots plc, the ultimate parent undertaking and controlling entity. The company's financial statements present information about it as an individual undertaking and not about its group.

The year end has changed from 31 December to 31 March in line with the new group accounting period.

Turnover

Turnover is the amount derived from the sale of goods and services in the normal course of business outside the company, net of trade discounts, value added tax and other sales related taxes. Turnover is recognised at the point at which title passes, commission is recognised when the product to which it relates is sold by the parent company.

Depreciation

Fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated to write down the cost of these assets to their estimated residual values by equal instalments over the period of their useful economic lives at the following rates:

| | |
|------------------------|-----------------|
| Leasehold improvements | length of lease |
| Office equipment | 20% per annum |
| Computer equipment | 20% per annum |
| Motor vehicles | 25% per annum |

During the period the directors reassessed the useful economic life of office equipment and changed the rate of depreciation on this class of asset from 10% to 20% per annum.

Operating leases

The costs of operating leases are charged to the profit and loss account in equal amounts over the lease term.

Deferred taxation

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets or roll-over of tax on gains where there is no commitment to sell the asset. Deferred tax assets are recognised to the extent that they are regarded as more likely than not to be recovered. Deferred tax assets and liabilities are not discounted.

Pensions and other post retirement benefits

The company participates in the Alliance UniChem Group UK pension scheme, incorporating both a multi employer defined benefit scheme and a defined contribution plan, the assets and liabilities of which are held independently from the group. The company is unable to identify its share of the underlying assets and liabilities of the defined benefit scheme and accordingly accounts for contributions to the scheme as if it were a defined contribution scheme. Particulars of the group scheme are contained in the group accounts of Alliance Boots plc, prepared in accordance with International Financial Reporting standards.

OTC DIRECT LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

15 months ended 31 March 2007

1. ACCOUNTING POLICIES (continued)

Share-based payments

The company has applied the requirements of Financial Reporting Standard 20 Share-Based Payments ("FRS 20") In accordance with the transitional provisions, FRS 20 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2006

The fair value of the employee services received in exchange for the grant of options over the shares of the parent company is recognised as an expense The total amount expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable At each balance sheet date, the estimate of the number of options that are expected to become exercisable is revised, and the impact of the revision of the original estimates is recognised in the income statement and a corresponding adjustment is made to equity

Foreign exchange

Transactions denominated in foreign currencies are translated at the rates ruling at the date of transaction Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date Translation differences arising are dealt with in the profit and loss account

Cash flow statement

Under FRS1 (revised), the company is exempt from preparing a cash flow statement as it is a subsidiary of a United Kingdom parent company which prepares a cash flow statement

Comparative figures

Certain comparative figures have been restated to accord with the presentation of equivalent amounts in the current period There is no impact on the operating profit of this reclassification

OTC DIRECT LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

15 months ended 31 March 2007

2. ANALYSIS OF TURNOVER

The company's turnover and profit before taxation were all derived from its principal activity, the supply of pharmaceutical products to chemists and retailers, and sourcing of product on behalf of its parent company for which it receives a commission. Sales were made in the following geographical markets

| | 15 months ending 31 March 2007 £'000 | 12 months ending 31 December 2005 Restated £'000 |
|----------------|--|---|
| United Kingdom | 119,094 | 78,946 |
| EC | 23,521 | 11,117 |
| Rest of World | 12,038 | 5,908 |
| | <u>154,653</u> | <u>95,971</u> |

3. OPERATING PROFIT

Operating profit is stated after charging / (crediting)

| | 15 months ending 31 March 2007 £'000 | 12 months ending 31 December 2005 £'000 |
|--|--|---|
| Auditors' remuneration in respect of audit services | 14 | 10 |
| Depreciation of owned assets | 189 | 172 |
| (Profit) / loss on disposal of tangible fixed assets | (4) | 4 |
| Rentals under operating leases | | |
| - land and buildings | 273 | 179 |
| Share-based payment | 63 | - |
| | <u></u> | <u></u> |

4. INTEREST RECEIVABLE AND SIMILAR INCOME

| | 15 months ending 31 March 2007 £'000 | 12 months ending 31 December 2005 £'000 |
|---|--|---|
| Interest receivable from group undertakings | 205 | 53 |
| | <u></u> | <u></u> |

5. INTEREST PAYABLE AND SIMILAR CHARGES

| | 15 months ending 31 March 2007 £'000 | 12 months ending 31 December 2005 £'000 |
|--|--|---|
| Interest payable to group undertakings | 183 | 170 |
| | <u></u> | <u></u> |

OTC DIRECT LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

15 months ended 31 March 2007

6. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

| | 15 months ending 31 March 2007 £'000 | 12 months ending 31 December 2005 £'000 |
|------------------------------|--|---|
| Directors' emoluments | | |
| Directors' emoluments | 689 | 380 |
| Pension contributions | 58 | 28 |
| | <u>747</u> | <u>408</u> |

Particulars of directors' emoluments, excluding pension contributions, are as follows:

| | 15 months ending 31 March 2007 £'000 | 12 months ending 31 December 2005 £'000 |
|-----------------------|--|---|
| Highest paid director | <u>216</u> | <u>172</u> |

The accrued pension entitlement at 31 March 2007 of the highest paid director was £33,000 (31 December 2005 £110,000). All six directors are members of a defined benefit pension scheme (2005 four). No emoluments were paid to J J Donovan or A D Foreman by the company during the period, their emoluments were paid by other group undertakings.

The average number of persons employed (excluding directors) during the period was 69 (2005 66).

| | 15 months ending 31 March 2007 £'000 | 12 months ending 31 December 2005 £'000 |
|--|--|---|
| Staff costs during the year (including directors) | | |
| Wages and salaries | 3,122 | 2,195 |
| Social security costs | 400 | 299 |
| Pension contributions | 48 | 35 |
| | <u>3,570</u> | <u>2,529</u> |

OTC DIRECT LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

15 months ended 31 March 2007

7 TAX ON PROFIT ON ORDINARY ACTIVITIES

| | 15 months ending 31 March 2007 £'000 | 12 months ending 31 December 2005 Restated £'000 |
|--|--|---|
| UK Corporation tax | | |
| Current tax on income for the period at 30% (2005 – 30%) | 4,756 | 3,488 |
| Adjustment in respect of prior periods | - | (28) |
| | <u>4,756</u> | <u>3,460</u> |
| Deferred tax | | |
| Current year | 5 | 66 |
| Adjustment in respect of prior periods | (5) | 5 |
| | <u>-</u> | <u>71</u> |
| | <u>4,756</u> | <u>3,531</u> |

The standard rate of current tax for the period, based on the UK rate of corporation tax is 30% (2005 – 30%)
The corporation tax charge for the period varies from the standard rate of corporation tax for the reasons set out in the following reconciliation

| | 15 months ending 31 March 2007 £'000 | 12 months ending 31 December 2005 Restated £'000 |
|---|--|---|
| Profit on ordinary activities before taxation | 16,233 | 11,928 |
| Expected tax charge at standard rate | 4,870 | 3,578 |
| Permanent differences | (109) | (12) |
| Adjustment in respect of prior periods | - | (28) |
| Timing differences arising in period | (5) | (78) |
| Corporation tax charge for the period | <u>4,756</u> | <u>3,460</u> |

8 DIVIDENDS PAID

| | 15 months ending 31 March 2007 £'000 | 12 months ending 31 December 2005 £'000 |
|---|--|---|
| Equity dividend paid on Ordinary Shares of £14 752 per share (2005 £6 602 per share) | <u>7,376</u> | <u>3,301</u> |

NOTES TO THE ACCOUNTS (CONTINUED)

15 months ended 31 March 2007

9. SHARE-BASED COMPENSATION

The Alliance Boots Group operates a number of share-based compensation schemes for employees. Certain employees of the company are eligible for participation in these schemes. The schemes take a variety of forms and details of active schemes are given below. On acquisition of Alliance UniChem Plc by Boots Group PLC all former Alliance UniChem schemes that the company's employees participated vested and were exercised on merger apart from the Save As You Earn scheme.

The Group operates a Performance Share Plan for performance periods commencing from 1 April 2006. Under the new scheme, executive Directors and certain senior executives can receive ordinary shares if a performance condition based on TSR relative to a UK retail index comprising the FTSE 350 General Retailers index and the FTSE 350 Food and Drug Retailers index (weighted 50% each) or based on the Group's Earnings Per Share growth depending on the individual's award. Further details of this scheme are set out in the Board report on remuneration. Fair value for the TSR element is estimated at the beginning of each performance period based on expected performance and thereafter adjusted only for the impact of leavers. Fair value is determined by an external valuer using a monte carlo pricing model for the TSR element and by reference to the market value of the share at the date of the grant, with future dividends included.

The Group provides UK employees with the opportunity to participate in the Group's Save As You Earn (SAYE) scheme which allows qualifying employees the opportunity to make regular savings over a fixed period of three, five or seven years. These savings accumulate with interest at a guaranteed rate. At the end of the savings contract a bonus is added to the savings and participants have the option to use their savings to buy shares in Alliance Boots plc at a fixed price. In common with other UK companies, the option price is set at a 20% discount to the market price of the Company's shares at the date of grant. Exercise of an option is subject to continued employment. The Alliance UniChem SAYE scheme existing at the date of merger has been continued with the exercise price being adjusted to reflect being part of Alliance Boots. The fair value of options on the date of grant has been estimated by an independent third party using a proprietary valuation model based on the binomial option pricing model. The inputs into the model for options granted in the period were option price (£6.37), expected annual volatility (18-20%) based on historic volatility, expected dividend yield (3.7%), a share price of £8.07 and a risk-free rate (4.7-4.9%).

The number and weighted average exercise prices of executive options granted are as follows

| | 15 months ending 31 March 2007 | | 12 months ending 31 December 2005 | |
|--------------------------------------|--|----------------------|--|----------------------|
| | Weighted average exercise price £ | Number of options | Weighted average exercise price £ | Number of options |
| Outstanding at 1 January | 4.33 | 111,888 | 3.94 | 190,476 |
| Granted during the period | - | - | 6.08 | 39,960 |
| Transfers to Group companies | - | - | 4.52 | 71,928 |
| Exercised during the period | 4.33 | 111,888 | 3.92 | 46,620 |
| Outstanding at the end of the period | - | - | 4.33 | 111,888 |
| Exercisable at the end of the period | - | - | - | - |

OTC DIRECT LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

15 months ended 31 March 2007

9. SHARE-BASED COMPENSATION (continued)

The exercise price range and the average contractual life of executive options outstanding as at 31 March is as follows

| | 31 March 2007 | 31 December 2005 |
|-----------------------------------|---------------|------------------|
| Exercise price range | - | £3 67 to £6 08 |
| Weighted average contractual life | - | 5 0 years |

The number and weighted average exercise prices of SAYE options granted are as follows

| | 15 months ending 31 March 2007 | |
|--------------------------------------|--|----------------------|
| | Weighted average exercise price £ | Number of options |
| Outstanding at 1 January | - | - |
| Granted during the period | 6 37 | 17,620 |
| Outstanding at the end of the period | 6 37 | 17,620 |
| Exercisable at the end of the period | - | - |

The weighted average fair value of SAYE options granted during the year was £2 02 per share

The exercise price range and average contractual life of SAYE options outstanding as at 31 March is as follows

| | 31 March 2007 |
|-----------------------------------|---------------|
| Exercise price range | £6 37 |
| Weighted average contractual life | 4 1 years |

The fair value at measurement date for equity instruments (other than share options) granted during the period was as follows

| | Weighted average fair value per share | Weighted average fair value per share |
|-------------------------------|--|--|
| Performance share plan awards | £7 47 | - |

The total expense recognised in the year in respect of share-based compensation was £63k (2005 - £nil) arising entirely from equity settled share-based compensation transactions

OTC DIRECT LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

15 months ended 31 March 2007

10 TANGIBLE FIXED ASSETS

| | Leasehold improvements £'000 | Office equipment £'000 | Computer equipment £'000 | Motor vehicles £'000 | Total £'000 |
|---------------------------------|------------------------------------|------------------------------|--------------------------------|----------------------------|----------------|
| Cost | | | | | |
| At 1 January 2006 | 436 | 122 | 363 | 149 | 1,070 |
| Additions | 10 | 22 | 7 | 52 | 91 |
| Transfers to group undertakings | - | - | - | (12) | (12) |
| Disposals | - | - | (26) | (26) | (52) |
| At 31 March 2007 | 446 | 144 | 344 | 163 | 1,097 |
| Depreciation | | | | | |
| At 1 January 2006 | 195 | 90 | 257 | 81 | 623 |
| Transfers to group undertakings | - | - | - | (3) | (3) |
| Charge for the period | 77 | 19 | 50 | 43 | 189 |
| Disposals | - | - | (26) | (16) | (42) |
| At 31 March 2007 | 272 | 109 | 281 | 105 | 767 |
| Net book value | | | | | |
| At 31 March 2007 | 174 | 35 | 63 | 58 | 330 |
| At 31 December 2005 | 241 | 32 | 106 | 68 | 447 |

11 DEBTORS

| | 31 March 2007 £'000 | 31 December 2005 Restated £'000 |
|--|---------------------------|--|
| Trade debtors | 18,281 | 22,807 |
| Amounts due from group undertakings | 8,946 | 2,615 |
| Other debtors | 11,550 | 5,890 |
| Prepayments and accrued income | 1,619 | 2,447 |
| Deferred tax (note 13) | 43 | 43 |
| | 40,439 | 33,802 |

Amounts due from group undertakings as at 31 March 2007 included a £1,781,000 loan (2005 - £nil) bearing interest at 4.86% per annum. This loan has since been repaid to the company.

OTC DIRECT LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

15 months ended 31 March 2007

12. CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 31 March 2007 £'000 | 31 December 2005 £'000 |
|------------------------------------|---------------------------|------------------------------|
| Trade creditors | 1,007 | 863 |
| Amounts owed to group undertakings | 15,149 | 10,466 |
| Corporation tax | 2,908 | 2,046 |
| Other taxes and social security | 423 | 36 |
| Accruals and deferred income | 10,914 | 10,535 |
| | <u>30,401</u> | <u>23,946</u> |

13 DEFERRED TAX ASSET

| | £'000 |
|--------------------------------|-----------|
| At 1 January 2006 | 43 |
| Credit for the period (note 7) | - |
| | <u>43</u> |
| At 31 March 2007 (note 11) | <u>43</u> |

Deferred tax has been fully provided in the accounts. The deferred tax asset arises as follows:

| | 31 March 2007 £'000 | 31 December 2005 Restated £'000 |
|---|---------------------------|--|
| Accelerated capital allowances | 11 | (2) |
| Timing difference in respect of pension contributions | 24 | 18 |
| Share-based charges | 8 | 27 |
| | <u>43</u> | <u>43</u> |

14. CALLED UP SHARE CAPITAL

| | 31 March 2007 £'000 | 31 December 2005 £'000 |
|--|---------------------------|------------------------------|
| Authorised: | | |
| 500,000 ordinary shares of £1 each | <u>500</u> | <u>500</u> |
| Called up, allotted and fully paid: | | |
| 500,000 ordinary shares of £1 each | <u>500</u> | <u>500</u> |

OTC DIRECT LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

15 months ended 31 March 2007

15. COMBINED STATEMENT OF RESERVES AND RECONCILIATION OF EQUITY SHAREHOLDERS' FUNDS

| | Called up share capital 2007 £'000 | Profit and loss account 2007 £'000 Restated | Total 2007 £'000 Restated | Total 2005 £'000 Restated |
|--|---|---|------------------------------------|------------------------------------|
| At 1 January (Restated) | 500 | 12,280 | 12,780 | 7,684 |
| Profit on ordinary activities after taxation | - | 11,477 | 11,477 | 8,397 |
| Dividends paid | - | (7,376) | (7,376) | (3,301) |
| Shared-based charge | - | 63 | 63 | - |
| At 31 March (2005 31 December) | 500 | 16,444 | 16,944 | 12,780 |

16 PRIOR YEAR ADJUSTMENT

The company policy for accounting for Share-Based Payments has changed during the period to accord with Financial Reporting Standard 20 Share-Based Payments ('FRS 20'). The comparative figures in the primary statements and notes have been restated to reflect the requirements of FRS 20.

The effects of these changes in accounting policy are summarised below

| | 2005 £'000 |
|---|---------------|
| Profit & loss account | |
| Increase in administrative expenses | - |
| Decrease in tax on profit on ordinary activities | 12 |
| Increase in profit for the financial year | 12 |
| Balance sheet | |
| Increase in deferred tax asset and net assets | 27 |
| Increase in retained earnings at 31 December 2005 | 27 |
| Increase in equity shareholder funds as at 31 December 2005 | 27 |

OTC DIRECT LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

15 months ended 31 March 2007

17. OPERATING LEASE COMMITMENTS

At 31 March 2007 the company was committed to making the following payments during the next year under operating leases

| | Land and buildings 31 March 2007 £'000 | Land and buildings 31 December 2005 £'000 |
|---|--|---|
| Leases which expire Within two to five years | 220 | 179 |

18. PENSION SCHEME

The company participates in the Alliance UniChem Group UK pension scheme, incorporating both a multi employer defined benefit scheme and a defined contribution plan, the assets and liabilities of which are held independently from the group. The company is unable to identify its share of the underlying assets and liabilities of the defined benefit scheme and accordingly accounts for contributions to the scheme as if it were a defined contribution scheme.

Contributions for the period were £48,000 (2005 £35,000). The contribution rate to the defined benefit scheme for the next 12 months is 20.6%.

19. RELATED PARTY TRANSACTIONS

No related party transactions have been disclosed between the company and the other group companies as permitted by paragraph 3(c) of Financial Reporting Standard 8 - Related Party Disclosures. The names of the group companies are shown in the financial statements of Alliance Boots plc. There were no other related party transactions in the period.

20. IMMEDIATE AND ULTIMATE PARENT COMPANY

The immediate parent undertaking is UniChem Limited. The ultimate parent undertaking and controlling entity is Alliance Boots plc, a company incorporated in Great Britain and registered in England and Wales. This is also the parent undertaking of the only group which includes the company and for which group accounts are prepared.

A copy of the Alliance Boots plc group accounts may be obtained from the Company Secretary, Alliance Boots plc, Head Office, 4th Floor, 361 Oxford Street, Sedley Place, London W1C 2JL.