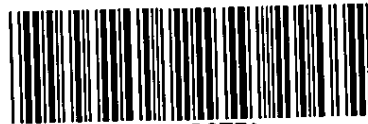


Registered Number 3802593

Pharmacy 2U Limited
Annual report
for the year ended 31 March 2009

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Pharmacy 2U Limited

Annual report for the year ended 31 March 2009

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Pharmacy 2U Limited

Directors and advisers for the year ended 31 March 2009

Directors

Dr K McCullagh	(Non-executive Chairman)
Dr J Harrison	(Commercial Director)
D Lee	(Managing Director)
S Riddell	(Non-executive)
B Haigh	(Non-executive)
G Brand	(Non-executive)
M Glatman	(Non-executive)

Secretary

David Downham

Independent Auditors

PricewaterhouseCoopers LLP
Benson House
33 Wellington Street
LEEDS
LS1 4JP

Solicitors

Pinsent Masons
1 Park Row
LEEDS
LS1 5AB

Registered Office

1 Hawthorn Park
Coal Road
LEEDS
LS14 1PQ

Registered Number

3802593

Pharmacy 2U Limited

Directors' report for the year ended 31 March 2009

The directors present their report together with the audited financial statements of the company for the year ended 31 March 2009.

Business review and principal activities

Pharmacy 2U Ltd ("the company") operates a wholly internet mail order pharmacy.

The results for the company show a pre-tax profit of £682,000 (2008: £95,000) for the year and sales of £15,062,000 (2008: £11,670,000). At 31 March 2009, the company has net assets of £1,686,000 (2008: £127,000).

Website development costs

We continue to invest in the design and layout of our website and develop our infrastructure to efficiently receive and dispense prescriptions. We aim for our prescription systems to be compliant for the Department of Health's Electronic Prescription Service release 2 ("EPSr2") by the end of 2009. The directors regard the investment in website development as integral to the continuing success of the business.

Future outlook

The national roll-out of EPSr2 will provide a great opportunity for the company to grow its NHS prescription dispensing business. Meanwhile, the Company's private prescription dispensing business continues to grow strongly.

The external commercial environment is expected to remain competitive for internet sales of pharmacy products. However, we remain confident that we can strengthen our current level of performance through the provision of outsourced services to third party clients.

Principal risks and uncertainties

The management of the business and the execution of the company's strategy are subject to a number of risks.

The key business risks and uncertainties affecting the company are primarily considered to relate to competition from national and internet retailers and uncertain timing of the delivery of NHS projects by the Department of Health within stated deadlines.

Key performance indicators ("KPIs")

Given the straightforward nature of the business, the Company's Directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business.

Directors and their interests

The directors who held office during the year are given below:

Dr K McCullagh

Dr J Harrison

D Lee

S Riddell

B Haigh

G Brand

M Glatman

(appointed 25 June 2008)

Pharmacy 2U Limited

Directors' report for the year ended 31 March 2009 (continued)

Statement of directors' responsibilities in respect of the Annual Report and the Financial Statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to 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 those 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that 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 1985. They are also responsible for safeguarding the assets of the company and, hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website and the work carried out by the auditors does not involve consideration of these matters. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Auditors and disclosure of information to auditors

The Directors confirm that, so far as they are aware, there is no relevant audit information of which the auditors are unaware and that each director has taken all reasonable steps to make themselves aware of any relevant audit information, and to establish that the auditors are aware of that information.

Independent Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

By order of the Board



David Downham
Secretary
24 August 2009

Pharmacy 2U Limited

Independent auditors' report to the members of Pharmacy 2U Limited

We have audited the financial statements of Pharmacy 2U Limited for the year ended 31 March 2009 which comprise the profit and loss account, the balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 other information contained in the Annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the Director's report and all the other information listed within the contents page. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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.

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 2009 and of its profit for the year 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.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

Leeds

27 August 2009

Pharmacy 2U Limited

Profit and loss account for the year ended 31 March 2009

	Note	2009 £'000	2008 £'000
Turnover	1	15,062	11,670
Cost of sales		(10,585)	(8,530)
Gross profit		4,477	3,140
Distribution expenses		(2,551)	(1,896)
Administration expenses		(1,224)	(1,104)
Profit on ordinary activities before interest and taxation	2	702	140
Net interest payable	5	(20)	(45)
Profit on ordinary activities before taxation		682	95
Tax on profit on ordinary activities		-	(66)
Deferred tax credit in respect of carried forward trading losses		864	-
Total tax credit/(charge) on profit on ordinary activities	6	864	(66)
Profit for the financial year	15	1,546	29

All items dealt with in arriving at operating profit above relate to continuing operations.

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

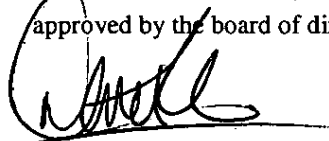
There are no material differences between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historical cost equivalents.

Pharmacy 2U Limited

Balance sheet as at 31 March 2009

	Note	2009 £'000	2008 £'000
Fixed assets			
Tangible assets	7	365	402
		365	402
Current assets			
Stock	8	590	342
Debtors	9	1,959	1,206
Cash at bank and in hand		781	76
Deferred tax asset	10	883	18
		4,213	1,642
Creditors: amounts falling due within one year	11	(2,888)	(1,870)
Net current assets/(liabilities)		1,325	(228)
Total assets less current liabilities		1,690	174
Creditors: amounts falling due after more than one year	12	(4)	(47)
Net assets		1,686	127
Capital and reserves			
Called up share capital	14	628	628
Share premium account	15	3,787	3,787
Profit and loss account	15	(2,729)	(4,288)
Total shareholders' funds	16	1,686	127

The financial statements, which comprise the profit and loss account, the balance sheet and related notes, were approved by the board of directors on 24 August 2009 and were signed on its behalf by:



Daniel Lee
Director

Pharmacy 2U Limited

Statement of accounting policies

Basis of accounting

The financial statements have been prepared on the going concern basis, under the historical cost convention, and in accordance with the Companies Act 1985 and applicable accounting standards in the United Kingdom. The principal accounting policies are set out below.

Share based payments

The Company issues share options to certain employees which are measured at fair value and recognised as an expense in the profit and loss account with a corresponding increase in the profit and loss reserve.

The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. The fair values of these payments are measured at the dates of grant and are recognised over the period during which employees become unconditionally entitled to the awards.

At each balance sheet date, the company revises its estimates of the number of options that are expected to vest and the Company recognises the impact of the revision to original estimates, if any, in the profit and loss account, with a corresponding adjustment to the profit and loss account reserve.

Turnover

Turnover is the invoiced value of goods and services supplied during the year, excluding value added tax.

Tangible fixed assets

Tangible fixed assets are stated at their purchase price, together with any incidental expenses of acquisition, less accumulated depreciation. Provision for depreciation is made so as to write off the cost of tangible fixed assets on a straight line basis over the expected useful economic lives of the assets concerned. The annual rates used are as follows:

Plant and machinery	10 – 33.33%
Fixtures & fittings	20%

Stocks

Stocks are stated at the lower of cost and net realisable value.

Pension costs

The costs of providing retirement pensions and related benefits are charged to the profit and loss account as incurred.

Website development costs

Specific projects to replace large sections of the website are capitalised as plant and machinery. Where development costs are incurred to continually improve and enhance the website, these are charged to the profit and loss account in the period which they are incurred.

Finance and operating leases

Where assets are financed by hire purchase agreements which transfer to the company substantially all the benefits and risks of ownership of an asset, the assets are treated as if they had been purchased outright. The amount capitalised is the fair value of the asset. The corresponding lease commitments are shown as obligations to the lessor. Lease payments are split between capital and interest elements using the annuity method. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit in proportion to the reducing capital element outstanding. Depreciation on the relevant assets is charged to the profit and loss account over the shorter of the lease terms and the useful lives of equivalent owned assets.

Costs in respect of operating leases are charged on a straight-line basis over the lease term.

Pharmacy 2U Limited

Statement of accounting policies (continued)

Deferred taxation

In accordance with FRS19, deferred tax is provided in full on timing differences that 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 the differences reverse based on current tax rates and laws. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the profit and loss account.

Pharmacy 2U Limited

Notes to the financial statements for the year ended 31 March 2009

1 Turnover

Turnover consists entirely of sales originating and derived from the United Kingdom. The directors consider that they have only one class of business.

2 Operating profit

	2009 £'000	2008 £'000
Operating profit is stated after charging:		
Depreciation of tangible fixed assets		
- owned assets	98	77
- leased assets	23	23
Operating lease rentals	109	109
Website development costs	61	73
Share option expense	13	35
Services provided by the company's auditor		
Fees payable for the audit	10	9

3 Employee information

	2009 £'000	2008 £'000
Wages and salaries	1,278	1,083
Social security costs	123	109
Other pension costs	47	37
	1,448	1,229

The average number of persons (including executive directors) employed by the company during the year was:

	2009	2008
Selling and distribution	43	36
Administration	6	6
	49	42

Pharmacy 2U Limited

Notes to the financial statements for the year ended 31 March 2009 (continued)

4 Directors' emoluments

	2009 £'000	2008 £'000
Aggregate emoluments	364	299
Company contributions to money purchase pension schemes	24	22
	388	321

Retirement benefits are accruing to 2 (2008: 2) directors under a defined contribution scheme

5 Interest

	2009 £'000	2008 £'000
Interest payable on overdrafts and bank loans	21	40
Interest payable on finance leases	5	8
Interest payable	26	48
Interest receivable	(6)	(3)
Net interest payable	20	45

Pharmacy 2U Limited

Notes to the financial statements for the year ended 31 March 2009 (continued)

6 Tax on profit on ordinary activities

	2009 £'000	2008 £'000
Current tax		
UK corporation tax on profits for the period	(1)	-
Adjustment in respect of previous periods	-	10
Total current tax	(1)	10
Deferred tax		
Origination and reversal of timing differences	1	(12)
Recognition of carried forward trading losses	864	-
Adjustment in respect of previous periods	-	(64)
Total deferred tax (note 10)	865	(76)
Total tax credit/(charge) on profit on ordinary activities	864	(66)

The current year tax charge is lower than the standard rate of corporation tax in the UK (28%). The differences are explained below.

	2009 £'000	2008 £'000
Profit on ordinary activities before tax	682	95
Profit on ordinary activities multiplied by standard rate in the UK of 28% (2007: 30%)	191	28
Accelerated capital allowances and other timing differences	1	(23)
Expenses not deductible	1	(5)
Adjustments in respect of prior periods	-	(10)
Utilisation of carried forward trading losses	(185)	-
Relief for research and development expenditure	(7)	-
Total current tax	1	(10)

With effect from 5 April 2008, the standard rate of corporation tax changed from 30% to 28%.

Pharmacy 2U Limited

Notes to the financial statements for the year ended 31 March 2009 (continued)

7 Tangible fixed assets

	Plant and machinery £'000	Fixtures & fittings £'000	Total £'000
Cost			
At 1 April 2008	458	209	667
Additions	70	14	84
Disposals	(16)	(1)	(17)
At 31 March 2009	512	222	734
Depreciation			
At 1 April 2008	159	106	265
Charge for the year	82	39	121
Disposals	(16)	(1)	(17)
At 31 March 2009	225	144	369
Net book amount			
At 31 March 2009	287	78	365
At 31 March 2008	299	103	402

The net book value of tangible fixed assets includes an amount of £142,000 (2008: £165,000) in respect of assets held under finance leases. Depreciation charged on these assets during the year was £23,000 (2008: £23,000).

8 Stock

	2009 £'000	2008 £'000
Goods for resale	590	342

Pharmacy 2U Limited

Notes to the financial statements for the year ended 31 March 2009 (continued)

9 Debtors

	2009 £'000	2008 £'000
Trade debtors	875	533
Other debtors	115	111
Prepayments and accrued income	969	562
	1,959	1,206

10 Deferred tax

The movement on deferred taxation during the year was:

	2009 £'000	2008 £'000
At 1 April	18	94
Charged to the profit and loss account	865	(76)
Total recognised deferred tax	883	18

The amounts of deferred tax provided are as follows:

	2009 £'000	2008 £'000
Accelerated capital allowances and other timing differences	19	18
Carried forward trading losses	864	-
Total deferred tax asset	883	18

The company has unutilised trading losses amounting to approximately £3,086,000 (2008: £3,746,000), which are available for relief against future profits. These losses have previously been unprovided, however they have now been recognised on the basis that trading profits are expected to be generated in the foreseeable future against which these losses may be utilised in full.

Deferred tax balances have been measured at the tax rate of 28%, being the current standard rate of corporation tax in the UK.

The company has no unprovided deferred tax.

Pharmacy 2U Limited

Notes to the financial statements for the year ended 31 March 2009 (continued)

11 Creditors – amounts falling due within one year

	2009 £'000	2008 £'000
Trade creditors	2,155	1,677
Finance leases	43	40
Corporation tax	1	-
Taxation and social security	32	30
Other creditors	457	-
Accruals and deferred income	200	123
	2,888	1,870

12 Creditors – amounts falling due after more than one year

	2009 £'000	2008 £'000
Finance leases	4	47

Pharmacy 2U Limited

Notes to the financial statements for the year ended 31 March 2009 (continued)

13 Finance leases

Future minimum payments under finance leases are as follows:

	2009 £'000	2008 £'000
Within one year	45	45
In more than one but not more than five years	4	49
Total gross payments	49	94
Less finance charges included above	(2)	(7)
	47	87

14 Called up share capital

	2009 £'000	2008 £'000
Authorised		
44,939,733 (2008: 44,939,733) ordinary shares of 10p each	4,494	4,494
5,060,767 (2008: 5,060,267) preferred ordinary shares of 10p each	506	506
	5,000	5,000
Allotted and fully paid		
1,671,695 (2008: 1,671,695) ordinary shares of 10p each	167	167
4,613,429 (2008: 4,613,429) preferred ordinary shares of 10p each	461	461
	628	628

Preferred ordinary shares have preferential rights to the assets of the company in the event of the company being wound up. In all other respects the preferred ordinary shares rank pari passu with the ordinary shares.

Pharmacy 2U Limited

Notes to the financial statements for the year ended 31 March 2009 (continued)

15 Reserves

	Share premium account £'000	Profit and loss account £'000
At 1 April 2008	3,787	(4,288)
Retained profit for the financial year	-	1,546
Adjustment in respect of employee share schemes	-	13
At 31 March 2009	3,787	(2,729)

16 Reconciliation of movements in shareholders' funds

	2009 £'000	2008 £'000
Profit for the financial year	1,546	29
Adjustment in respect of employee share schemes	13	35
Opening Shareholders' funds	127	63
Closing Shareholders' funds	1,686	127

17 Operating lease commitments

At 31 March 2009, the company had lease agreements in respect of property for which the payments extend over a number of years.

	2009 £'000	2008 £'000
Annual commitments under non-cancellable operating leases expiring after 5 years	109	109

Pharmacy 2U Limited

Notes to the financial statements for the year ended 31 March 2009 (continued)

18 Share Based Payments

The company operates a number of employee share option schemes. Under FRS 20 Share Based Payments, an expense is recognised in the profit and loss account for all equity settled share options granted after 7 November 2002 that had not vested before 1 January 2005.

The company has recorded an FRS 20 charge of £13,000 for the year ended 31 March 2009 (2008: £35,000). The fair value of options and significant assumptions used in the calculation of the FRS 20 charge were as follows:

Grant date	2003	2004	2005	2007
Share price at date of grant (£)	£0.41	£0.41	£1.68	£2.00
Exercise price (£)	£0.41	£0.41	£1.68	£2.00
Number of participating employees	5	6	1	1
Shares under option ('000)	121,000	175,000	13,300	50,000
Vesting period (years)	10	10	10	10
Expected volatility	25.0%	23.6%	17.9%	22.9%
Option life (years)	10	10	10	10
Expected life (years)	7	7	7	7
Risk free rate	4.00%	4.00%	4.75%	5.25%
Expected dividend yield	Nil	Nil	Nil	Nil
Fair value per option (£)	£0.15	£0.15	£0.57	£0.78
Valuation model	Black scholes	Black scholes	Black scholes	Black scholes

The expected volatility is based on the average historical volatility of certain listed companies that the Directors consider to operate in a comparable area to the company. The expected life is the average expected period to exercise. The risk free rate of return is the Bank of England base rate at the time the option was issued. Certain awards will only vest in full if specific performance criteria are met. For non-market based performance criteria, the directors have made their best estimate of the number of options that will ultimately vest.

Pharmacy 2U Limited

Notes to the financial statements for the year ended 31 March 2009 (continued)

18 Share Based Payments (continued)

A reconciliation of option movements over the year to 31 March 2009 is shown below:

	2009		2008	
	Number ‘000	Weighted average exercise price £	Number ‘000	Weighted average exercise price £
At 31 March	359	£0.68	309	£0.46
Granted	-	-	50	-
Outstanding at 31 March	359	£0.68	359	£0.68
Exercisable at 31 March	-	-	-	-

Options are exercisable at prices ranging between £0.41 and £2.00. The contractual life of options is generally 10 years which includes a three year vesting period with performance conditions.

19 Related party transactions

On 3 May 2005, the company moved into premises owned by Scottish Equitable Plc as Trustee of The Scottish Equitable Self-Administered Personal Pension Scheme, the beneficiaries of which are Daniel Lee and Julian Harrison, both of whom are directors of the company.

The lease was negotiated at arm's length and is on normal commercial terms. The initial term of the lease is 15 years, with rent reviews every five years. The annual rent is £109,000. There were no balances due at 31 March 2009.

20 Pension commitments

The company operates a defined contribution 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 £47,000 (2008: £37,000). £3,000 (2008: £3,000) was owed to the fund at the year end.

21 Cash flow statement

The company is entitled to file abbreviated financial statements under section 246 of the Companies Act 1985. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (revised 1996).