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AAH Pharmaceuticals Limited
Directors' report and financial statements
for the year ended 31 December 2003

Registered no: 123458

DEPARTMENT OF ENTERPRISE
TRADE AND INVESTMENT
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AAH Pharmaceuticals Limited

Directors' report and financial statements for the year ended 31 December 2003

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AAH Pharmaceuticals Limited

Directors' report for the year ended 31 December 2003

The directors present their report and the audited financial statements of the company for the year ended 31 December 2003.

Results

Details of the results for the financial year are set out in the profit and loss account on page 5. The directors do not recommend the payment of a final dividend (2002: £nil). An interim dividend of £75 million was paid during the year (2002: £36.1 million).

Principal activities

The company's principal activities are the wholesaling of pharmaceutical products.

Review of business and future developments

During the year the company continued the modernisation of its branch network.

The sales and profit performance for the year is considered to have been acceptable and reflects the increased business volumes from both Lloyds Pharmacy and a number of new accounts.

During the year the company made an agreed offer to purchase the whole of the issued share capital in East Anglian Pharmaceuticals Limited. Following the referral of that offer to the Competition Commission the offer was withdrawn as the two companies wished to avoid the delays and uncertainties associated with the referral process.

The directors consider the future prospects of the company to be extremely sound and anticipate being able to grow the business further.

Political and charitable contributions

Charitable contributions of £19,136 were made during the year (2002: £8,612). No political contributions were made (2002: £Nil).

Directors

The directors of the company, all of whom have been directors for the whole of the year ended 31 December 2003 except where otherwise stated, were as follows:

I Davidson
S R Dunn
P L Forster-Jones
A G Grasso
M L James
G R Lunt
J F Poole
J A Richards

In accordance with the Articles of Association, none of the directors are required to retire at the annual general meeting.

AAH Pharmaceuticals Limited

Directors' report for the year ended 31 December 2003 (continued)

Directors' interests

According to the register kept under section 325 of the Companies Act 1985, no director had a notifiable interest in the shares of the company or other group companies at any time during the year. As permitted, the register does not contain details of directors' interests in parent undertakings which are incorporated outside Great Britain.

None of the directors had a material interest in any contracts with group companies.

Employment policies

The directors pursue a policy of promoting equality of opportunity to all employees and of fostering and developing their involvement and interest in the company. Both formal and informal systems of communication are used and managers have a specific responsibility to communicate effectively with the employees. Copies of the group annual report and news releases are distributed and other matters of importance or interest are featured in regular issues of the group in-house magazine which seeks to achieve a common awareness on the part of all employees of the financial and economic factors affecting the group performance.

Training is regarded as a fundamental requirement and appropriate programmes exist at group, divisional or subsidiary company level.

Wherever possible, disabled persons are given the same consideration for employment opportunities as other applicants and training and promotion prospects are identical. In particular, special consideration is given to continuity of employment in the case of an employee who becomes disabled, with suitable retraining for alternative employment, if practicable.

The company recognises the high standards required to ensure the health, safety and welfare of its employees at work, its customers and the general public. The policies in this regard are regularly reviewed with the objective of ensuring that these standards are maintained.

Creditor payment policy

The policy of the company regarding the payment of trade creditors is determined internally rather than drawing upon any published supplier payment code. For the company, the policy is to:

- (a) settle the terms of payment with suppliers when agreeing the terms of each transaction;
- (b) ensure that suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and
- (c) pay in accordance with their contractual and other legal obligations.

The payment policy applies to all creditors for revenue and capital supplies of goods and services, without exception.

The company had 37 days purchases outstanding at 31 December 2003 based on the average daily amount invoiced by suppliers during the year (2002: 36 days)

AAH Pharmaceuticals Limited

Directors' report for the year ended 31 December 2003 (continued)

Statement of directors' responsibilities

The directors are required by UK Company Law to prepare financial statements for each financial year that 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. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2003 and that applicable accounting standards have been followed.

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.

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



P Smerdon
Secretary
12 February 2004

Independent Auditors' Report to the members of AAH Pharmaceuticals Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards 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 United Kingdom Auditing Standards issued by the Auditing Practices Board. 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 if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

Basis of audit opinion

We conducted our audit in accordance with auditing standards 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 of the state of the company's affairs at 31 December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

Birmingham

12 Feb 2004

AAH Pharmaceuticals Limited

Profit and loss account for the year ended 31 December 2003

	Notes	2003 £'000	2002 £'000
Turnover	3	2,996,068	2,761,962
Cost of sales		(2,748,078)	(2,498,767)
Gross profit		<u>247,990</u>	<u>263,195</u>
Distribution costs and administrative expenses		(95,398)	(102,012)
Operating profit		<u>152,592</u>	<u>161,183</u>
Net interest receivable	6	13,929	9,510
Profit on ordinary activities before taxation	7	<u>166,521</u>	<u>170,693</u>
Tax on profit on ordinary activities	8	(47,733)	(51,392)
Profit on ordinary activities after taxation		<u>118,788</u>	<u>119,301</u>
Dividends	9	(75,000)	(36,100)
Profit retained for the year	20	<u><u>43,788</u></u>	<u><u>83,201</u></u>

The results have been derived wholly from continuing operations.

The company has no recognised gains and losses other than those included in the profit and loss account above and therefore no separate statement of total recognised gains and losses has been presented.

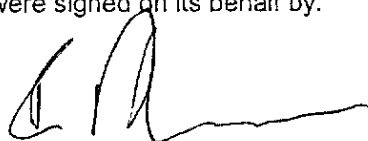
There is no material difference between the results above and the results on an unmodified historical cost basis.

AAH Pharmaceuticals Limited

Balance sheet at 31 December 2003

	Notes	2003 £'000	2003 £'000	2002 £'000	2002 £'000
Fixed assets					
Intangible assets	10		3,250		4,250
Tangible assets	11		31,609		33,137
Investments	12		201		195
			<u>35,060</u>		<u>37,582</u>
Current assets					
Stocks	13		248,928		215,100
Debtors:					
Amounts falling due within one year	14		321,617		355,742
Amounts falling due after more than one year	14		188,607		89,955
Trade debtors subject to financing	15	21,903		29,472	
Less: non-returnable amounts received	15	<u>(20,507)</u>		<u>(27,585)</u>	
			1,396		1,887
Cash at bank and in hand			<u>21,490</u>		<u>43,620</u>
			<u>782,038</u>		<u>706,304</u>
Creditors: amounts falling due within one year	16		(450,336)		(413,316)
Net current assets			<u>331,702</u>		<u>292,988</u>
Total assets less current liabilities			366,762		330,570
Provisions for liabilities and charges	17		(2,326)		(9,922)
Net assets			<u>364,436</u>		<u>320,648</u>
Capital and reserves					
Called-up share capital	19		50,000		50,000
Profit and loss account	20		314,436		270,648
Equity shareholders' funds	21		<u>364,436</u>		<u>320,648</u>

The financial statements on pages 5 to 22 were approved by the board of directors on 12 February 2004 and were signed on its behalf by:



I Davidson
Director

AAH Pharmaceuticals Limited

Notes to the financial statements for the year ended 31 December 2003

1 Principal accounting policies

The financial statements have been prepared under the historical cost convention in accordance with applicable Accounting Standards in the United Kingdom. Set out below is a summary of the more important accounting policies, which have been applied consistently except where stated.

Turnover

Turnover comprises sales of goods and services at invoice value excluding value added tax.

Taxation

The charge for taxation is based on the result for the year and deferred taxation has been recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more tax in the future, or a right to pay less tax in the future. An asset is not recognised to the extent that the transfer of economic benefits in the future is uncertain. Deferred tax liabilities and assets are not discounted.

Trade debtors subject to financing

Trade debtors subject to financing are disclosed on the balance sheet using the linked presentation, in accordance with Financial Reporting Standard number 5 'Reporting the substance of transactions'.

Investments

Investments are included in the balance sheet at their cost of acquisition. Where appropriate, provision is made for impairment.

Tangible fixed assets

Tangible fixed assets are stated at cost less provision for depreciation. Cost comprises the purchase cost together with any incidental expenses of acquisition.

Depreciation is calculated by reference to the expected lives of the assets concerned. Additional depreciation may be charged where directors consider there to have been an impairment in the

Freehold land and buildings	2% straight line
Leasehold land and buildings	2% straight line or over the period of the lease if less than 50 years
Plant and equipment	10% - 20% on a reducing balance basis
Motor vehicles	25% - 33.3% on a reducing balance basis

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost is determined on a first in first out basis. Where necessary, provision is made for obsolete, slow moving and defective stocks.

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Leased assets

All leases are operating leases and rental costs are charged to the profit and loss account on a straight line basis over the lease term.

Goodwill

Goodwill represents the excess of the fair value of consideration given to acquire new businesses over the fair value of the separable net assets at the date of the acquisition. Goodwill is capitalised as an intangible asset on the balance sheet and then amortised over its estimated useful life. The estimated useful life is assessed on a case by case basis and is written off over a period of up to 20 years.

Pensions

The company contributes to group pension schemes operated by AAH Limited. Contributions to the defined benefit schemes are determined by a professionally qualified actuary and are based on pension costs across the group as a whole. They are charged to the profit and loss account so as to spread the pension costs over the expected service lives of employees currently participating in the schemes.

Further details are given in note 18 to the financial statements.

Distribution costs and administrative expenses

The directors do not consider it is practical to distinguish between distribution costs and administrative expenses. Accordingly these expenses are reported together in the profit and loss account.

Foreign currencies

Assets and liabilities incurred in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year. All foreign exchange differences are taken to the profit and loss account in the year in which they arise.

2 Cash flow statement and related party disclosure

The company is a wholly owned subsidiary of Celesio AG (formerly GEHE AG), a company registered in Germany, and is included in the financial statements of Celesio AG (formerly GEHE AG), which are publicly available. 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).

The company has not disclosed transactions with fellow group companies, in accordance with the exemption under the terms of Financial Reporting Standard 8.

3 Turnover

Trading is predominantly carried out in the United Kingdom. Overseas sales during the year amounted to £4,202,000 (2002: £1,404,000)

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4 Directors' emoluments

	2003 £'000	2002 £'000
Aggregate emoluments	1,501	1,386
Compensation for loss of office	-	182
Company pension contributions to other pension schemes	14	11
	<u>1,515</u>	<u>1,579</u>

Retirement benefits are accruing to six directors under defined benefit schemes (2002: seven directors) Retirement benefits are accruing to two directors under defined benefit schemes (2002: no directors)

Highest paid director	2003 £'000	2002 £'000
Aggregate emoluments and benefits under long-term incentive schemes	379	414
Company pension contributions to other pension schemes	14	11
Defined benefit schemes:		
Accrued pension at end of year	<u>13</u>	<u>10</u>

5 Employee information

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

	2003	2002
By function		
Direct operating and production	8	10
Selling and distribution	2,803	3,148
Administration	419	379
	<u>3,230</u>	<u>3,537</u>

Staff costs for the above persons were:

	2003 £'000	2002 £'000
Wages and salaries	51,943	49,735
Social security costs	4,243	3,746
Other pension costs (see note 18)	2,017	1,735
	<u>58,203</u>	<u>55,216</u>

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6 Net interest receivable

	2003 £'000	2002 £'000
Interest payable and similar charges		
Other interest and similar charges	<u>942</u>	<u>1,283</u>
Interest receivable		
Group interest	(12,465)	(10,690)
Other interest	<u>(2,406)</u>	<u>(103)</u>
	<u>(14,871)</u>	<u>(10,793)</u>
 Net interest receivable	 <u>(13,929)</u>	 <u>(9,510)</u>

7 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging / (crediting) the following:

	2003 £'000	2002 £'000
Depreciation - tangible owned assets		
Charge for the year	8,655	7,786
Amortisation - intangible assets	1,000	750
Auditors' remuneration - for audit	134	179
- other	52	21
Operating lease rentals		
Land and buildings	5,517	5,237
Plant and machinery	2,217	2,298
Other	193	67
Profit on sale of fixed assets	(464)	(257)
Rent receivable	<u>(135)</u>	<u>(102)</u>

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8 Tax on profit on ordinary activities

	2003 £'000	2002 £'000
UK corporation tax at 30% (2002: 30%)	48,609	52,986
Adjustment in respect of previous years	(2,026)	(154)
Current taxation	<u>46,583</u>	<u>52,832</u>
Deferred taxation (see note 17)	<u>1,150</u>	<u>(1,440)</u>
	<u><u>47,733</u></u>	<u><u>51,392</u></u>

The reconciliation of the current tax charge is as follows:

Profit before tax multiplied by full UK corporation tax rate of 30% (2002: 30%)	49,956	51,208
Expenses not deductible for tax purposes:		
Timing differences	(2,321)	1,066
Permanent differences	775	612
Capital allowances for the period less depreciation	338	177
Profit on sale of assets to extent differs from chargeable gain	(139)	(77)
Adjustments for prior periods	(2,026)	(154)
	<u><u>46,583</u></u>	<u><u>52,832</u></u>

9 Dividends

	2003 £'000	2002 £'000
Interim paid	<u><u>75,000</u></u>	<u><u>36,100</u></u>

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10 Intangible assets and acquisitions

	Goodwill £'000
Cost	
At 1 January 2003	5,000
At 31 December 2003	<u>5,000</u>
Amortisation	
At 1 January 2003	750
Charge for year	1,000
At 31 December 2003	<u>1,750</u>
Net book value	
At 31 December 2003	<u>3,250</u>
At 31 December 2002	<u>4,250</u>

The goodwill arose on the acquisition of the business of AAH 27 Limited (formerly GEHIS Limited) on 5 April 2002 and is being amortised over a 5 year period on a straight line basis. The 5 year period was selected since that is considered to be the best estimate of its useful economic life.

11 Tangible fixed assets

Movements in the year ended 31 December 2003

	Freehold land and buildings £'000	Long leasehold land and buildings £'000	Short leasehold land and buildings £'000	Fixtures, fittings, plant and equipment £'000	Motor vehicles £'000	Total £'000
Cost						
At 1 January	2,916	2,769	3,945	47,305	10,412	67,347
Reclassification	-	-	(251)	251	-	-
Additions	-	7	54	4,839	2,595	7,495
Disposals	-	-	(29)	(329)	(3,486)	(3,844)
Group transfers out	-	-	-	(2)	-	(2)
At 31 December	<u>2,916</u>	<u>2,776</u>	<u>3,719</u>	<u>52,064</u>	<u>9,521</u>	<u>70,996</u>
Depreciation						
At 1 January	708	394	1,395	26,738	4,975	34,210
Reclassification	-	-	(7)	7	-	-
Charge for year	56	33	313	5,294	2,959	8,655
Disposals	-	-	(29)	(234)	(3,215)	(3,478)
At 31 December	<u>764</u>	<u>427</u>	<u>1,672</u>	<u>31,805</u>	<u>4,719</u>	<u>39,387</u>
Net book value						
At 31 December	<u>2,152</u>	<u>2,349</u>	<u>2,047</u>	<u>20,259</u>	<u>4,802</u>	<u>31,609</u>
At 1 January	<u>2,208</u>	<u>2,375</u>	<u>2,550</u>	<u>20,567</u>	<u>5,437</u>	<u>33,137</u>

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12 Investments

	Shares in Group undertakings £'000	Unlisted Investments £'000	Total £'000
Cost and net book value			
At 1 January 2003	45	150	195
Adjustment to opening book value	6	-	6
At 31 December 2003	51	150	201

The company holds a participating interest in Tredimed SA, a purchasing company incorporated in France. This interest at 31 December 2002 and 31 December 2003 consisted of 2,500 preferential shares of FF200 each, representing a 25% holding.

Tredimed SA is regarded as a subsidiary of Celesio AG (formerly GEHE AG) since that company owns 100% of the issued share capital either directly or via intermediate subsidiary companies.

The unlisted investments represent 300,000 10p ordinary shares in Nucare plc @ 50p each.

13 Stocks

	2003 £'000	2002 £'000
Raw materials and consumables	482	1,027
Finished goods and goods for resale	248,446	214,073
	248,928	215,100

The company had consignment stock arrangements with suppliers in the ordinary course of business. The terms provide, inter alia, that the consignor retains title to the products and both parties have the right of return over the products without penalty. In all cases the consignor will sell the products directly to the customers. Under these arrangements the company is neither liable to buy the products nor is at risk in relation to market fluctuations. Accordingly, the consignment stocks are not recorded on the balance sheet.

Stocks held under these arrangements amounted to £24,267,000 (2002: £19,209,000).

14 Debtors

	2003 £'000	2002 £'000
Amounts falling due within one year:		
Trade debtors	221,570	212,101
Amounts owed by parent and fellow subsidiaries	90,211	135,782
Other debtors	5,803	4,475
Prepayments and accrued income	4,033	3,384
	321,617	355,742
Amounts falling due after more than one year:		
Amounts owed by parent and fellow subsidiaries	188,607	88,903
Deferred taxation	-	1,052
	188,607	89,955

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15 Trade debtors subject to financing

	2003 £'000	2002 £'000
Trade debtors subject to financing	21,903	29,472
Less: non-returnable amounts received	(20,507)	(27,585)
	<u>1,396</u>	<u>1,887</u>

In December 1999, the Admenta UK (formerly GEHE UK) group entered into an agreement to securitise some of the debts of its wholesale and retail divisions. As a result the company has sold trade debtors of £21,903,000 to an independent company (Griffith Limited). Funds of £20,507,000 have been received to date in respect of this sale. Costs charged to the profit and loss account during the year ended 31 December 2003 in respect of the funds received amounted to £943,000 (2002: £1,283,000) and were included in "interest payable and similar charges."

The terms of sale are such that Griffith Limited has no subsequent recourse to AAH Pharmaceuticals Limited or any other member of the Admenta UK (formerly GEHE UK) group. The company and the group are not obliged to support any losses, nor is it intended to do so. The funds received in respect of the sale and costs charged thereon are secured on the trade debtors. It is anticipated that further debt will be sold to Griffith Limited in due course, within a specified facility limit.

16 Creditors

	2003 £'000	2002 £'000
Amounts falling due within one year:		
Bank overdraft	8,025	1,072
Trade creditors	356,032	297,760
Amounts owed to parent and fellow subsidiaries	12,414	37,067
Corporation tax	27,821	26,890
Other taxation and social security payable	15,072	1,358
Other creditors	26,184	33,372
Accruals and deferred income	4,788	15,797
	<u>450,336</u>	<u>413,316</u>

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17 Provisions for liabilities and charges

(a) Provisions

	Restructuring £'000	Disposal provisions £'000	Property £'000	Other £'000	Total £'000
At 1 January 2003	1,307	5,115	1,800	1,700	9,922
(Release) / charge to the profit and loss account	-	(5,115)	360	(1,200)	(5,955)
Utilised during the year	(1,239)	-	-	(500)	(1,739)
At 31 December 2003	68	-	2,160	-	2,228

The remaining restructuring provision relates predominantly to restructuring of head office functions which occurred at the end of 2002. It is anticipated that this provision will be utilised during 2004.

The disposal provision was transferred from Lloyds Chemists Limited as part of the reorganisation of group functions and head office companies. The provision related to businesses sold by the Lloyds Chemists group and was to cover costs and claims arising from the disposals.

The property provision represents an assessment of the costs to cover rent and rates for vacant leasehold premises, taking account of the anticipated period until the leases are assigned or disposed of. The assessment, which is undertaken at the end of each accounting period, is made on a property by property basis in conjunction with the group's property services department.

It is expected that approximately £230,000 of the property provision will be utilised within one year. The remaining balance of £1,930,000 will be used throughout the period until the end of the lease term or the assignment or disposal of the premises, over a maximum remaining period of 18 years.

Other provisions were for amounts relating to customer rebate agreements where there was uncertainty about the timing and amount of payment.

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17 Provisions for liabilities and charges (continued)

(b) Deferred tax

	2003 £'000	2002 £'000
Brought forward	(1,052)	388
Deferred tax charge / (credit) in the profit and loss account (see note 8)	1,150	(1,440)
At 31 December	98	(1,052)

The deferred taxation liability / (asset) recognised in the financial statements is as follows:

	2003 £'000	2002 £'000
Accelerated capital allowances	362	372
Short term timing differences	(264)	(1,424)
	98	(1,052)

The deferred tax creditor at the year end is included within the figure for provisions on the face of the balance sheet. The deferred tax asset recognised in the financial statements at 31 December 2002 is included within debtors falling due after more than one year.

18 Pension obligations

The company participates in group pension schemes operated by AAH Limited (a UK parent company), two of which are defined benefit and one defined contribution. All of the schemes are funded and constituted as independently administered funds with their assets being held separately from those of the company. The funds are valued every three years by a professionally qualified, independent actuary, the rates of contribution payable being determined by the actuary. The SSAP 24 valuations are as follows:

	AAH Staff Pension Scheme	Vestric Pension Plan
Valuation date	6 April 2002	1 April 2002
Market value of assets at valuation date	£54.9 million	£39 million
Level of funding at valuation date	87%	99%
Principal assumptions:		
Long term interest rate	5.10%	5.20%
Investment return	5.60%	5.60%
Rate of salary growth	4.50%	4.50%
Rate of pension increases	2.75%	2.75%

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18 Pension obligations (continued)

Surpluses and deficits are dealt with over the expected working lifetime of the members by appropriate adjustments to the contribution rates.

The pension costs for all schemes were borne by each fund. The total pension charge in respect of the company was £2,017,000 (2002: £1,735,000).

There were amounts of £224,000 accrued in respect of pension scheme contributions at the balance sheet date (2002: £217,000). This amount is included within accruals and deferred income.

The company provides no other post-retirement benefits to its employees.

The figures incorporated within the accounts are under SSAP 24 but in addition an actuarial valuation was carried out as at 31 December 2003 by a qualified independent actuary for FRS 17 disclosure purposes. It is considered that 50% of the assets and liabilities of the AAH Staff scheme and 100% of the assets and liabilities of the Vestric Scheme are attributable to the company. The major assumptions used by the actuary for the FRS 17 disclosures were as follows:

Assumptions	Staff Scheme		Vestric Scheme	
	2003	2002	2003	2002
Rate of increase in salaries	4.60%	4.05%	4.60%	4.05%
Rate of increase in pensions payment	5.20%	5.10%	2.80%	2.20%
Discount rate	5.40%	5.60%	5.40%	5.60%
Inflation assumption	2.80%	2.30%	2.80%	2.30%

Group contributions during the year were £2,654,000 (2002: £2,135,000). The contribution rate for the AAH Staff scheme for the coming year is 23.7% of pensionable payroll plus £34,000 per month. The Company contribution rate for the Vestric scheme for the coming year is 20.7% of basic pay.

The assets in the scheme and the expected rates of return were as follows:

	Long term rate of return		Staff Scheme		Vestric Scheme	
	At 31.12.03 %	At 31.12.02 %	Value at 31.12.03 £'m	Value at 31.12.02 £'m	Value at 31.12.03 £'m	Value at 31.12.02 £'m
Scheme assets						
Equities & property	7.90%	7.90%	22.3	25.3	26.3	23.5
Bonds	5.30%	5.10%	31.5	24.2	10.2	8.5
Other	3.75%	4.00%	0.4	0.3	0.3	0.3
			54.2	49.8	36.8	32.3

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18 Pension obligations (continued)

The following amounts at 31 December 2003 were measured in accordance with the requirements of FRS 17.

Total Scheme

	Staff Scheme		Vestric Scheme	
	31.12.03	31.12.02	31.12.03	31.12.02
	£'m	£'m	£'m	£'m
Total market value of assets	54.2	49.8	36.8	32.3
Present value of scheme liabilities	(71.8)	(65.6)	(48.0)	(41.1)
Deficit in the scheme	(17.6)	(15.8)	(11.2)	(8.8)
Related deferred tax asset	5.3	4.8	3.4	2.6
Net pension liability	(12.3)	(11.0)	(7.8)	(6.2)

Attributable to AAH Pharmaceuticals

	Staff Scheme		Vestric Scheme	
	31.12.03	31.12.02	31.12.03	31.12.02
	£'m	£'m	£'m	£'m
Total market value of assets	27.1	24.9	36.8	32.3
Present value of scheme liabilities	(35.9)	(32.8)	(48.0)	(41.1)
Deficit in the scheme	(8.8)	(7.9)	(11.2)	(8.8)
Related deferred tax asset	2.7	2.4	3.4	2.6
Net pension liability	(6.1)	(5.5)	(7.8)	(6.2)

If the net pension liability had been recognised in the financial statements the company's net assets and profit and loss reserve at each year end would be as follows:

	31.12.03	31.12.02
	£'m	£'m
Net assets excluding pension liability	364.6	320.8
Pension liability	(13.9)	(11.7)
Net assets including pension liability	350.7	309.1
Profit and loss reserve excluding pension liability	314.6	270.8
Pension liability	(13.9)	(11.7)
Profit and loss reserve including pension liability	300.7	259.1

18 Pension obligations (continued)

If FRS 17 had been fully adopted then the following amounts would have been recognised through the primary financial statements of the company:

	2003			2002		
	AAH Staff scheme	Vestric scheme	Total	AAH Staff scheme	Vestric scheme	Total
	£'m	£'m	£'m	£'m	£'m	£'m
Analysis of amount charged to operating profit:						
Current service cost	0.5	1.0	1.5	0.5	0.9	1.4
Past service cost	-	-	-	0.1	0.1	0.2
Gains and losses on any settlements and curtailments	-	-	-	-	-	-
Total operating charge	0.5	1.0	1.5	0.6	1.0	1.6

Analysis of amount credited to other finance income:

Expected return on pension scheme assets	1.6	2.3	3.9	1.8	2.6	4.4
Interest on pension scheme liabilities	(1.8)	(2.3)	(4.1)	(1.7)	(2.3)	(4.0)
Net return	(0.2)	-	(0.2)	0.1	0.3	0.4

Analysis of amount recognised in Statement of Total Recognised Gains and Losses (STRGL):

	AAH Staff scheme	Vestric scheme	Total	AAH Staff scheme	Vestric scheme	Total
	£'m	£'m	£'m	£'m	£'m	£'m
	£'m	£'m	£'m	£'m	£'m	£'m
Actual return less expected return on pension scheme assets	1.1	3.1	4.2	(3.2)	(7.4)	(10.6)
Experience gains and losses arising on the scheme liabilities	-	0.3	0.3	(0.6)	1.0	0.4
Changes in financial assumptions underlying the scheme liabilities	(2.2)	(5.7)	(7.9)	(0.6)	0.3	(0.3)
Actuarial loss recognised in STRGL	(1.1)	(2.3)	(3.4)	(4.4)	(6.1)	(10.5)

18 Pension obligations (continued)

In addition to the above the following FRS 17 disclosures are required:

	AAH Staff scheme	Vestric scheme	Total	AAH Staff scheme	Vestric scheme	Total
	£'m	£'m	£'m	£'m	£'m	£'m
Movements in company share of deficit during the year						
Deficit in scheme at beginning of year	(7.9)	(8.8)	(16.7)	(3.6)	(2.9)	(6.5)
Movement in year:						
Current service cost	(0.5)	(1.0)	(1.5)	(0.5)	(0.9)	(1.4)
Contributions	0.9	1.0	1.9	0.6	0.9	1.5
Past service costs	-	-	-	(0.1)	(0.1)	(0.2)
Other finance income	(0.2)	-	(0.2)	0.1	0.3	0.4
Actuarial loss	(1.1)	(2.4)	(3.5)	(4.4)	(6.1)	(10.5)
Deficit in scheme at end of year	(8.8)	(11.2)	(20.0)	(7.9)	(8.8)	(16.7)

History of experience gains and losses:

	2003			2002		
	AAH Staff scheme	Vestric scheme	Total	AAH Staff scheme	Vestric scheme	Total
	£'m	£'m	£'m	£'m	£'m	£'m
Difference between the expected and actual return on scheme assets:						
Amount	1.1	3.1	4.2	(3.2)	(7.4)	(10.6)
Percentage of scheme assets	4%	8%		-13%	-23%	
Experience gains and losses on scheme liabilities:						
Amount	-	0.3	0.3	(0.7)	1.0	0.3
Percentage of the present value of scheme liabilities	0%	1%		-2%	3%	
Total amount recognised in statement of total recognised gains and losses:						
Amount	(1.1)	(2.4)	(3.5)	(4.4)	(6.1)	(10.5)
Percentage of the present value of scheme liabilities	-3%	-5%		-13%	-15%	

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19 Called-up share capital

	2003 £'000	2002 £'000
Authorised, allotted, called up and fully paid 50,000,000 ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>

20 Reserves

	Profit and loss account £'000
At 1 January 2003	270,648
Retained profit for the financial year	<u>43,788</u>
At 31 December 2003	<u>314,436</u>

21 Reconciliation of movements in shareholders' funds

	2003 £'000	2002 £'000
Profit for the financial year	118,788	119,301
Dividends	<u>(75,000)</u>	<u>(36,100)</u>
	43,788	83,201
Opening shareholders' funds	<u>320,648</u>	<u>237,447</u>
Closing shareholders' funds	<u>364,436</u>	<u>320,648</u>

22 Financial commitments

At 31 December 2003 the company had annual commitments under non-cancellable operating leases as follows:

	31 December 2003		31 December 2002	
	Land and Buildings	Other	Land and Buildings	Other
	£'000	£'000	£'000	£'000
Expiring within one year	203	244	224	209
Expiring between two and five years	313	1,282	595	1,589
Expiring over five years	<u>5,656</u>	<u>-</u>	<u>5,451</u>	<u>-</u>
	<u>6,172</u>	<u>1,526</u>	<u>6,270</u>	<u>1,798</u>

23 Capital commitments

The company had capital commitments at 31 December 2003 of £437,000 (2002: £1,139,000).

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24 Contingent liabilities

	2003 £'000	2002 £'000
Guarantee of loans to certain pharmacy customers	<u>122,956</u>	<u>137,138</u>

The company has guaranteed the bank loans of approximately 700 independent retail pharmacist customers. The guarantees are conditional upon the retail pharmacists remaining customers of the company. In the opinion of the directors no material loss will arise in connection with the above.

25 Ultimate parent undertaking and ultimate controlling party

The immediate parent undertaking is AAH Subsidiaries Limited. The company's ultimate parent undertaking and controlling party is Franz Haniel & Cie GmbH, a company registered in Germany, by virtue of its majority shareholding in the intermediate parent Celesio AG (formerly GEHE AG) and its consolidation of the Celesio AG Group (formerly GEHE AG Group) results into its own consolidated financial statements.

Consolidated financial statements for the largest group of undertakings are prepared by Franz Haniel & Cie GmbH and may be obtained from Franz Haniel Platz 1, D-47119 Duisburg, Ruhrort, Germany.

Consolidated accounts for the smallest group of companies are prepared by Celesio AG (formerly GEHE AG) and may be obtained from Celesio AG, Neckartalstrasse 155, D-70376 Stuttgart, Germany.