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AAH Pharmaceuticals Limited
Directors' report and financial statements for the year ended 31 December 2006

Registered no: 123458

AAH Pharmaceuticals Limited

Directors' report and financial statements for the year ended 31 December 2006

AAH Pharmaceuticals Limited

Directors' report for the year ended 31 December 2006

The directors present their report and the audited financial statements of the company for the year ended 31 December 2006.

Results

Details of the results for the financial year are set out in the profit and loss account on page 7.

Principal activities

The company is the leading distributor of pharmaceutical and healthcare products and services to pharmacies, hospitals and doctors.

Review of business and future developments

The Board monitors the progress of the company and the implementation of its strategy by reference to key performance indicators. The indicators employed include turnover, gross profit and operating margin. These are discussed in more detail below.

The pharmaceutical wholesaling market continued to be highly competitive in 2006. Nevertheless, the growth in the company's turnover of 8.4% during the year was ahead of market growth of 5.0% over the same period.

The growth was generated principally by working in partnership with existing customers to develop their businesses. This was supported by a record number of new accounts which were secured in 2006, along with a rise in market prices.

The competitive pressure on margin intensified during the year across all customer channels (independent, regional and national pharmacies, hospitals and dispensing doctors). Despite this pressure, the company broadly maintained its gross profit (6.4% in 2006, 6.5% in 2005). This was achieved through an ongoing and rigorous review of customer service, and through the development of key relationships with pharmaceuticals manufacturers and suppliers.

As part of the review and development described above, the company continued to expand its sourcing and supply of generic and imported pharmaceutical products. This strategy will continue in 2007.

The company continues to focus on the cost efficiency of the services delivered to its customers and suppliers. This focus is maintained across the business, at branch and head office level. As a result, the operating margin reported for 2006 was consistent with the prior year (2.7% of turnover in 2006, 2.6% in 2005) even though volumes had increased by more than 5.6% in the period.

The directors consider that regular investment in customer facing systems and supply chain support are key to the ongoing success of the business. Investment in the former in 2006 included the ongoing rollout of its market leading pharmacy system to customers. The Link evolution system is a key tool for pharmacists, which can facilitate the introduction of new practices and reporting, for example the electronic transfer of prescriptions.

The development of supply chain support included the modernisation of the Bristol branch, along with the construction of a new warehouse in Stoke.

Directors' report for the year ended 31 December 2006 (continued)

Review of business and future developments (continued)

Key events in the market place in 2006 included the merger between Boots Group PLC and Alliance Unichem plc, a key competitor in the wholesaling market. Pfizer also announced its intention to restrict the supply of its products in the UK, with Alliance Unichem plc being the sole nominated logistics provider. Pfizer's revised distribution arrangements are being considered by the Office of Fair Trading. The latter has not, at the time of writing this report, determined whether a formal review is necessary.

The directors are confident that AAH Pharmaceuticals Limited is exceptionally well-placed to deal with any changes in the market which may follow the events described above.

On 1 October 2006, the company acquired the activity and certain undertakings of Statim Finance Limited. Further details are given in note 26 to the financial statements.

Dividends

The directors do not recommend a final dividend (2005: £nil). An interim dividend of £30.0 million was paid during the year (2005: £45.0 million).

Political and charitable contributions

Charitable contributions of £12,439 were made during the year (2005: £24,488). These included donations to Leukaemia Research (£2,000), various hospices (£1,327), Children in Need (£436), various cancer charities (£500) and the Snowball Appeal (£1,000). No political contributions were made (2005: £nil).

Directors

The directors of the company, all of whom have been directors for the whole of the year ended 31 December 2006 except where otherwise stated, were as follows:

I Davidson
S R Dunn
P L Forster-Jones (resigned on 31 May 2006)
M L James
G R Lunt
J A Richards
J Bulmer

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

Directors' report for the year ended 31 December 2006 (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 Celesio group annual report and company news releases are distributed. Other matters of importance or interest are featured in regular issues of the AAH in-house magazines which seek to achieve a common awareness on the part of all employees of the financial and economic factors affecting the company performance.

Training and development are regarded as fundamental requirements and key to the retention of staff. Appropriate programmes exist at group and subsidiary 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 43 days purchases outstanding at 31 December 2006 based on the average daily amount invoiced by suppliers during the year (2005: 46 days).

Directors' report for the year ended 31 December 2006 (continued)

Principal risks and uncertainties

The management of the business and the execution of the company's strategy are subject to a number of key risks. Risks are formally reviewed by the board and appropriate processes are put in place to monitor and mitigate them.

Competition

AAH Pharmaceuticals Limited operates in a market which is highly competitive, particularly around price and product availability. There is, as a result, a downward pressure on margins with the additional risk that the company will not meet the expectations of customers. To mitigate this risk, the sales and supply teams monitor market prices on a daily basis. The company also undertakes market research at regular intervals to understand our customer and supplier expectations, and to identify whether their needs are being met.

Supply chain

The provision of a process driven quality service to customers and suppliers is dependent on the availability of a number of key systems, including warehouse management, supply chain support and customer ordering. The company has a policy of continually investing in these systems to ensure it retains its leading position amongst pharmaceutical wholesalers. The systems are monitored and assessed on a regular basis, using a variety of diagnostic tools such as benchmarking.

People

The company recognises that the success of AAH Pharmaceuticals Limited is dependent almost entirely upon the efforts of its staff. There are a number of training and development programmes in place, and staff retention is monitored by the board of directors.

Financial risk management

The company is exposed to a variety of financial risks, which include credit, liquidity, foreign currency and interest rate risk. The company has employed a programme that seeks to manage and limit any adverse effects of these risks - which are described in more detail below - on the financial performance of the company.

The directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board, although use is made of a central treasury function which arranges the overall funding requirements of the UK group. This central function operates within a framework of clearly defined policies and procedures which have been approved by the directors, and reports to the board on a monthly basis.

The policies approved by the board of directors are implemented by the company's finance department and the central treasury function. The policies, which are documented in departmental manuals, cover funding and hedging instruments, exposure limits and a system of authority for the approval and execution of transactions.

Credit risk: the company has implemented policies that require appropriate credit checks on potential customers before sales are made. The finance and sales teams also liaise with customers on a regular basis to ensure that key issues are identified at an early stage.

Directors' report for the year ended 31 December 2006 (continued)

Principal risks and uncertainties (continued)

Liquidity risk: the company participates in the banking arrangements of the UK group, which are arranged with the assistance of the central treasury function. The UK group funds its operations though a mix of retained earnings, borrowings and leasing that is designed to ensure that the company has sufficient funds for its day to day operations and other activities. Cash flow requirements are monitored through rolling projections which are compiled across the group.

Foreign currency and interest rate risk: the company uses instruments to manage its foreign currency risks. The company also has both interest bearing assets and liabilities, these being managed within the UK group.

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 2006 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.

Each person who is a director at the date of approval of this report confirms the following: so far as each director is aware (a) there is no relevant audit information - that is information needed by the company's auditors in connection with preparing their report - of which the company's auditors are unaware and (b) the director has taken all the steps necessary as a director in order to make himself 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 provision of section 234ZA of the Companies Act 1985.

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

P Smerdon
Secretary
12 March 2007

Independent Auditors' Report
to the members of AAH Pharmaceuticals Limited

We have audited the financial statements of AAH Pharmaceuticals Limited for the year ended 31 December 2006 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 directors' report is not 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 standards (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 (a) 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 at 31 December 2006 and of its profit for the year then ended; (b) the financial statements have been properly prepared in accordance with the Companies Act 1985; and (c) the information given in the directors' report is consistent with the financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Birmingham
12 March 2007

AAH Pharmaceuticals Limited

Profit and loss account
for the year ended 31 December 2006

	Notes	2006 £'000	2005 £'000 as restated (see note 6)
Turnover	3	**3,145,676**	2,902,608
Cost of sales		**(2,944,580)**	(2,713,710)
Gross profit		**201,096**	188,898
Distribution costs and administrative expenses		**(117,595)**	(112,604)
Operating profit		**83,501**	76,294
Net interest receivable	6	**24,439**	26,907
Profit on ordinary activities before taxation	7	**107,940**	103,201
Tax on profit on ordinary activities	8	**(31,988)**	(28,699)
Profit for the financial year	20	**75,952**	74,502

The results have been derived wholly from continuing operations.

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

AAH Pharmaceuticals Limited

Statement of Total Recognised Gains and Losses for the year ended 31 December 2006

	Notes	2006 £'000	2005 £'000
Profit for the financial year	20	75,952	74,502
Actuarial gain recognised in the pension scheme	18	3,668	1,304
Movement on deferred tax asset relating to pension liability	17	(1,100)	(391)
		2,568	913
Total gains and losses recognised since last annual report		78,520	75,415

AAH Pharmaceuticals Limited

Balance sheet
at 31 December 2006

	Notes	2006 £'000	2005 £'000
Fixed assets			
Intangible assets	10	**250**	1,250
Tangible assets	11	**31,021**	29,884
Investments	12	**201**	201
		31,472	31,335
Current assets			
Stocks	13	**240,517**	229,597
Debtors:			
Amounts falling due within one year	14	**532,852**	563,501
Amounts falling due after more than one year	14	**254,198**	128,761
Cash at bank and in hand		**6,825**	68,223
		1,034,392	990,082
Creditors: amounts falling due within one year	15	**(544,376)**	(545,123)
Net current assets		**490,016**	444,959
Total assets less current liabilities		**521,488**	476,294
Creditors: amounts falling due after more than one year	15	**(55)**	(83)
Provisions for liabilities and charges	17	**(3,240)**	(3,482)
Net assets excluding pension liability		**518,193**	472,729
Pension liability	18	**(810)**	(3,866)
Net assets including pension liability		**517,383**	468,863
Capital and reserves			
Called-up share capital	19	**50,000**	50,000
Profit and loss account	20	**467,383**	418,863
Equity shareholders' funds	21	**517,383**	468,863

The financial statements on pages 7 - 26 were approved by the board of directors on 12 March 2007 and were signed on its behalf by:

I Davidson
Director
12 March 2007

Notes to the financial statements for the year ended 31 December 2006

1 Principal accounting policies and significant estimation techniques

The financial statements have been prepared on the going concern basis and under the historical cost convention in accordance with the Companies Act and applicable accounting standards in the United Kingdom. Set out below is a summary of the principal 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, except where it relates to long term contracts. The recognition of revenue under such contracts is described below.

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.

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.

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.

Investments

Investments are included in the balance sheet at their cost of acquisition. Where appropriate, provision is made to write down the net book value of the investment to the underlying net asset value of the subsidiary companies.

1 Principal accounting policies and significant estimation techniques (continued)

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 underlying value of an asset. The following rates are applied:

Freehold 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% straight line
Software	33.3% straight line
Hardware	25% straight line
Motor vehicles	25% - 33.3% straight line

Stocks and long term contracts

The company is currently involved in a long-term contract to develop a warehouse in Stoke, in which it is acting as the principal contract manager. Turnover on the contract recognised to date reflects the costs incurred to date in establishing and managing the contract, plus the directors' best estimate of profits attributable to the work completed to date. For this purpose, the directors' best estimate of attributable profits includes a proportion of the total profits anticipated to be made on the contract, to the extent that their realisation is reasonably foreseeable, and after making an appropriate provision for all future possible costs.

Any long term contract balances in stocks comprise costs incurred on long term contracts, net of amounts transferred to cost of sales, after deducting foreseeable losses and related payments on account. Costs include all direct material and labour costs incurred in bringing a contract to its state of completion at the year end, including an appropriate proportion of indirect expenses. Provisions for estimated losses on contracts are made in the period in which such losses are foreseen. Long term contract balances do not include attributable profit. Any excess of payments received over amounts recorded as turnover is classified under creditors due within one year. Amounts recoverable on contracts, being the amount by which recorded turnover is in excess of payments on account, is classified under debtors.

Other 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.

Leased assets

Assets acquired under finance leases are capitalised and depreciated in line with assets of a similar nature. The capital element of future payments is treated as a liability and the interest element is charged to the profit and loss account over the period of the leases. All other leases are operating leases and rental costs are charged to the profit and loss account on a straight line basis over the lease term.

1 Principal accounting policies and significant estimation techniques (continued)

Foreign currencies and derivatives

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. Any such translation differences are taken to the profit and loss account.

Pensions

The company contributes to group pension schemes operated by AAH Limited.

Contributions to the defined benefit scheme are determined by a professionally qualified actuary and are based on pension costs across the group as a whole. These financial statements are prepared in accordance with Financial Reporting Standard 17. The net liabilities under the defined benefit pension scheme are included in the balance sheet, the expected return on pension scheme assets and interest costs are included within net finance income and actuarial gains and losses are included within the statement of total recognised gains and losses.

Dividends

In preparing the financial statements for the current year, the company has adopted Financial Reporting Standard 25. The effect of this change in policy is that distributions to holders of an equity instrument are now debited directly to equity net of any related income tax benefit, rather than booked through the profit and loss account.

The equity dividends paid for the prior period have been accounted for directly in reserves and are therefore not shown on the face of the profit and loss account (as in the financial statements prepared for the prior year). The equity dividends paid in the current period have been debited directly to equity.

2 Consolidated accounts, cash flow and related party disclosure

The financial statements contain information about AAH Pharmaceuticals Limited as an individual company, rather than consolidated information as the parent of a group. The company is exempt under Section 228 of the Companies Act 1985 from the requirement to prepare group accounts as its results are included by full consolidation in the financial statements of its ultimate parent, Franz Haniel & Cie GmbH, a company incorporated in Germany.

The company is a wholly owned subsidiary of Celesio AG, a company registered in Germany, and is included in the financial statements of Celesio 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.

AAH Pharmaceuticals Limited

3 Turnover

Turnover is generated in the United Kingdom, predominantly to customers in this country. Overseas sales to Europe and the Middle East during the year amounted to £42,744,000 (2005: £8,661,000).

4 Directors' emoluments

	2006	2005
	£'000	£'000
Aggregate emoluments	**1,811**	1,799
Company contributions to non-company pension schemes	**20**	18
	1,831	1,817

Retirement benefits are accruing to six directors under defined benefit schemes (2005: five directors). Retirement benefits are accruing to two directors under money purchase schemes (2005: two directors).

	2006	2005
Highest paid director	**£'000**	£'000
Aggregate emoluments and benefits under long-term incentive schemes	**467**	497
Company contributions to non-company pension schemes	**20**	18
Defined benefit schemes:		
Accrued pension at end of year	**23**	18

5 Employee information

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

	2006	2005
By function		
Selling and distribution	**2,886**	2,862
Administration	**583**	534
	3,469	3,396

Staff costs (£'000)		
Wages and salaries	**61,761**	56,615
Social security costs	**5,158**	4,903
Other pension costs (see note 18)	**1,888**	1,547
	68,807	63,065

6 Net interest receivable

	2006 £'000	2005 £'000 as restated
Interest payable and similar charges		
Other interest and similar charges	**22**	18
	22	18
Interest receivable		
Bank interest	**(69)**	(12)
Group interest	**(23,445)**	(26,088)
Other interest	**(168)**	(267)
	(23,682)	(26,367)
Other finance income (see note 18)	**(779)**	(558)
	(24,461)	(26,925)
Net interest receivable	**(24,439)**	(26,907)

The 2005 comparative has been restated to disclose 'other finance income' as part of interest receivable in accordance with Financial Reporting Standard 17. This was previously included within distribution and administration expenses.

7 Profit on ordinary activities before taxation

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

		2006 £'000	2005 £'000
Depreciation - tangible assets			
Charge for the year on owned assets		**7,050**	7,261
Charge for the year on assets held under finance leases		**34**	34
Accelerated depreciation		**3,710**	-
Amortisation - intangible assets		**1,000**	1,000
Loss / (profit) on sale of fixed assets		**21**	(925)
Other fixed asset adjustments		**1**	3
Auditors' remuneration	For audit	**151**	182
	Other	**-**	76
Operating lease rentals	Land and buildings	**5,829**	6,617
	Plant and machinery	**212**	199
	Other	**3,056**	2,416
Rent receivable		**(127)**	(132)

8 Tax on profit on ordinary activities

	2006 £'000	2005 £'000
UK corporation tax at 30% (2005: 30%)	31,903	30,922
Adjustment in respect of previous years	(680)	(3,032)
	31,223	27,890
Deferred taxation (see note 17)	765	809
	31,988	28,699

The reconciliation of the current tax charge is as follows:

	2006 £'000	2005 £'000
Profit before tax multiplied by full UK corporation tax rate of 30% (2005: 30%)	32,382	30,960
Expenses not deductible for tax purposes:		
Timing differences & other items	(985)	477
Permanent differences	553	540
Capital allowances for the period less depreciation	(54)	145
Profit on sale of assets - difference from chargeable gain	7	(1,200)
Adjustments for prior periods	(680)	(3,032)
	31,223	27,890

9 Dividends

	2006 £'000	2005 £'000
Interim dividend paid (see note 20)	30,000	45,000

10 Intangible assets

	Goodwill £'000
Cost	
At 1 January 2006 and at 31 December 2006	**5,000**
Amortisation	
At 1 January 2006	**3,750**
Charge for year	**1,000**
At 31 December 2006	**4,750**
Net book value	
At 31 December 2006	**250**
At 31 December 2005	1,250

The goodwill arose on the acquisition of the business of AAH Twenty Seven 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

	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 2006	1,565	1,151	5,816	68,154	2,346	79,032
Adjustments	(1)	-	(407)	(2)	1	(409)
Additions	-	-	1,077	10,632	301	12,010
Disposals	-	-	-	(5,124)	(426)	(5,550)
At 31 December 2006	**1,564**	**1,151**	**6,486**	**73,660**	**2,222**	**85,083**
Depreciation						
At 1 January 2006	469	304	2,510	44,694	1,171	49,148
Adjustments	(1)	-	(407)	(1)	(1)	(410)
Charge for year	30	23	201	6,466	364	7,084
Accelerated charge	-	-	-	3,710	-	3,710
Disposals	-	-	-	(5,106)	(364)	(5,470)
At 31 December 2006	**498**	**327**	**2,304**	**49,763**	**1,170**	**54,062**
Net book value						
At 31 December 2006	**1,066**	**824**	**4,182**	**23,897**	**1,052**	**31,021**
At 31 December 2005	1,096	847	3,306	23,460	1,175	29,884

The fixed assets shown above include assets held under finance leases that have a cost of £171,000 as at 31 December 2006 (2005: £171,000) and a net book value of £83,000 (2005: £117,000).

The adjustments to cost and depreciation of £409,000 and £410,000 respectively follow a review of the asset register. The resulting net loss on disposal of £1,000 is disclosed in note 7 to the accounts.

12 Investments

	Shares in group undertakings £'000	Unlisted Investments £'000	Total £'000
Cost and net book value			
At 1 January 2006 and at 31 December 2006	51	150	201

The company holds a participating interest in Tredimed SA, a purchasing company incorporated in France. This interest at 31 December 2005 and 31 December 2006 consisted of 2,500 preferential shares of FF200 each, representing a 25% holding. Tredimed SA is a subsidiary of Celesio AG, the latter owning 100% of the issued share capital either directly or via intermediate subsidiary companies.

The unlisted investments represent 600,000 10p ordinary shares in Nucare plc.

13 Stocks

	2006 £'000	2005 £'000
Finished goods and goods for resale	**240,517**	229,597

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 £18,321,000 (2005: £19,245,000).

14 Debtors

	2006 £'000	2005 £'000
Amounts falling due within one year:		
Trade debtors	**233,394**	249,400
Amounts owed by group undertakings	**265,952**	268,924
Corporation tax recoverable	**-**	8,803
Other taxation recoverable	**-**	11,196
Amounts recoverable on contracts	**10,094**	4,197
Prepayments and accrued income	**5,026**	6,426
Other debtors	**18,386**	14,555
	532,852	563,501
Amounts falling due after more than one year:		
Amounts owed by group undertakings	**253,281**	127,291
Deferred taxation (see note 17)	**917**	1,470
	254,198	128,761

15 Creditors

	2006 £'000	2005 £'000
Amounts falling due within one year:		
Bank overdraft	**95,401**	120,170
Trade creditors	**401,601**	399,226
Amounts owed to group undertakings	**11,673**	9,896
Finance leases (see note 16)	**31**	31
Corporation tax payable	**13,097**	-
Other taxation and social security payable	**9,049**	-
Other creditors	**8,193**	4,001
Accruals and deferred income	**5,331**	11,799
	544,376	545,123
Amounts falling due after more than one year:		
Amounts owed to group undertakings		
Finance leases (see note 16)	**55**	83

16 Finance leases

	2006 £'000	2005 £'000
Future minimum payments under finance leases are as follows:		
Within one year	**31**	31
In more than one year, but not more than five years	**55**	83
	86	114
Less: finance charges included above	**(27)**	(31)
	59	83

17 Provisions for liabilities and charges

(a) Provisions

	Restructuring £'000	Property £'000	Total £'000
At 1 January 2006	50	3,432	3,482
Charge to the profit and loss	150	45	195
Utilised during the year	(62)	(375)	(437)
At 31 December 2006	**138**	**3,102**	**3,240**

The restructuring provision relates to ongoing restructuring of head office functions and branches. It is anticipated that the remaining provision will be used in 2007.

The property provision represents an assessment of the undiscounted 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.

AAH Pharmaceuticals Limited has agreed to manage the leased properties of a fellow subsidiary, Barclay Pharmaceuticals Limited.

It is expected that at least £288,000 of the property provision will be utilised within one year. The remaining balance of £2,814,000 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 15 years.

(b) Deferred tax

Movements in the deferred taxation (asset)/liability are as follows:

	2006 £'000	2005 £'000
At 1 January	**(3,127)**	(4,327)
Deferred tax movement in the profit and loss account (see note 8)	**765**	809
Transferred in from group undertaking on acquisition (see note 26)	**(2)**	-
Deferred tax movement in the statement of total recognised gains and losses	**1,100**	391
At 31 December	**(1,264)**	(3,127)

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

Accelerated capital allowances	**874**	753
Deferred gains	**933**	933
Short term timing differences	**(2,724)**	(3,156)
	(917)	(1,470)
Deferred tax on pension asset (see note 18)	**(347)**	(1,657)
	(1,264)	(3,127)

Deferred tax assets are disclosed within debtors due after more than one year.

18 Pension obligations

The company participates in the AAH Lloyds Pension Scheme, which is a defined contribution scheme.

The company also participates in the Admenta Pension Scheme, which is operated by AAH Limited (a UK parent company). This is a defined benefit scheme.

All schemes are funded and constituted as independently administered funds with their assets being held separately from those of the company. The operating costs for the schemes were borne by the relevant fund.

AAH Lloyds Pension Scheme

The contributions paid by the company to the scheme during 2006 amounted to £823,000 (2005: £887,000). There were amounts of £191,000 accrued in respect of contributions at the balance sheet date (2005: £215,000). This balance is included within other creditors.

Admenta Pension Scheme

An actuarial valuation of the scheme was carried out as at 31 December 2006 by a qualified independent actuary for FRS 17 disclosure purposes. The major assumptions used by the actuary for the FRS 17 disclosures were as follows:

	2006	2005	2004
Assumptions:			
Rate of increase in salaries	**4.8%**	4.6%	4.6%
Rate of increase in pensions in payment	**2.9%**	2.7%	2.7%
Rate of increase in deferred pensions	**3.1%**	2.9%	2.9%
Discount rate	**5.1%**	4.8%	5.3%
Inflation assumption	**3.1%**	2.9%	2.9%

The scheme has a range of rates of increase for different benefit categories, not all of which are shown above. Further details of the rates can be found in the scheme documentation.

The total contributions paid by the group to the scheme during 2006 amounted to £1,541,000 (2005: £2,411,000). The contributions paid by the company in the period amounted to £1,138,000 (2005: £1,282,000). The agreed contribution rate of the company for the coming year is 17.2% per annum of pensionable salaries. Expenses and levies to the pension protection fund are payable in addition to this rate.

The pension plan is closed to new entrants so the average age of the membership is expected to increase over time. The projected unit method is used to calculate the current service cost. This calculates the value of the following years' pension accrual and expresses it as a percentage of pensionable pay. This percentage will increase as the members of the scheme approach retirement. Surpluses and deficits are dealt with over the expected working lifetime of the members by appropriate adjustments to the contribution rates.

AAH Pharmaceuticals Limited

18 Pension obligations (continued)

Admenta scheme (continued)

The value of assets in the scheme, as identified by the actuarial valuation described above, along with the liabilities and expected rates of return, were as follows:

		Market value as at 31 December		
		2006	2005	2004
		£'000	£'000	£'000
Total scheme assets:	Equities & property	**86,051**	84,143	72,925
	Bonds	**92,589**	87,779	78,059
	Other	**459**	1,117	680
		179,099	173,039	151,664

		Long term rate of return		
		2006	2005	2004
		%	%	%
Scheme assets:	Equities & property	**7.5%**	7.5%	7.5%
	Bonds	**4.5%**	4.5%	5.1%
	Other	**4.5%**	4.5%	4.8%

		As at 31 December		
		2006	2005	2004
		£'000	£'000	£'000
Total scheme assets/(liabilities)				
	Market value of scheme assets as above	**179,099**	173,039	151,664
	Present value of scheme liabilities	**(179,143)**	(181,202)	(164,009)
	Deficit in the scheme	**(44)**	(8,163)	(12,345)
	Related deferred tax asset	**13**	2,449	3,703
	Net pension liability	**(31)**	(5,714)	(8,642)

		As at 31 December		
		2006	2005	2004
		£'000	£'000	£'000
Company share of scheme assets/(liabilities)				
	Market value of scheme assets as above	**95,530**	92,033	80,571
	Present value of scheme liabilities	**(96,687)**	(97,556)	(87,954)
	Deficit in the scheme	**(1,157)**	(5,523)	(7,383)
	Related deferred tax asset	**347**	1,657	2,215
	Net pension liability	**(810)**	(3,866)	(5,168)

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18 Pension obligations (continued)

Admenta scheme (continued)

The amounts charged can be analysed as follows:

Analysis of amount charged to operating profit in respect of the Admenta scheme:

	2006 £'000	2005 £'000
Current service cost	1,219	1,284
Past service cost	-	-
Gains and losses on any settlements and curtailments	-	-
Total operating charge	1,219	1,284

Analysis of amount credited to other finance income:

	2006 £'000	2005 £'000
Expected return on scheme assets	5,386	5,154
Interest on pension scheme liabilities	(4,607)	(4,596)
Net return	779	558

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

	2006 £'000	2005 £'000
Actual return less expected return on pension scheme assets	1,115	8,394
Experience gains and losses arising on the scheme liabilities	(54)	(967)
Changes in financial assumptions underlying the scheme liabilities	2,607	(6,123)
	2,553	(7,090)
Actuarial gain/(loss) recognised in STRGL	3,668	1,304

Movements in the surplus/(deficit) in the Admenta scheme during the year:

	2006 £'000	2005 £'000
Deficit in scheme at beginning of the year	(5,523)	(7,383)
Movement in year		
Current service cost	(1,219)	(1,284)
Past service costs	-	-
Curtailment gains	-	-
Contributions	1,138	1,282
Other finance income	779	558
Actuarial gain/(loss)	3,668	1,304
Deficit at end of the year	(1,157)	(5,523)

18 Pension obligations (continued)

Admenta scheme (continued)

	Difference between the expected and actual return on scheme assets		Experience gains and losses on scheme liabilities	
	Amount	% of scheme assets	Amount	% of scheme liabilities
	£'000	%	£'000	%
2006	**1,115**	**1%**	**(54)**	**0%**
2005	8,394	10%	(967)	-1%
2004	4,497	7%	463	1%
2003	4,167	7%	295	0%

	Total amount recognised in statement of total recognised gains and losses	
	Amount	% of scheme assets
	£'000	%
2006	**3,668**	**4%**
2005	1,304	2%
2004	3,424	5%
2003	(3,468)	-6%

There were amounts of £62,000 accrued in respect of pension scheme contributions at the balance sheet date (2005: £70,000). This balance is included within other creditors.

19 Called-up share capital

	2006 £'000	2005 £'000
Authorised, allotted, called up and fully paid		
50,000,000 ordinary shares of £1 each	**50,000**	50,000

20 Reserves

	Profit and loss account £'000
At 1 January 2006	418,863
Actuarial gain/(loss) on pension scheme	3,668
Movement on deferred tax relating to pension scheme	(1,100)
	2,568
Profit for the financial year	75,952
Dividends (see note 9)	(30,000)
Retained profit for the financial year	45,952
At 31 December 2006	**467,383**

21 Reconciliation of movements in shareholders' funds

	2006 £'000	2005 £'000
Profit for the financial year	**75,952**	74,502
Dividends	**(30,000)**	(45,000)
Retained profit for the financial year	**45,952**	29,502
Actuarial gain on pension scheme	**3,668**	1,304
Movement on deferred tax relating to pension scheme	**(1,100)**	(391)
	2,568	913
Opening shareholders' funds	**468,863**	438,448
Closing shareholders' funds	517,383	468,863

22 Financial commitments

At 31 December 2006 the company had annual commitments under non-cancellable operating leases as follows:

	31 December 2006		31 December 2005	
	Land and Buildings	**Other**	Land and Buildings	Other
	£'000	**£'000**	£'000	£'000
Expiring within one year	**15**	**652**	87	1,249
Expiring between two and five years	**91**	**2,851**	539	2,240
Expiring over five years	**6,678**	**1,315**	5,117	-
	6,784	**4,818**	5,743	3,489

23 Capital commitments

The company had capital commitments at 31 December 2006 of £1,881,000 (2005: £1,603,000).

24 Contingent liabilities

	2006	2005
	£'000	£'000
Guarantee of loans to certain pharmacy customers	**76,888**	109,780

The company has guaranteed the bank loans of approximately 606 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 Financial derivatives

AAH Pharmaceuticals Limited has 6 forward currency contracts in place (2005: 19). The fair value of these forward contracts at 31 December 2006 was a net liability of £83,000 (2005: net asset of £67,000). The contracts have a range of maturity dates, running up to June 2007. The forward currency contracts have been purchased to manage the company's foreign exchange risk.

26 Acquisition of business

The business and certain undertakings of Statim Finance Limited were transferred to AAH Pharmaceuticals Limited on 1 October 2006. The undertakings were transferred at net book and fair value as follows:

Undertakings transferred from Statim Finance Limited:	£000
Bank overdraft	(45)
Trade debtors	67
Provision against trade debtors	(67)
Accruals and deferred income	(1)
Deferred taxation	2
Corporation tax	(70)
Amounts owed to group undertakings	6,398
	6,284
Goodwill	-
Consideration satisfied by group borrowings	6,284

The liability of the company for guarantees of bank indebtedness of £62,000 was also transferred to AAH Pharmaceuticals Limited. These are included in the disclosures in note 24 above.

The above purchase has been accounted for as an acquisition. In its last financial year to 31 December 2005, Statim Finance Limited reported a profit after taxation of £163,000. In the period since that date to the date of acquisition, the statutory accounts of Statim Finance show turnover of £292,000, operating profit of £117,000, interest of £nil and taxation of £70,030. Since the date of acquisition the only transactions reported relating to the business are net overheads of £41,000 with a related tax credit of £12,000.

27 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 and its consolidation of the Celesio 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 and may be obtained from Celesio AG, Neckartalstrasse 155, D-70376 Stuttgart, Germany.