

Pills Limited

**Directors' report and financial
statements**

Registered number SC271830
58 weeks ended 10 January 2009

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Directors' report

The directors present their directors' report and financial statements for the 58 weeks ended 10 January 2009.

Principal activities

The company's principal activity in the period under review continues to be that of retail chemists. The Company was acquired by the Co-operative Group on 5 December 2007.

Revenue

The Company achieved £4,433,341 of sales in the period, an increase of £2,332,206 from the previous period as a result of the longer accounting period.

Profitability / Operating margin

Operating profit is the profit the Company has made before any interest income or expense, taxation and dividends received or paid. Operating profit for the period was £436,694, compared to a loss of £2,377,843 in the previous period.

Operating margin is defined as operating profit divided by revenue. The Company achieved 9% in the current period due to increased synergies and better buying power by joining the Co-operative Group.

Principal risks and uncertainties

The key business risks and uncertainties affecting the Company are considered to relate to government funding policy for community pharmacy, competition from both national and independent retailers, employee retention, and product availability.

Outlook

It is expected that the company will be hived up into the parent society during the next financial period.

The directors consider that the level of business achieved and the result on ordinary activities for the period was satisfactory.

Results and dividends

The income statement is set out on page 6 and shows the profit for the period of £436,694. The directors do not recommend the payment of a dividend (*4 December 2007: £nil*).

Directors

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

J D Brocklehurst	(Appointed 05/12/07)
J B Nuttall	(Appointed 05/12/07)
G Farquhar	(Appointed 05/12/07)
NJ Kelly	(Resigned 05/12/07)
C Barry	(Resigned 05/12/07)

JD Brocklehurst resigned as a director, and AJ Smith was appointed as a director on 10 March 2009.

Parent Key Performance Indicators

In addition to monitoring revenue and profitability of the company, the directors also monitor a number of Key Performance Indicators of the Group. These include financial performance, growth in and engagement of members of the Group, growing customer loyalty and corporate reputation of the Group. Further details on these key measures can be found on pages 20 - 22 of the Group's Annual Report.

Directors' report (continued)

Employees

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

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

Creditor payment terms

The Co-operative Group Code on Business Conduct sets out the Society's and its subsidiaries' relationships with its suppliers and its undertaking to pay its suppliers on time and according to agreed terms of trade.

Disclosure of information to auditors

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

Auditors

KPMG were appointed as auditors on 30th June 2009. Pursuant to section 487 of the Companies Act 2006, the auditors will be deemed to be re-appointed and KPMG Audit Plc will therefore continue in office.

By order of the board



KE Eldridge
Secretary

Robert Owen House
87 Bath Street
Glasgow
G2 2EE

14 October 2009

Statement of directors' responsibilities in respect of the directors' report and the financial statements

The directors are responsible for preparing the Directors' 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 they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable laws.

The financial statements are required by law to present fairly the financial position and the performance of the company; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



KPMG Audit Plc

St James' Square
Manchester
M2 6DS
United Kingdom

Independent auditors' report to the members of Pills Limited

We have audited the financial statements of Pills Limited for the period ended 10th January 2009, which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement and the Statement of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 3.

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

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

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

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

Basis of audit opinion

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

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

Independent auditors' report to the members of Pills Limited (*continued*)

Opinion

In forming our opinion on the financial statements, which is not qualified, we note that the prior period financial statements were not audited. Consequently, International Standards on Auditing (UK and Ireland) require the auditors to state that the corresponding figures contained within these financial statements are unaudited.

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the company's affairs as at 10th January 2009 and of its profit for the period then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc 23 October 2009

KPMG Audit Plc
Chartered Accountants
Registered Auditor

Income Statement

for the 58 weeks ended 10 January 2009

	Note	58 weeks ended 10 January 2009	38 weeks ended 4 December 2007 (unaudited)
		£	£
Revenue		4,433,341	2,101,135
Cost of sales		(3,152,609)	(1,494,532)
Gross profit		1,280,732	606,603
Administrative expenses		(844,038)	(530,618)
Deficit on hive-up of business		-	(2,453,828)
Operating profit/ (loss)		436,694	(2,377,843)
Finance expense		-	(162,350)
Profit/ (loss) before taxation	3	436,694	(2,540,193)
Taxation	5	-	17,270
Profit / (loss) for the year		436,694	(2,522,923)

Statement of recognised income and expense

There were no recognised gains or losses in the current period or prior year other than those included in the income statement shown above.

Balance Sheet
at 10 January 2009

	Note	10 January 2009		4 December 2007 (unaudited)	
		£	£	£	£
Non-current assets					
Intangible assets	6		-		1,165,940
Tangible assets	7		16,360		103,178
Investments	8		-		130,772
Total non-current assets			16,360		1,399,890
Current assets					
Inventories	9	226,125		191,396	
Trade and other receivables	10	844,830		317,673	
Cash and cash equivalents		1,446,413		3,592	
Total current assets		2,517,368		512,661	
Total assets			2,533,728		1,912,551
Current liabilities					
Trade and other payables	11	(4,619,857)		(4,435,374)	
Total liabilities			(4,619,857)		(4,435,374)
Net liabilities			(2,086,129)		(2,522,823)
Equity					
Called up share capital	12		100		100
Retained earnings	14		(2,086,229)		(2,522,923)
Total equity			(2,086,129)		(2,522,823)

These financial statements were approved by the board of directors on 14/10/09 and were signed on its behalf by:

A Smith
Director



Cash flow statement
at 10 January 2009

	10 January 2009	4 December 2007 (unaudited)
	£	£
Cash flows from operating activities		
Profit/(loss) for the period	436,694	(2,522,923)
<i>Adjustments for:</i>		
Depreciation	437	18,208
Amortisation	-	36,060
Impairment of intangible assets	1,165,940	-
Impairment of property, plant and equipment	86,381	-
Impairment of investments	130,772	-
	<hr/>	<hr/>
Cash flow from operating activities before changes in working capital and provisions	1,820,224	(2,468,655)
	<hr/>	<hr/>
Increase in inventories	9 (34,729)	(191,396)
Increase in trade and other receivables	10 (527,157)	(317,673)
Increase in trade and other payables	11 184,483	4,435,374
	<hr/>	<hr/>
Cash generated from the operations	1,442,821	1,457,650
Corporation tax paid	-	-
	<hr/>	<hr/>
Net cash from operating activities	-	-
	<hr/>	<hr/>
Cash flows from investing activities		
Acquisition of property, plant and equipment	-	(121,386)
Acquisition of licences	-	(1,202,000)
Acquisition of investments	-	(130,772)
	<hr/>	<hr/>
Net cash from investing activities	-	(1,454,158)
	<hr/>	<hr/>
Cash flows from financing activities		
	-	-
	<hr/>	<hr/>
Net cash from financing activities	-	-
	<hr/>	<hr/>
Decrease in cash and cash equivalents	1,442,821	3,492
Opening cash and cash equivalents	3,592	100
	<hr/>	<hr/>
Closing cash and cash equivalents	1,446,413	3,592
	<hr/>	<hr/>

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Reporting entity

Pills Limited is a company domiciled in Scotland. The address of the Company's registered office is Robert Owen House, 87 Bath Street, Glasgow, G2 2EE

Basis of preparation

The company financial statements have been prepared in accordance with applicable International Financial Reporting Standards as endorsed by the EU (IFRS) for the year ended 10 January 2009 and are prepared on the historical cost. The company is exempt by virtue of s228 of the Companies Act 1985 from the requirement to prepare consolidated accounts as it is a wholly owned subsidiary of National Co-operative Chemists Limited, a society incorporated in England and Wales. These financial statements present information about the company as an individual undertaking only. The accounting policies set out below, have been applied consistently to all periods presented in these financial statements.

These are the Company's first financial statements prepared in accordance with IFRS and its interpretations adopted by the International Accounting Standards Board (IASB). An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company are provided in note 16.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The financial statements have been prepared on an going concern basis, notwithstanding the deficiency in net assets, as an assurance has been received from the parent undertaking that financial support will continue to be made available for the foreseeable future.

Standards, amendments and interpretations issued but not yet effective

The Company has not early adopted the following statements;

- IFRS 8, Operating Segments (mandatory for annual periods beginning on or after 1 January 2009) introduces the 'management approach' to segment reporting. IFRS 8 will require the disclosure of segment information based on the internal reports regularly reviewed by the Company's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. The Company will apply IFRS 8 from 11 January 2009, but it is not expected to have any impact on the segmental information reported in the Company's accounts.
- Amendments to IAS 1, Presentation of Financial Statements (mandatory for periods beginning on or after 1 January 2009) requires the Company to present both a Statement of Changes in Equity and a Statement of Recognised Income and Expense as primary statements. The amendment would also require two comparative balance sheets in the event of a prior period adjustment. Provided the interpretation is endorsed for application in the EU, the Company will apply IAS 1 from 11 January 2009. The amendment to IAS 1 will impact the type and amount of disclosures made in these financial statements, but will have no impact on the reported profits or financial position of the Company.

Notes (continued)

1 Accounting Policies (continued)

• The most significant amendments to IFRS 3, Business Combinations (mandatory for periods beginning on or after 1 July 2009) relate to:

- Acquiring a controlling interest, but a majority stake only;
- Accounting for changes in stake; and
- Accounting for the price paid.

The scope of IFRS 3 has widened to bring certain transactions that were not within the scope of IFRS 3 (2004) into scope. Provided the interpretation is endorsed for application in the EU, the Company will apply the revised IFRS 3 from 10 January 2010. This will impact on the accounting for all future business combinations.

Revenue

Net sales represent the value of goods sold during the period less value added tax. It is wholly attributable to the principal activity of the company and arises solely within the United Kingdom.

Pension costs

The Company operates a defined contribution scheme and contributions into scheme are charged to the income statement in the year in which they become payable.

Intangible assets

(i) Licences

Licences acquired on acquisition of pharmacies are stated at cost less accumulated amortisation (see below) and impairment losses.

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

(ii) Amortisation

Amortisation is charged to the income statement on a straight-line basis over 20 years, this being the estimated useful life of a NHS contract.

Where there is indication of impairment an impairment review will be performed.

Taxation

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

Impairment

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

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

The recoverable amount of the Company's assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate of 8.4% that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

Notes (continued)

1 Accounting Policies (continued)

Property, plant, and equipment and depreciation

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

Depreciation is provided to write off the cost or valuations, less estimated residual values, of all tangible fixed assets, freehold land and certain buildings, evenly over their expected useful lives. It is calculated at the following rates:

Fixtures and fittings	-	10% - 33% on cost
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The residual value, if not insignificant, is reassessed annually.

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

No depreciation is provided on freehold land.

Leased assets

Where assets are financed by leasing agreements that give rights approximating to ownership (finance leases), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the income statement.

Lease payments are analysed between capital and interest components. The interest element of the payment is charged to the income statement over the period of the lease and is calculated so that it represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor.

All other leases are treated as operating leases. Their annual rentals are charged to the income statement on a straight-line basis over the term of the lease.

Inventories

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

Cash and cash equivalents

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

Investments

Investments are stated at cost less impairment provision. See impairment section above.

2 Accounting date

The financial statements for the Company are made up for the 58 weeks ended 10 January 2009. The previous financial statements were made up for the 38 weeks to 4 December 2007.

3 Notes (continued)

Profit on ordinary activities before taxation

	58 weeks ended 10 January 2009	38 weeks ended 4 December 2007 (unaudited)
	£	£
<i>Profit on ordinary activities before taxation is stated after charging/(crediting):</i>		
Depreciation and other amounts written off tangible fixed assets:	437	18,208
Amortisation of intangible assets	-	36,060
Impairment of intangible assets	1,165,940	6,519
Impairment of property, plant and equipment	86,381	-
Impairment of investments	130,722	-
	<u>1,383,480</u>	<u>52,787</u>

Auditors' remuneration of £500 is borne by the ultimate parent society (2008: £500).

4 Staff numbers and costs

The average number of persons employed by the Company (including directors) during the period, analysed by category, was as follows:

	Number of employees	
	58 weeks ended 10 January 2009	38 weeks ended 4 December 2007
Office and management	10	13
Administration	10	12
	<u>20</u>	<u>25</u>

The aggregate payroll costs of these persons were as follows:

	58 weeks ended 10 January 2009	38 weeks ended 4 December 2007 (unaudited)
	£	£
Wages and salaries	395,355	232,758
Social security costs	38,475	25,093
Pension costs	11,196	6,519
	<u>445,026</u>	<u>264,370</u>

No directors received any emoluments from the Company during the period (38 weeks ended 4 December 2007: £nil).

5 Taxation

The tax charge arising on the profit for the year of £436,694 (at the current blended tax rate of 28.44%), has been offset by group relief, for which no payment will be required.

On 1 April 2008 the applicable enacted corporation tax rate was reduced to 28% from 30%, as such the blended rate of corporation tax applicable to this accounting period is 28.44%.

6 Notes (continued)

Intangible assets

For the period ended 10 January 2009

	Licenses £
<i>Cost or valuation</i>	
At 4 December 2007	1,202,000
	<hr/>
At 10 January 2009	1,202,000
	<hr/>
<i>Amortisation</i>	
At 4 December 2007	36,060
Impairment	1,165,940
	<hr/>
At 10 January 2009	1,202,000
	<hr/>
<i>Net book value</i>	
At 10 January 2009	-
	<hr/>
At 4 December 2007	1,165,940
	<hr/>

For the period ended 4 December 2007 (unaudited)

	Total £
<i>Cost or valuation</i>	
At 1 March 2007	-
Additions	1,202,000
	<hr/>
At 4 December 2007	1,202,000
	<hr/>
<i>Amortisation</i>	
At 1 March 2007	-
Provided for in period	36,060
	<hr/>
At 4 December 2007	36,060
	<hr/>
<i>Net book value</i>	
At 4 December 2007	1,165,940
	<hr/>
At 1 March 2007	1,202,000
	<hr/>

Upon impairment testing at year end, the licences had a negligible selling price and their value in use were zero for the Co-operative Group based on the group's own licences. The net book value was therefore written down in full. The impairment has been charged to cost of sales.

Notes (continued)

7 Property, plant and equipment

For the period ended 10 January 2009

	Fixtures and fittings
	£
<i>Cost or valuation</i>	
At 4 December 2007	121,386
Impairment	(101,625)
	<hr/>
At 10 January 2009	19,761
	<hr/>
<i>Depreciation</i>	
At 4 December 2007	18,208
Charge in the year	437
Impairment	(15,244)
	<hr/>
At 10 January 2009	3,401
	<hr/>
<i>Net book value</i>	
At 10 January 2009	16,360
	<hr/>
At 4 December 2007	103,178
	<hr/>

For the period ended 4 December 2007 (unaudited)

	£
<i>Cost or valuation</i>	
At 1 March 2007	-
Additions	121,386
	<hr/>
At 4 December 2007	121,386
	<hr/>
<i>Depreciation</i>	
At 1 March 2007	-
Charge in the year	18,208
	<hr/>
At 4 December 2007	18,208
	<hr/>
<i>Net book value</i>	
At 4 December 2007	103,178
	<hr/>
At 1 March 2007	-
	<hr/>

The impairment relates to certain fixtures and fittings which management have decided to discontinue as the Co-operative Group no longer requires these assets. The impairment has been charged to administrative expenses.

Notes (continued)

8 Investments

	As at 10 January 2009	As at 4 December 2007 (unaudited)
	£	£
<i>Cost or valuation</i>		
At beginning of period	130,772	-
Additions	-	130,772
Impairment	(130,722)	-
	<hr/>	<hr/>
Carried forward	-	130,772
	<hr/>	<hr/>

Investments represent 100% share capital holding in Richardson & Son (Chemist) Limited, a company incorporated in Scotland

9 Inventories

	10 January 2009	4 December 2007 (unaudited)
	£	£
Finished goods and goods for resale	226,125	191,396
	<hr/>	<hr/>

There is no material difference between the replacement cost of stocks and the amounts stated above.

10 Trade and other receivables

	10 January 2009	4 December 2007 (unaudited)
	£	£
<i>Due within one year</i>		
Trade receivables	844,830	252,283
Taxation and social security	-	65,290
	<hr/>	<hr/>
	844,830	317,673
	<hr/>	<hr/>

All of the above financial assets are classified as loans and receivables.

Trade receivables are stated net of a bad debt provision of £nil (2008: £nil).

Trade receivables include amounts totalling £844,830 (2008: £252,283) which are not yet due.

Notes (continued)

11 Trade and other payables

	10 January 2009	4 December 2007 (unaudited)
	£	£
<i>Due within one year:</i>		
Trade payables	548,609	172
Amounts owed to group undertakings	4,071,248	3,840,202
Other payables	-	595,000
	<u>4,619,857</u>	<u>4,435,374</u>

12 Called up share capital

	10 January 2009	4 December 2007 (unaudited)
	£	£
<i>Authorised</i>		
1,000 Ordinary shares of £1 each	1,000	1,000
	<u>1,000</u>	<u>1,000</u>
<i>Allotted, called up and fully paid</i>		
100 Ordinary shares of £1 each	100	100
	<u>100</u>	<u>100</u>

Notes (continued)

13 Commitments and contingent liabilities

There are no capital commitments at the end of the current and preceding financial year.

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

	As at 10 January 2009 Land and buildings £000	As at 12 January 2008 (unaudited) Land and buildings £000
Operating leases which expire:		
Within one year	-	-
In the second to fifth years inclusive	-	-
Over five years	745,534	797,677
	<u>745,534</u>	<u>797,677</u>

14 Retained earnings

	As at 10 January 2009	As at 12 January 2008 (unaudited) £
At beginning of the period	(2,522,923)	-
Profit/(loss) for the period	436,694	(2,522,923)
	<u>(2,086,229)</u>	<u>(2,522,923)</u>

15 Group entities

The Company's results are included in the consolidated accounts of Co-operative Group Limited (formerly known as Co-operative Group (CWS) Limited), an Industrial and Provident Society registered in England and Wales. This is the largest group of which the Company is a member and for which consolidated accounts are prepared. A copy of the group consolidated accounts may be obtained from the Secretary, Co-operative Group Limited, PO Box 53, New Century House, Corporation Street, Manchester M60 4ES.

16 Explanation of transition to IFRS

On transition to IFRS, goodwill has been reclassified as licences. As required under IFRS 3, this more accurately represents the nature of the fair value of these assets acquired on acquisition of former subsidiaries.

17 Related Parties

Identity of related parties

The Group has a related party relationship with other undertakings within the Co-operative Group, and with its directors and key management.

Notes (continued)

17 Related Parties (continued)

Transactions with other trading group subsidiaries

	2009	2008
	£	(unaudited) £
Year end creditor balance		
National Co-operative Chemists Limited	4,071,248	3,840,202

18 Financial risk management

a) Fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the financial statements. The Company has reviewed its financial instruments as noted below and determined that there is no difference between the carrying value and the fair value

Trade and other receivables

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

Trade and other payables

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

b) Credit risk

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

The Company has no credit risk because of all its external trade receivables are guaranteed to be paid by the National Health Service on their due date.

c) Liquidity risk

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

The Company has a non-interest bearing payable balance with its ultimate parent Company. This does not carry any liquidity risk as the Company has continued support of its parent Company to ensure repayments are managed appropriately.

Due to managing cash balances through its parent society, the Company also has no interest rate risk.

All trade payables are due within 3 months.

d) Market risk

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

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

Notes (continued)

17 Financial risk management (continued)

e) Currency risk

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The Company is not exposed to currency risk, as all revenue derived and expenditure incurred is from the United Kingdom.

18 Capital Management

The Company's objectives when managing capital are:

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

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

In order to maintain or adjust the capital structure, the Company adjusts the amount of dividends paid to shareholders or sells assets to raise funds. The Company believes it is meeting its objectives for managing capital as funds are available for reinvestment where necessary.

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

19 Accounting estimates and judgements

For the purpose of goodwill testing, each business acquisition is regarded as a single cash-generating unit. The cash generating unit's recoverable amount is based on value in use using projections of performance over 20 years. Management decided that as at 10 January 2009, the value in use projection was negligible and a full impairment was charged.