



Registration  
Number  
00027657

THE BOOTS COMPANY PLC  
DIRECTORS' REPORT  
and  
FINANCIAL STATEMENTS  
YEAR ENDED 31ST MARCH 2005



A21  
COMPANIES HOUSE

\*AH00EUSNZ\*

0121  
28/05/05

**Registration**  
**No: 00027657**

**THE BOOTS COMPANY PLC**  
**Board of Directors**  
Year ended 31st March 2005

---

**Directors as at 31st March 2005:**

A W Gourlay  
D A Kneale  
P Stoneham  
P Bateman

**Secretary:**

M J Oliver

**Registered Office:**

1 Thane Road West  
Nottingham, NG2 3AA

---

# THE BOOTS COMPANY PLC

## Directors' Report

Year ended 31st March 2005

The directors present their annual report together with the audited financial statements for the year ended 31st March 2005.

### Principal activities

The company's principal activities during the year were the manufacturing, marketing and distribution of healthcare and consumer products.

### Review of the business

Turnover for the year has decreased by £33.8m to £3,094.5m, a drop of 1%.

Operating profit has also decreased by £10.0m to £108.6m compared to the previous year. The main changes relate to lower margins following the 'Lower Prices You'll Love' campaign, and increased selling and distribution costs.

During the year the company sold its subsidiary Boots Holdings (BHI) Ltd to another Boots group company, generating a profit on disposal of £636.5m.

### Payment to suppliers

The group is a signatory of the Better Payment Practice Code and the company complies with the terms of this code, a copy of which can be obtained from Boots Group PLC (see note 23). The company agrees appropriate terms and conditions for its transactions with suppliers (by means ranging from standard written terms to individually negotiated contracts) and that payment should be made in accordance with those terms and conditions, provided that the supplier has also complied with them.

The number of days purchases outstanding at 31st March 2005 was 20 days. (2004: 25 days).

### Staff

The company continues to involve staff in the decision-making process and communicates regularly with staff during the year. Their involvement in the company's performance is encouraged through employee bonus and share schemes. The involvement extends to the board of Boots Pensions Ltd, which provides for three employee representatives of the group as well as a retired employee.

The company's aim for all members of staff and applicants for employment is to fit the qualifications, aptitude and ability of each individual to the appropriate job, and to provide equal opportunity, regardless of sex, religion or ethnic origin. The company does all that is practicable to meet its responsibility towards the employment and training of disabled people. Where an employee becomes disabled, every effort is made to provide continuity of employment in the same job or a suitable alternative.

### Profit, dividends and retentions

Details of profit and retentions are shown in the profit and loss account on page 6. Dividends of £1,000.0m are proposed for the year (2004: £1,000.0m - paid and proposed).

# THE BOOTS COMPANY PLC

## Directors' Report

Year ended 31st March 2005

### Directors

The details of directors in office on 31st March 2005 are shown on page 1. There have been the following changes to the board of directors during the year and up to the date of signing the financial statements:

#### Appointments

#### Date

J S Wheway

11 April 2005

#### Resignations

#### Date

D Lister

17 January 2005

### Remuneration of directors and directors' shareholding

Details of the remuneration and shareholdings of the directors are included in notes 20 and 21 on pages 25 - 27.

### Auditors

A resolution to re-appoint the auditors, KPMG Audit Plc, will be proposed at the annual general meeting.

By order of the board

  
\_\_\_\_\_  
Director

16 May 2005  
Date

**THE BOOTS COMPANY PLC**  
**Directors' responsibilities statement**  
Year ended 31st March 2005

Company law requires directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit and loss of the company for that period. In preparing these financial statements, directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, 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 which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the 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 group and to prevent and detect fraud and other irregularities.

## **Independent Auditor's Report**

Year ended 31st March 2005

### **Independent Auditor's Report to the members of The Boots Company PLC**

We have audited the financial statements on pages 6 to 28.

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 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 are responsible for preparing the directors report and, as described on page 4, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, and by our profession's ethical guidance.

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 with the company is not disclosed.


#### **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 judgements 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 company's state of affairs as at 31st March 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

  
**KPMG Audit Plc**  
Chartered Accountants  
Registered Auditor  
Birmingham

16 May 2005  
Date

**THE BOOTS COMPANY PLC**

**Profit and Loss Account**

Year ended 31st March 2005

	Notes	2005 £m	Restated * 2004 £m
<b>Turnover</b>	2	<b>3,094.5</b>	3,128.3
Cost of sales		<b>(2,721.9)</b>	(2,787.3)
<b>Gross profit</b>		<b>372.6</b>	341.0
Operating costs	3	<b>(264.0)</b>	(222.4)
<b>Operating profit</b>		<b>108.6</b>	118.6
(Loss)/profit on disposal of fixed assets		<b>(9.2)</b>	0.1
Profit on disposal of investments in subsidiary undertakings		<b>636.5</b>	-
Release of provisions against investments		-	3.3
Income from shares in group undertakings		<b>373.2</b>	337.1
<b>Profit on ordinary activities before interest</b>		<b>1,109.1</b>	459.1
Net interest payable and similar items	4	<b>(67.7)</b>	(63.1)
<b>Profit on ordinary activities before taxation</b>		<b>1,041.4</b>	396.0
Tax on profit on ordinary activities	5	<b>1.6</b>	(22.0)
<b>Profit on ordinary activities after taxation and profit for the financial year attributable to shareholders</b>		<b>1,043.0</b>	374.0
Dividends	6	<b>(1,000.0)</b>	(1,000.0)
<b>Retained profit / (loss) for the financial year</b>		<b>43.0</b>	(626.0)

\* Restated on adoption of FRS20 (see note 1)

The result for the year is wholly attributable to the continuing operations of the company.

**THE BOOTS COMPANY PLC**

**Other Primary Statements**

Year ended 31st March 2005

<b>Statement of total recognised gains &amp; losses</b>	<b>2005 £m</b>	<b>Restated * 2004 £m</b>
<b>Profit for the financial year attributable to shareholders</b>	<b>1,043.0</b>	<b>374.0</b>
Prior year adjustment	(0.7)	-
<b>Total recognised gains &amp; losses since last annual report</b>	<b>1,042.3</b>	<b>374.0</b>

<b>Reconciliation of Movements in Shareholders' Funds</b>	<b>2005 £m</b>	<b>Restated * 2004 £m</b>
<b>Total recognised gains and losses for the year</b>	<b>1,043.0</b>	<b>374.0</b>
Dividends	(1,000.0)	(1,000.0)
<b>Net increase/ (decrease) in shareholders' funds</b>	<b>43.0</b>	<b>(626.0)</b>
Opening shareholders' funds	624.9	1,250.9
<b>Closing shareholders' funds</b>	<b>667.9</b>	<b>624.9</b>

\* Restated on adoption of FRS20 (see note 1)



# THE BOOTS COMPANY PLC

## Balance Sheet

At 31st March 2005

	Notes	2005 £m	Restated * 2004 £m
<b>Fixed assets</b>			
Intangible assets	7	-	-
Tangible assets	8	657.0	614.0
Investments	9	1,822.9	2,061.3
		<u>2,479.9</u>	<u>2,675.3</u>
<b>Current assets</b>			
Stocks	10	194.7	181.0
Debtors due within one year	11	931.3	571.7
Debtors due after more than one year	11	86.8	331.0
	11	1,018.1	902.7
Cash at bank and in hand		-	1.0
		<u>1,212.8</u>	<u>1,084.7</u>
Creditors: Amounts falling due within one year	12	(2,933.6)	(2,768.9)
		<u>(1,720.8)</u>	<u>(1,684.2)</u>
<b>Net current liabilities</b>			
<b>Total assets less current liabilities</b>		759.1	991.1
Creditors: Amounts falling due after more than one year	13	(30.0)	(303.2)
Provisions for liabilities and charges	15	(61.2)	(63.0)
		<u>667.9</u>	<u>624.9</u>
<b>Net assets</b>			
<b>Capital and reserves</b>			
Called up share capital	16,17	209.0	209.0
Share premium account	17	254.0	254.0
Capital redemption reserve	17	56.8	56.8
Profit and loss account	17	148.1	105.1
<b>Equity shareholders' funds</b>		<u>667.9</u>	<u>624.9</u>

The financial statements were approved by the Board of Directors on  
and are signed on its behalf by: D A Kneale

16 May 2005

Director

\* Restated on adoption of FRS20 (see note 1)

**THE BOOTS COMPANY PLC**  
**Notes to the Financial Statements**  
Year ended 31st March 2005

---

**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, except as noted below.

**Implementation of FRS20 – Share based payments**

During the year, the company has adopted FRS20, issued by the Accounting Standards Board in April 2004, and has restated comparative figures accordingly. A prior year adjustment as at 31st March 2004 has been made to increase fixed asset investments and creditors more than one year by £0.3m, and to decrease debtors by £0.7m. Prior year operating profit has been reduced by £0.7m. The directors believe that the fair value approach underlying FRS20 gives a more appropriate view of the impact of share based payment transactions than the previous amortisation treatment, and so the standard has been early adopted.

**Basis of preparation**

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules, modified to include the revaluation of certain land and buildings.

Under FRS 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a Boots Group PLC, the company's ultimate parent undertaking, includes the company's cash flows in its own published consolidated financial statements.

The company is exempt under section 228 of the Companies Act 1985 from the requirement to prepare group financial statements and deliver them to the Registrar of Companies. The financial statements therefore present information about the company as an individual undertaking and not about its group. The company is included within the consolidated financial statements of Boots Group PLC, the company's ultimate parent undertaking.

**Share based payment transactions**

Shares in parent company

Shares in the parent undertaking which have been purchased for the benefit of employees under various incentive schemes, are held in three employee share ownership trusts:

- The qualifying employee share ownership trust (QUEST) provides shares for the all employee SAYE scheme.
- Shares owned by the ESOP Trust form part of the Boots Long Term Bonus Scheme for Executive directors and senior employees.
- Shares owned by the all employee share ownership plan (AESOP) are conditionally gifted to all employees employed at a qualifying date and then held in trust for a qualifying service period of not less than three years.

Where the company acts as sponsor to the above trusts it has de facto control of them and their assets and liabilities are included in the company's accounts.

Shares in the parent undertaking are carried at cost less any impairment in value.

**THE BOOTS COMPANY PLC**  
**Notes to the Financial Statements**  
Year ended 31st March 2005

---

**1. Accounting policies (continued)**

---

**Expense arising from share based payments**

The fair value of the shares/options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at the grant date and spread over the period during which the employees become unconditionally entitled to the shares/options. The fair value is based on market value. The amount recognised as an expense reflects the estimated number of shares/options that are expected to vest except where forfeiture is only due to 'total share holder return' targets not being achieved.

In accordance with the transitional provisions of FRS20 no expense is recorded in respect of grants made under the above schemes prior to 7 November 2002.

**Foreign currencies**

Overseas investments are stated at the rate of exchange in force at the date the investment was made. Assets and liabilities in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Profits and losses arising from changes in exchange rates are taken to the profit and loss account.

**Intangible fixed assets**

The cost of intangible assets acquired (which are capitalised only if separately identifiable) is not amortised except where the end of the useful economic lives of the acquired intangible asset can be reasonably foreseen. Similar assets created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred. The carrying value of intangible assets (including in particular those being amortised over periods greater than 20 years) is reviewed annually and any impairment in value charged to the profit and loss account.

**Investments**

Investments are stated at cost less provisions for any impairment in the carrying value of the investment.

**Fixed assets and depreciation**

Depreciation of tangible fixed assets is provided to write-off the cost, less residual value, by equal instalments over their expected useful economic lives as follows:

- Freehold land, investment properties, assets in the course of construction – not depreciated.
- Freehold and long leasehold buildings, including shops with physical lives of more than 50 years - depreciated to their estimated residual values over their useful economic lives of not more than 50 years.
- Computer equipment including software - 3 to 8 years
- Motor cars - 4 or 5 years
- Other motor vehicles - 3 to 10 years
- Fixtures and plant - 3 to 20 years

Any impairment in the value of fixed assets is recognised immediately.

**THE BOOTS COMPANY PLC**  
**Notes to the Financial Statements**  
Year ended 31st March 2005

---

**1. Accounting policies (continued)**

---

**Fixed assets and depreciation (continued)**

The company adopted the transitional provisions of FRS15 to retain the book value of land and buildings and has not adopted a policy of annual revaluations in the future.

**Stock**

Stock is valued at the lower of cost and net realisable value. Cost comprises purchase cost of goods and costs related to distribution.

**Research and development**

Expenditure on research and development, other than on buildings and plant, is charged against profit in the year in which it is incurred.

**Pensions**

The company participates in the group wide Boots Pension Scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of the pensions over the employees' working lives with the company.

Since 1st October 2000, new employees have been offered membership of Boots Stakeholder Pension Plan, a defined contribution pension arrangement. After five years' membership of this plan, employees have the opportunity to join Boots Pension Scheme.

**Leases**

The rental costs of properties and other assets acquired under operating leases are charged to the profit and loss account on a straight line basis over the life of the lease.

Benefits received as an incentive to sign a lease, whatever form they may take, are credited to the profit and loss account on a straight line basis over the lease term or, if shorter than the full lease term, over the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate.

The cost of assets held under finance leases is included under tangible fixed assets and depreciation is provided in accordance with the policy for the class of asset concerned. The corresponding obligations under these leases are shown as creditors. The finance charge element of rentals is charged to the profit and loss account to produce, or approximate to, a constant periodic rate of charge on the remaining balance of the outstanding obligations.

**THE BOOTS COMPANY PLC**  
**Notes to the Financial Statements**  
Year ended 31st March 2005

---

**1. Accounting policies (continued)**

---

**Deferred taxation**

Deferred taxation is provided in respect of all timing differences that have originated, but not reversed, by the balance sheet date. Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws substantively enacted by the balance sheet date, except as required by FRS 19.

No provision is made for any potential liability to corporation tax on capital gains arising on disposals of assets where any liability is expected to be deferred indefinitely.

**Derivative financial instruments**

The derivative financial instruments used by the company to manage its interest rate and currency risks are interest rate swaps and forward rate contracts. Interest receipts and payments arising on interest rate swaps are recognised within net interest payable over the period of the contract. Termination payments made or received are amortised over the life of the underlying exposure in cases where the exposure continues to exist, and taken to the profit and loss account immediately where the underlying exposure ceases to exist. Gains and losses arising on forward currency contracts entered into to hedge trading transactions are recognised in the profit and loss account in the same period as the underlying exposure. Forward contracts hedging cash and borrowings are valued at closing rates of exchange at each period end with gains and losses offset against the related cash and borrowings. The interest differential on these instruments is recognised against net interest payable.

---

**2. Turnover**

---

Turnover comprises sales to, and rental income from external and group customers (excluding value added tax and other sales taxes). Consideration received from customers is only recorded as turnover when the company has completed full performance in respect of that consideration.

**Segmental information**

All turnover originates from UK continuing operations.

By geographical segment	Destination 2005 £m	Destination 2004 £m
UK	3,092.8	3,128.2
Rest of Europe	1.7	0.1
	<u>3,094.5</u>	<u>3,128.3</u>

**THE BOOTS COMPANY PLC**  
**Notes to the Financial Statements**  
Year ended 31st March 2005

<b>3. Operating costs</b>	<b>2005</b>	<b>Restated *</b>
	<b>£m</b>	<b>2004</b>
		<b>£m</b>
Selling and distribution costs	<b>213.6</b>	138.9
Administrative expenses	<b>43.9</b>	75.3
Research & development costs	<b>6.5</b>	8.2
<b>Operating costs</b>	<b><u>264.0</u></b>	<b><u>222.4</u></b>
 <b>Operating profit shown on page 6 is after charging</b>		
Operating lease rentals		
- Property rents	<b>12.5</b>	12.5
- Computer and plant hire	<b>21.5</b>	19.6
Depreciation and amortisation of fixed assets	<b>39.4</b>	29.1
owned -		
leased -	<b>1.5</b>	1.8
Remuneration of auditors – Audit fees	<b>0.2</b>	0.2
Remuneration of auditors – Non audit fees	<b>0.4</b>	1.1
Provision against current accounts	<b>-</b>	7.8
Restructuring costs	<b>18.0</b>	40.0
Currency adjustments on fixed asset investments	<b>(0.4)</b>	13.6
Share based payment transactions	<b>1.2</b>	1.8

\* Restated on adoption of FRS20 (see note 1)

**THE BOOTS COMPANY PLC**  
**Notes to the Financial Statements**  
Year ended 31st March 2005

<b>4. Net interest payable</b>	<b>2005</b>	<b>2004</b>
	<b>£m</b>	<b>£m</b>
<b>Interest receivable and similar income:</b>		
From group undertakings	10.9	7.5
From joint ventures	0.6	0.5
Other interest receivable	3.3	2.6
	<u>14.8</u>	<u>10.6</u>
<b>Interest payable and similar charges:</b>		
Bank loans and overdrafts	(3.9)	(5.0)
Finance leases	(0.3)	(0.4)
To group undertakings	(81.9)	(79.7)
Income from interest rate swaps	4.1	6.2
Exchange losses on foreign currency borrowings	(0.5)	(2.2)
Other exchange gains	-	6.9
	<u>(82.5)</u>	<u>(74.2)</u>
Net interest payable before interest on closure of swaps	<u>(67.7)</u>	<u>(63.6)</u>
Exceptional interest on closure of interest rate swaps	-	0.5
<b>Net interest payable</b>	<u><u>(67.7)</u></u>	<u><u>(63.1)</u></u>

<b>5. Tax on profit on ordinary activities</b>	<b>2005</b>	<b>2004</b>
	<b>£m</b>	<b>£m</b>
<b>The tax charge on the profit for the year consists of:</b>		
<b>Current taxation</b>		
UK corporation tax	3.6	8.1
Adjustment in respect of prior years	(9.7)	(6.9)
	<u>(6.1)</u>	<u>1.2</u>
Relief for overseas tax	(0.2)	(0.4)
	<u>(6.3)</u>	<u>0.8</u>
Overseas tax	0.1	0.5
<b>Total current tax</b>	<u>(6.2)</u>	<u>1.3</u>
<b>Deferred tax</b>		
Origination and reversal of timing differences	4.6	20.7
<b>Tax on profits on ordinary activities</b>	<u>(1.6)</u>	<u>22.0</u>
Tax included above attributable to exceptional non-operating items	(2.1)	-

**THE BOOTS COMPANY PLC**  
**Notes to the Financial Statements**  
Year ended 31st March 2005

**5. Tax on profit on ordinary activities**  
(continued)

**Reconciliation of current tax charge**

The standard rate of tax for the year, based on the UK standard rate of corporation tax, is 30% (2004: 30%). The actual tax charge for the current and previous year is below the standard rate for the reasons set out in the following reconciliation.

	2005 £m	2004 £m
Profit on ordinary activities before tax	1,041.4	396.7
Tax on profit on ordinary activities at standard rate of 30%	312.4	119.0
<b>Factors affecting charge for the year:</b>		
Changes in accelerated capital allowances	(4.6)	(4.9)
Changes in pension fund prepayment	1.6	(6.8)
Other timing differences	(0.5)	1.1
Disallowable expenses and non taxable income	(3.8)	(0.3)
Dividends from UK companies	(112.0)	(101.0)
Provision against investments in and current accounts with group undertakings	-	0.9
Non taxable gain on transfer of subsidiary	(190.0)	-
Overseas tax	0.4	0.2
Prior year adjustments	(9.7)	(6.9)
<b>Total current tax charge for the year</b>	<b>(6.2)</b>	<b>1.3</b>

**6. Dividends**

	2005 £m	2004 £m
Proposed	1,000.0	1,000.0



**THE BOOTS COMPANY PLC**  
**Notes to the Financial Statements**  
Year ended 31st March 2005

7. Intangible fixed assets	Patents, trademarks and other product rights acquired £m
<b>Cost</b>	
At 1st April 2004 and at 31 March 2005	<u>0.3</u>
<b>Amortisation</b>	
At 1st April 2004 and at 31 March 2005	<u>(0.3)</u>
Net book value at 31st March 2004 and at 31st March 2005	<u>-</u>

**THE BOOTS COMPANY PLC**  
**Notes to the Financial Statements**  
Year ended 31st March 2005

<b>8. Tangible fixed assets</b>					
	Land and buildings £m	Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Payments on account and assets in course of construction £m	Total £m
<b>Cost</b>					
At 1st April 2004	388.4	237.9	153.4	80.4	860.1
Additions	1.4	9.0	74.5	52.9	137.8
Disposals	(5.4)	(20.7)	(15.8)	-	(41.9)
Reclassifications	0.8	(27.8)	135.8	(108.8)	-
Intra-group transfers	-	-	(40.7)	-	(40.7)
<b>At 31st March 2005</b>	<b>385.2</b>	<b>198.4</b>	<b>307.2</b>	<b>24.5</b>	<b>915.3</b>
<b>Depreciation</b>					
At 1st April 2004	22.7	151.0	72.4	-	246.1
Charge for the year	1.9	12.7	26.3	-	40.9
Disposals	(2.1)	(12.2)	(14.3)	-	(28.6)
Reclassifications	-	(25.0)	25.0	-	-
Intra-group transfers	-	-	(0.1)	-	(0.1)
<b>At 31st March 2005</b>	<b>22.5</b>	<b>126.5</b>	<b>109.3</b>	<b>-</b>	<b>258.3</b>
Net book value at 31st March 2004	365.7	86.9	81.0	80.4	614.0
<b>Net book value at 31st March 2005</b>	<b>362.7</b>	<b>71.9</b>	<b>197.9</b>	<b>24.5</b>	<b>657.0</b>

The cost of plant and machinery and assets in course of construction include £12.3m (2004: £13.7m) in respect of assets held under finance leases on which accumulated depreciation at the end of the year was £7.6m (2004: £8.3m) and for which the depreciation charge for the year was £1.5m (2004: £1.8m).

	2005 £m	2004 £m
<b>Net book value of land and buildings comprises:</b>		
Freehold	335.9	338.8
Long leasehold (more than 50 years unexpired)	26.7	26.9
Short leasehold	0.1	-
	<b>362.7</b>	<b>365.7</b>

**THE BOOTS COMPANY PLC**  
**Notes to the Financial Statements**  
Year ended 31st March 2005

<b>9. Fixed asset investments</b>	<b>Shares in subsidiary undertakings £m</b>	<b>Loans to subsidiary undertakings £m</b>	<b>Joint venture equity £m</b>	<b>Loans to joint venture £m</b>	<b>Shares in parent undertaking £m</b>	<b>Total £m</b>
<b>Cost</b>						
At 1st April 2004 (Restated*)	1,881.0	157.8	0.6	11.6	121.3	2,172.3
Additions	67.3	-	-	0.7	-	68.0
Disposals	(168.7)	(143.6)	(0.6)	(12.3)	(25.4)	(350.6)
Currency adjustments	-	0.4	-	-	-	0.4
<b>At 31st March 2005</b>	<b>1779.6</b>	<b>14.6</b>	<b>-</b>	<b>-</b>	<b>95.9</b>	<b>1,890.1</b>
<b>Provision/ amortisation</b>						
At 1st April 2004 (Restated*)	29.4	21.1	0.6	11.6	48.3	111.0
Charge for the year	-	-	-	-	1.2	1.2
Disposals	(0.3)	(2.1)	(0.6)	(11.6)	(11.4)	(26.0)
Movements in provisions	-	(19.0)	-	-	-	(19.0)
<b>At 31st March 2005</b>	<b>29.1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>38.1</b>	<b>67.2</b>
Net book value at 31st March 2004 (Restated*)	1,851.6	136.7	-	-	73.0	2,061.3
<b>Net book value at 31st March 2005</b>	<b>1,750.5</b>	<b>14.6</b>	<b>-</b>	<b>-</b>	<b>57.8</b>	<b>1822.9</b>

\* Restated on adoption of FRS20 (see note 1)

The principal subsidiary undertakings are stated below.

<b>(Incorporated in Great Britain)</b>	<b>Registered in</b>	<b>Ordinary Shares Percentage owned %</b>	<b>Principal activities</b>
Boots Optical (Holdings) PLC	England and Wales	100	Holding company
Boots Properties Ltd	England and Wales	100	Property holding
Boots The Chemists Ltd.	England and Wales	100	Retail chemists
Boots.com Direct Ltd.	England and Wales	100	E-business
<b>(Incorporated overseas)</b>	<b>Incorporated in</b>	<b>Ordinary Shares Percentage owned %</b>	<b>Principal activities</b>
Boots Healthcare Deutschland GmbH	Germany	100	Marketing

**THE BOOTS COMPANY PLC**  
**Notes to the Financial Statements**  
Year ended 31st March 2005

---

**9. Fixed asset investments (continued)**

---

The last financial year end for all of the above companies was 31st March 2005.

In the opinion of the directors the value of the company's investment in subsidiary undertakings is not less than the amount shown on page 18.

During the year, the company disposed of its investment in Boots Holdings (BHI) Ltd to another Boots group company, generating a profit on disposal of £636.5m.

**Shares in parent undertaking**

At 31 March 2005 the number of shares held by the company was 11.1m (2004:14.8m). These were held in various employee share ownership trusts. The maximum number of shares held was at the beginning of the year and represented 2% of the total issued share capital of the parent company at that time. The market value of these shares at 31 March 2005 is £69.1m (2004: £91.5m) with a nominal value of £2.8m (2004: £3.7m). Dividends have been waived by the trusts with exception of 0.8m appropriated shares. In total 0.8m (2004: 2.0m) of the shares have been conditionally gifted to employees and 0.9m (2004: 2.9m) are under option to employees.

**THE BOOTS COMPANY PLC**  
**Notes to the Financial Statements**  
Year ended 31st March 2005

<b>10. Stocks</b>	<b>2005</b>	<b>2004</b>
	<b>£m</b>	<b>£m</b>
Manufacturing:		
Raw materials	14.2	17.2
Work in progress	8.7	7.4
Finished goods	41.3	29.7
	<u>64.2</u>	<u>54.3</u>
Goods for retail	130.5	126.7
	<u>194.7</u>	<u>181.0</u>

<b>11. Debtors</b>	<b>2005</b>	<b>Restated * 2004</b>
	<b>£m</b>	<b>£m</b>
<b>Falling due within one year:</b>		
Trade debtors	90.2	65.0
Amounts owed by group undertakings	734.0	398.2
Amounts owed by joint ventures	-	0.1
Corporation tax debtor	8.1	3.1
Other debtors	73.0	73.7
Prepayments and accrued income	26.0	31.6
	<u>931.3</u>	<u>571.7</u>
<b>Falling due after more than one year:</b>		
Amounts owed by group undertakings	-	228.1
Other debtors	61.5	80.4
Prepayments and accrued income	25.3	22.5
	<u>86.8</u>	<u>331.0</u>
<b>Total debtors</b>	<u>1,018.1</u>	<u>902.7</u>

Other debtors include pension prepayments of £111.3m. (2004: £115.0m)

\* Restated on adoption of FRS20 (see note 1)

**THE BOOTS COMPANY PLC**  
**Notes to the Financial Statements**  
Year ended 31st March 2005

<b>12. Creditors: Amounts falling due within one year</b>	<b>2005</b>	<b>Restated *</b>
	<b>£m</b>	<b>2004</b>
		<b>£m</b>
Borrowings (see note 14)	534.5	57.3
Trade creditors	284.8	310.0
Amounts due to group undertakings	1,016.5	1,280.4
Amounts due to joint venture	-	3.1
Taxation and social security	14.8	19.0
Other creditors	25.0	83.2
Accruals and deferred income	58.0	15.9
Dividends	1,000.0	1,000.0
	<b>2,933.6</b>	<b>2,768.9</b>

<b>13. Creditors: Amounts falling due after more than one year</b>	<b>2005</b>	<b>Restated *</b>
	<b>£m</b>	<b>2004</b>
		<b>£m</b>
Borrowings (see note 14)	16.5	38.0
Amounts due to group undertakings	-	249.5
Income tax	0.5	-
Other creditors	13.0	15.7
	<b>30.0</b>	<b>303.2</b>

\* Restated on adoption of FRS20 (see note 1)

**THE BOOTS COMPANY PLC**  
**Notes to the Financial Statements**  
Year ended 31st March 2005

<b>14. Borrowings</b>	<b>2005 £m</b>	<b>2004 £m</b>
Bank loans and overdrafts repayable on demand	<b>512.8</b>	37.1
Other bank loans and overdrafts <span style="float: right;">a</span>	<b>35.0</b>	52.8
Obligations under finance leases	<b>3.2</b>	5.4
	<b>551.0</b>	<b>95.3</b>
<b>Repayments fall due as follows:</b>		
Within one year:		
- Bank loans and overdrafts repayable on demand	<b>512.8</b>	37.1
- Other bank loans and overdrafts	<b>19.4</b>	17.9
- Obligations under finance leases	<b>2.3</b>	2.3
	<b>534.5</b>	<b>57.3</b>
After more than one year:		
- Within one to two years	<b>16.3</b>	21.3
- Within two to five years	<b>0.2</b>	16.7
	<b>16.5</b>	<b>38.0</b>
	<b>551.0</b>	<b>95.3</b>

- a) Other bank loans and overdrafts include £35.0m (2004: £52.8m) that relate to the factoring of certain rental commitments over a ten year period up to March 2007.

**THE BOOTS COMPANY PLC**  
**Notes to the Financial Statements**  
Year ended 31st March 2005

<b>15. Provisions for liabilities and charges</b>	<b>Vacant property provisions £m</b>	<b>Closure or termination of operations £m</b>	<b>Deferred Taxation £m</b>	<b>Total £m</b>
At 1st April 2004	4.6	11.9	46.5	63.0
Profit and loss account	(0.4)	-	4.6	4.2
Utilised	(0.8)	(5.8)	-	(6.6)
Other transfers	0.6	-	-	0.6
<b>At 31st March 2005</b>	<b>4.0</b>	<b>6.1</b>	<b>51.1</b>	<b>61.2</b>

The vacant property provision represents the net costs arising from vacant properties and sub-let properties, the exact timing of utilisation of this provision will vary according to the individual properties concerned.

The provision for closure or termination of operations relates to costs arising as a result of the Halfords disposal, and the rationalising of the group's manufacturing facilities. The majority of costs are expected to be incurred in the next two years.

	<b>2005 £m</b>	<b>2004 £m</b>
<b>Analysis of deferred tax liability:</b>		
Accelerated capital allowances	<b>21.7</b>	16.8
Pension prepayments	<b>33.4</b>	34.6
Other timing differences	<b>(4.0)</b>	(4.9)
	<b>51.1</b>	<b>46.5</b>

Capital losses of £649.8m (2004: £651.9m) are available for offset against certain future chargeable gains arising in this company or across the group. These have not been recognised in the accounts.



**THE BOOTS COMPANY PLC**  
**Notes to the Financial Statements**  
Year ended 31st March 2005

<b>16. Called up share capital</b>	<b>2005 £m</b>	<b>2004 £m</b>
<b>Ordinary shares of 25p each:</b>		
Authorised - 1,200,000,000 shares	<b>300.0</b>	300.0
Allotted, called up and fully paid - 836,022,397 shares	<b>209.0</b>	209.0

<b>17. Capital and reserves</b>	<b>Profit &amp; Loss Reserves £m</b>	<b>Called up Share Capital £m</b>	<b>Capital redemption reserve £m</b>	<b>Share premium account £m</b>	<b>Total £m</b>
At 1st April 2004*	105.1	209.0	56.8	254.0	<b>624.9</b>
Profit/(Loss) retained	43.0	-	-	-	<b>43.0</b>
<b>At 31st March 2005</b>	<b>148.1</b>	<b>209.0</b>	<b>56.8</b>	<b>254.0</b>	<b>667.9</b>

\* Restated on adoption of FRS20 (see note 1)

<b>18. Commitments</b>		
a) Future capital expenditure approved by the directors and not provided for in these financial statements is as follows:	<b>2005 £m</b>	<b>2004 £m</b>
Contracts placed	<b>0.2</b>	1.0
b) Annual commitments under operating leases are as follows:	<b>Land and Buildings £m</b>	<b>Other Assets £m</b>
At 31st March 2005		
Expiring:		
Within one year	7.5	0.1
Within two to five years	0.5	12.4
Over five years	2.7	8.2
	<b>10.7</b>	<b>20.7</b>
At 31st March 2004		
Expiring:		
Within one year	7.3	-
Within two to five years	0.5	10.5
Over five years	1.0	18.9
	<b>8.8</b>	<b>29.4</b>

**THE BOOTS COMPANY PLC**  
**Notes to the Financial Statements**  
Year ended 31st March 2005

**Other financial commitments**

On 1st November 2002, the company entered into a contractual arrangement with Xansa Plc to provide IT application support and development services over a seven year period. This arrangement includes a guaranteed minimum payment from Boots to Xansa of £26m.

<b>19. Staff numbers and cost</b>	<b>2005 Number</b>	<b>2004 Number</b>
The average full time equivalent of people employed by the company during the year was:	<b>5,907</b>	<b>6,934</b>
	<b>2005 £m</b>	<b>Restated* 2004 £m</b>
The aggregated payroll cost was as follows:		
Wages and salaries	<b>150.0</b>	199.3
Social security costs	<b>14.1</b>	17.2
Other pension costs	<b>16.5</b>	11.8
	<b>180.6</b>	<b>228.3</b>

**20. Directors' remuneration**

No director received nor waived any remuneration for their services to the company during the year (2004: nil).

\* Restated on adoption of FRS20 (see note 1)

**THE BOOTS COMPANY PLC**  
**Notes to the Financial Statements**  
Year ended 31st March 2005

---

**21. Directors' shareholdings and share options**

---

The beneficial interests of the directors, who are not directors of the ultimate holding company, and their families in the share capital of the ultimate holding company at 31st March 2005 are shown below. No director holds any loan capital in the ultimate holding company. The share interests of the directors of the ultimate holding company are included within those group financial statements.

**Ordinary shares under executive and SAYE options**

	Ordinary shares 2005	Ordinary shares 2004	Ordinary shares under options 2005	Average option price 2005 £	Exercised during the year	Exercise Price £	Market Price at Date of Exercise £	Granted during the year	Lapsed during the year	Ordinary shares under options 2004
A W Gourlay	3,703	2,522	36,697	6.23	-	-	-	12,364	-	24,333
D A Kneale	4,454	855	104,908	6.29	-	-	-	38,253	-	66,655
P Stoneham	2,095	675	135,902	6.20	-	-	-	34,775	-	101,127

---

The market price of the ultimate holding company's shares at 31st March 2005 was 623.5p. The range of market prices during the year was 596.5p to 700.5p. Prices shown for options exercised during the year represent the weighted average of prices. The average option price for 2005 represents the weighted average price for options outstanding at 31st March 2005.

Under a savings related scheme options may be granted to qualifying employees to subscribe for ordinary shares at approximately 80% of market price.

Under the executive share option plan certain directors were granted options to subscribe for ordinary shares in Boots Group PLC. These options become exercisable 3 years after grant if the performance target is met. If the target is not met, the performance period is extended but if the target is still not met by the end of the sixth year of the performance period, the options lapse. Once the performance target is met, such options are exercisable up to 10 years from grant at option prices of between 594p and 667p. Note that the 2004 option grant has only one re-test after year 5.

**THE BOOTS COMPANY PLC**  
**Notes to the Financial Statements**  
Year ended 31st March 2005

---

**21. Directors' shareholdings and share options (continued)**

---

The table below shows the number of shares in Boots Group PLC (the ultimate holding company) over which certain directors have been granted conditional rights under the Long Term Bonus scheme. Under the Long Term Bonus scheme, at the end of a four year performance cycle, (three years for the schemes commenced in 2002) half the bonus earned will be paid in cash and half is paid as a share award.

**Share awards under the Long term Bonus Scheme**

	31st March 2005	Exercised during the year	Lapsed during the year	Granted during the year	31st March 2004
A W Gourlay	-	(1,983)	-	1,983	-
D A Kneale	-	(3,787)	-	3,787	-
P Stoneham	-	(2,438)	-	2,438	-

---

The table below shows the number of shares in Boots Group PLC (the ultimate holding company) that have been conditionally awarded to certain directors under the All Employee Share Ownership Plan. The employee will normally become unconditionally entitled to these shares after remaining employed for three years from the date the award is made.

**Free Share  
awards under the All Employee Share Ownership Plan 2000**

	31st March 2005	Awarded during the year	31st March 2004
A W Gourlay	157	36	121**
D A Kneale	76	36	40
P Stoneham	76	36	40

---

\*\* 42 shares for A Gourlay became unconditional on 20<sup>th</sup> March 2004

As a potential beneficiary, each director is deemed to have an interest in a total of 13,031,653 ordinary shares of the company held by the following employee trusts, namely, Boots ESOP Trust Limited (established to facilitate the operation of the company's executive bonus schemes), Boots (QUEST) Trustee Limited (established in connection with the company's UK all-employee SAYE Share Option Scheme) and Boots Share Plan Trustee Limited (established in connection with the All Employee Share Ownership Plan).

**THE BOOTS COMPANY PLC**  
**Notes to the Financial Statements**  
Year ended 31st March 2005

---

**22. Pensions**

---

The company participates in a funded group wide pension scheme providing benefits based on final pensionable pay, contributions being charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. Since 1st October 2000, new employees have been offered membership of Boots Stakeholder Pension Plan, a defined contribution pension arrangement. After five years' membership of this plan, employees have the opportunity to join Boots Pension Scheme.

Because the company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 'Retirement Benefits' the scheme will be accounted for by the company when the accounting standard is fully adopted by the company as if the scheme was a defined contribution scheme. At 31st March 2005 the scheme had a deficit on an FRS 17 basis of £83.4m before tax.

Contributions payable to the pension fund during the year were £16.5m.

Details of the most recent actuarial valuation, which was on 1<sup>st</sup> April 2004, and FRS 17 disclosures at 31st March 2005 can be found in the financial statements of Boots Group PLC.

---

**23. Ultimate holding company**

---

The company's immediate and ultimate holding company (which is also the ultimate controlling party) is Boots Group PLC, a company incorporated in Great Britain and registered in England and Wales. The results of the company are included in the group financial statements of Boots Group PLC.

Copies of the group financial statements may be obtained from 1 Thane Road West, Nottingham NG2 3AA.

As a wholly owned subsidiary of Boots Group PLC, the company is exempt from disclosing transactions with other group undertakings and investees of the group qualifying as related parties as permitted by paragraph 3 of Financial Reporting Standard 8.