

DONALD MUNRO LIMITED
REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 1998

Rutherford Manson Dowds
Chartered Accountants
17 Blythswood Square
Glasgow
G2 4AD

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DONALD MUNRO LIMITED
REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 1998

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DONALD MUNRO LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS:	D H Munro T C Morrison J McAuley J Irvine J F Rae A D Tinning
SECRETARY:	J Irvine
REGISTERED OFFICE:	10 Stroud Road Kelvin Industrial Estate East Kilbride Glasgow G75 0YA
AUDITORS:	Rutherford Manson Dowds Chartered Accountants 17 Blythwood Square Glasgow G2 4AD
BANKERS:	Clydesdale Bank PLC Head Office Branch 30 St Vincent Place Glasgow G1 2HL
SOLICITORS:	Selina Di Ciacca 45 Blairston Avenue Bothwell G71 8SA
COMPANY NUMBER:	SC57216

DONALD MUNRO LIMITED

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 March 1998.

1 ACTIVITY

The company's principal activity is the operation of retail chemists and dispensing pharmacies.

On 1 December 1997, Donald Munro Limited acquired the entire issued share capital of Surgiscot Limited. At that date the trade and assets of Surgiscot Limited were transferred to Donald Munro Limited.

On 1 February 1998, Strathclyde (Pharmaceuticals) Limited, the ultimate parent undertaking acquired the entire issued share capital of James Carmichael (Chemists) Limited. At this date the trade and assets of James Carmichael (Chemists) Limited were transferred to Donald Munro Limited.

2 RESULTS AND FUTURE PROSPECTS

The profit for the year after taxation is £268,719 (1997 - £24,098). During the year a dividend of £80,160 (1997 - £80,160) was paid. The directors recommend that no further dividend be paid and the balance of £188,559 be transferred to reserves.

The directors are satisfied with the results for the year and will continue to seek appropriate trading opportunities to further enhance profitability in the forthcoming year.

3 DIRECTORS

The present membership of the board is set out on page 1.

The directors who held office during the year and their interest in the ordinary shares of the company were as follows:-

	Ordinary Shares of £1 each	
	31.3.98	31.3.97
D H Munro	2	2
T C Morrison	-	-
J McAuley	-	-
J Irvine	-	-
J F Rae	-	-
A D Tinning	-	-
	=====	=====

The directors' interests in the shares of Strathclyde (Pharmaceuticals) Limited, the ultimate parent undertaking, are disclosed in the financial statements of that company.

DONALD MUNRO LIMITED

DIRECTORS' REPORT - Continued

4 YEAR 2000 COMPLIANCE

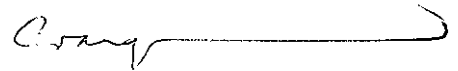
The directors have taken appropriate steps to ensure that the company's computer hardware and software is Year 2000 compliant. No problems are foreseen in this area.

5 AUDITORS

John Gray & Co resigned as auditors on 28 April 1998 and Rutherford Manson Dowds were appointed as auditors from that date.

A resolution to re-appoint Rutherford Manson Dowds as auditors will be proposed at the Annual General Meeting.

ON BEHALF OF THE BOARD



Director

16 October 1998

DONALD MUNRO LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the 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 or loss for that period. In preparing those financial statements, the directors are required to:-

select suitable accounting policies and then apply them consistently;

make judgements and estimates that are reasonable and prudent;

prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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 are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



AUDITORS' REPORT TO THE SHAREHOLDERS

OF

DONALD MUNRO LIMITED

We have audited the financial statements set out on pages 6 to 15 which have been prepared in accordance with the accounting policies set out on pages 8 and 9.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of 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 state of the affairs of the company as at 31 March 1998 and the profit of the company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

16 October 1998

**Chartered Accountants
Registered Auditors**

DONALD MUNRO LIMITED
PROFIT AND LOSS ACCOUNT
YEAR ENDED 31 MARCH 1998

	Note	£	1997 £
TURNOVER	2	12,740,931	10,665,198
Cost of sales		9,440,125	8,024,471
		-----	-----
GROSS PROFIT		3,300,806	2,640,727
Administrative expenses		3,057,734	2,706,256
		-----	-----
OPERATING PROFIT/(LOSS)		243,072	(65,529)
Other income		(127,250)	(106,788)
Income from shares in related companies	5	(56,000)	(36,800)
Interest payable and similar charges	6	4,409	5,189
		-----	-----
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	7	421,913	72,870
Tax on profit on ordinary activities	8	153,194	48,772
		-----	-----
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		268,719	24,098
Dividends	9	80,160	80,160
		-----	-----
RETAINED PROFIT/(LOSS) FOR THE FINANCIAL YEAR	18	188,559	(56,062)
		=====	=====

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

The company made no recognised gains or losses during the current or prior year other than those included in the profit and loss account.

DONALD MUNRO LIMITED

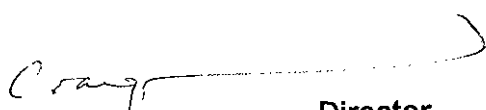
BALANCE SHEET

AT 31 MARCH 1998

	Note	£	£	1997 £
FIXED ASSETS				
Intangible assets	10		1,979,197	2,096,652
Tangible assets	11		484,998	362,182
Investments	12		872,321	100,023
			<u>3,336,516</u>	<u>2,558,857</u>
CURRENT ASSETS				
Stock	13	1,116,989		1,027,518
Debtors	14	1,435,021		991,952
Cash at bank and in hand		125,363		275,395
		<u>2,677,373</u>		<u>2,294,865</u>
CREDITORS: Amounts falling due within one year	15	4,791,779		3,808,080
NET CURRENT LIABILITIES			<u>(2,114,406)</u>	<u>(1,513,215)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			1,222,110	1,045,642
CREDITORS: Amounts falling due after more than one year	16		38,047	50,138
			<u>1,184,063</u>	<u>995,504</u>
CAPITAL AND RESERVES				
Called up share capital	17		1,000	1,000
Profit and loss account	18		1,183,063	994,504
EQUITY SHAREHOLDERS' FUNDS	19		<u>1,184,063</u>	<u>995,504</u>

These financial statements were approved by the Board of Directors on 16 October 1998.


.....Director


.....Director

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 1998

1 ACCOUNTING POLICIES

a) **Accounting Convention**

The financial statements have been prepared under the historical cost convention.

b) **Intangible Fixed Assets**

Amortisation is calculated so as to write off the cost of an asset over its expected economic life as follows:

Goodwill 5% per annum straight line

c) **Tangible Fixed Assets**

Depreciation is provided at rates calculated to write off the cost, less any estimated residual value, of each asset over its expected useful life as follows:-

Heritable property	2% per annum straight line
Leasehold property	over term of lease
Fixtures & fittings	10% per annum straight line
Computer equipment	20% per annum straight line
Motor vehicles	25% per annum reducing balance

d) **Investments**

Investments held as fixed assets are stated at cost less provision for permanent diminution in value.

e) **Stock**

Stock is valued at the lower of cost and net realisable value.

f) **Deferred Taxation**

Deferred taxation is provided at the anticipated tax rates payable on differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS - Continued

YEAR ENDED 31 MARCH 1998

1 ACCOUNTING POLICIES - Continued

g) Leased Assets

Assets held under hire purchase and finance lease agreements and the related obligations are recorded in the balance sheet at the fair value of the assets at the inception of the agreements. The excess of payments over the recorded obligations are treated as finance charges which are charged to the profit and loss account over the period of the agreement and represents a constant proportion of the balance of capital outstanding.

Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the periods of the leases.

h) Pension Costs

The company is a member of the group defined contribution pension scheme. Contributions are charged to the profit and loss account as they become payable, in accordance with the rules of the scheme.

2 TURNOVER

Turnover represents the total invoice value, excluding value added tax, of goods sold during the year.

3 INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	£	1997 £
Wages and salaries	1,354,705	1,159,047
Social security	118,305	99,080
Pension costs	32,732	27,448
	-----	-----
	1,505,742	1,285,575
	=====	=====
	No	No
Average number of persons employed:		
Sales and distribution	127	107
Administration	8	8
	-----	-----
	135	115
	=====	=====
	£	£
Directors' emoluments		
Emoluments	191,278	208,113
Pension costs	13,776	12,915
	-----	-----
	205,054	221,028
	=====	=====
Number of directors accruing benefits under the pension scheme:	No	No
	4	4
	=====	=====

DONALD MUNRO LIMITED

NOTES TO THE FINANCIAL STATEMENTS - Continued

YEAR ENDED 31 MARCH 1998

4 PENSION COSTS

The assets of the group pension scheme are held separately from those of the group in an independently administered fund.

Contributions made by the company to the scheme during the year amounted to £32,732 (1997 - £27,448). No contributions were payable to the fund at the year end (1997 - £Nil).

5 INCOME FROM SHARES IN RELATED COMPANIES

	£	1997 £
Unlisted investments	56,000 =====	36,800 =====

6 INTEREST PAYABLE AND SIMILAR CHARGES

	£	1997 £
Finance lease and hire purchase interest	4,409 =====	5,189 =====

7 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	£	1997 £
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Auditors' remuneration	12,000	8,820
Non audit services	2,500	-
Amortisation	117,455	117,455
Depreciation:		
- owned assets	81,959	65,985
- leased assets	32,792	25,730
Gain on sale of fixed assets	(160)	(10,037)
Operating leases	187,744 =====	194,368 =====

DONALD MUNRO LIMITED

NOTES TO THE FINANCIAL STATEMENTS - Continued

YEAR ENDED 31 MARCH 1998

8 TAX ON PROFIT ON ORDINARY ACTIVITIES

	£	1997 £
Corporation tax on profit for the year at 31% (1997 - 30%)	156,700	52,772
Deferred tax	-	(4,000)
Overprovision in previous year	(3,506)	-
	<u>153,194</u>	<u>48,772</u>

9 DIVIDENDS

	£	1997 £
Interim dividend of £80.16 per share (1997 - £80.16)	<u>80,160</u>	<u>80,160</u>

10 INTANGIBLE FIXED ASSETS

	Goodwill £
Cost	
At 1 April 1997 and at 31 March 1998	<u>2,379,286</u>
Amortisation	
At 1 April 1997	282,634
Charge for year	117,455
	<u>400,089</u>
At 31 March 1998	
Net Book Value	
At 31 March 1998	<u>1,979,197</u>
At 31 March 1997	<u>2,096,652</u>

DONALD MUNRO LIMITED

NOTES TO THE FINANCIAL STATEMENTS - Continued

YEAR ENDED 31 MARCH 1998

11 TANGIBLE FIXED ASSETS

	Heritable Property £	Leasehold Property £	Fixtures & Fittings £	Computer Equipment £	Motor Vehicles £	Total £
Cost						
At 1 April 1997	32,692	192,064	388,721	19,350	258,355	891,182
Additions	-	-	80,081	9,238	66,580	155,899
Disposals	-	-	-	(2,681)	(50,088)	(52,769)
Transfer on acquisition	104,861	-	48,306	-	12,434	165,601
At 31 March 1998	137,553	192,064	517,108	25,907	287,281	1,159,913
Depreciation						
At 1 April 1997	1,300	144,707	257,502	9,669	115,822	529,000
Charge for year	654	26,841	29,535	4,486	53,235	114,751
On disposals	-	-	-	(967)	(35,650)	(36,617)
Transfer on acquisition	21,285	-	37,996	-	8,500	67,781
At 31 March 1998	23,239	171,548	325,033	13,188	141,907	674,915
Net book value						
At 31 March 1998	114,314	20,516	192,075	12,719	145,374	484,998
At 31 March 1997	31,392	47,357	131,219	9,681	142,533	362,182

The net book value of assets held under finance lease and hire purchase contracts at 31 March 1998 amounted to £84,049 (1997 - £104,830).

DONALD MUNRO LIMITED

NOTES TO THE FINANCIAL STATEMENTS - Continued

YEAR ENDED 31 MARCH 1998

12 INVESTMENTS

Cost	£
At 1 April 1997	100,023
Additions	772,298

At 31 March 1998	872,321
	=====

The company holds 20% or more of the equity of the following companies:-

Name of Company	Country of Incorporation	Activity	Proportion of Ordinary Shares Held
Bridgeton H C Limited	Scotland	Health Centre	40%
Woodside Pharmacy (Glasgow) Limited	Scotland	Health Centre	25%
Maryhill Dispensary Limited	Scotland	Health Centre	25%
Surgiscot Limited	Scotland	Dormant	100%

The entire issued share capital of Surgiscot Limited was acquired on 1 December 1997. On that date the trade and assets were transferred to Donald Munro Limited, and the company became dormant. In the directors' opinion the assets were transferred at their fair value.

On 1 February 1998, Strathclyde (Pharmaceuticals) Limited, the ultimate parent undertaking acquired the entire issued share capital of James Carmichael (Chemists) Limited. At this time the trade and assets of James Carmichael (Chemists) Limited were transferred to Donald Munro Limited and the company became dormant. In the directors' opinion the assets were transferred at their fair value.

In the opinion of the directors of the company, the aggregate value of the investments is not less than the amounts at which these are stated in the financial statements.

The company is not required to prepare group accounts under section 228 of the Companies Act 1985 as it is a subsidiary of Strathclyde (Pharmaceuticals) Limited, a company incorporated in Scotland, for which group accounts are prepared.

13 STOCK

	£	1997
	£	£
Goods for resale	1,116,989	1,027,518
	-----	-----

DONALD MUNRO LIMITED

NOTES TO THE FINANCIAL STATEMENTS - Continued

YEAR ENDED 31 MARCH 1998

14 DEBTORS

	£	1997 £
Trade debtors	1,402,485	987,165
Other debtors and prepayments	32,536	4,787
	<u>1,435,021</u>	<u>991,952</u>
	=====	=====

15 CREDITORS: Amounts falling due within one year

	£	1997 £
Bank overdraft	843,839	-
Trade creditors	215,216	79,215
Corporation tax	156,700	56,141
Other creditors and accruals	236,811	55,980
Obligations under finance lease and hire purchase contracts	40,253	43,199
Amounts owed to group companies	3,298,960	3,573,545
	<u>4,791,779</u>	<u>3,808,080</u>
	=====	=====

The bank overdraft is secured by a floating charge over the assets of the company.

16 CREDITORS: Amounts falling due after more than one year

	£	1997 £
Obligations under finance lease and hire purchase contracts	38,047	50,138
	<u>38,047</u>	<u>50,138</u>
	=====	=====

Obligations under finance lease and hire purchase contracts are secured by the related assets. All amounts due are repayable within five years.

17 SHARE CAPITAL

	£	1997 £
Authorised		
Ordinary shares of £1 each	10,000	10,000
	<u>10,000</u>	<u>10,000</u>
	=====	=====
Allotted, called up and fully paid		
Ordinary shares of £1 each	1,000	1,000
	<u>1,000</u>	<u>1,000</u>
	=====	=====

DONALD MUNRO LIMITED

NOTES TO THE FINANCIAL STATEMENTS - Continued

YEAR ENDED 31 MARCH 1998

18 RESERVES

	Profit and Loss Account £
At 1 April 1997	994,504
Retained profit for year	188,559

At 31 March 1998	1,183,063
	=====

19 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	£	1997 £
Profit for the financial year	268,719	24,098
Dividends	(80,160)	(80,160)
	-----	-----
	188,559	(56,062)
Opening shareholders' funds	995,504	1,051,566
	-----	-----
Closing shareholders' funds	1,184,063	995,504
	=====	=====

20 OPERATING LEASE COMMITMENTS

Financial commitments under non-cancellable operating leases will result in the following payments falling due in the year to 31 March 1999.

	£	1997 £
Land and buildings		
Expiring:		
After five years	147,100	146,163
	=====	=====

21 CROSS GUARANTEES

The company has entered into cross guarantees to the group's bank in respect of the borrowings of its parent and fellow subsidiaries. At 31 March 1998, the total contingent liability in respect of group borrowings was £2,350,845 (1997 - £8,477,392).

22 ULTIMATE PARENT UNDERTAKING

The company's ultimate parent undertaking is Strathclyde (Pharmaceuticals) Limited a company registered in Scotland. It has included the company in its group accounts.

23 TRANSACTIONS WITH RELATED PARTIES

As stated in Note 22 the company is a subsidiary of Strathclyde (Pharmaceuticals) Limited. The company has therefore taken advantage of the exemptions available under Financial Reporting Standard Number 8 with regard to the non-disclosure of transactions between group companies.