



THE BOOTS COMPANY

Registration
Number
928555

BOOTS THE CHEMISTS LIMITED

DIRECTORS' REPORT

and

FINANCIAL STATEMENTS

YEAR ENDED 31ST MARCH 2002



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Registration
No: 928555

BOOTS THE CHEMISTS LIMITED

Board of Directors

Year ended 31st March 2002

Directors:

C A Baldwin
A D Emson
D A Kneale
P G Matthews
K S Piggott
J S Sinclair
D A Stead

Secretary:

Sonia Fennell

Registered Office:

Nottingham, NG2 3AA

BOOTS THE CHEMISTS LIMITED

Directors' Report

Year ended 31st March 2002

The directors present their annual report together with the audited financial statements for the year ended 31st March 2002.

Principal activities

The company's principal activities during the year were dispensing and retail chemists.

Review of the business

Boots The Chemists (BTC) delivered a satisfactory performance with operating profit up 4.6% to £369.0m before exceptional operating costs of £5.0m relating to the cost reduction programme and leisure exit. This result was underpinned by higher margins led by a change in mix and effective cost control. Turnover increased by 1.2% to £4,024m.

Strategy

BTC's customer appeal is founded on the trust and heritage of the Boots brand, broad customer choice, innovative own brands and exclusives, and expert service and advice. Building on our unrivalled understanding of consumers' health and beauty needs, reinforced by analysis of Advantage Card data, we are increasingly focused on achieving leadership in wellbeing.

Sales and margin

For the year as a whole, sales were up 1.2%. Growth in health and beauty was particularly strong – driven by the premium product areas – and we continue to gain market share.

There were strong performances from premium cosmetics with sales up 24.8%, in addition skincare and electrical beauty grew by 10.5% and 11.0% respectively.

Our gross margin continued to grow, importantly, this was not the result of price inflation – it was entirely due to cost control, the exit from leisure and the growing contribution of higher margin brands.

Key Boots brands such as No7 and Botanics – and the exclusive product ranges we develop with brand owners such as TONI&GUY, Liz Collinge and fcuk – improve the sales mix and strengthen our differentiation from other health and beauty retailers. Over the year, their contribution to health and beauty sales rose from 7.2% to 8%.

Meanwhile, our withdrawal from non-core leisure merchandise is progressing as planned: sales in this category fell by 40% over the year and now account for only a minimal 2.1% of total BTC turnover.

Resale Price Maintenance (RPM) on over-the-counter medicines was abolished in May 2001. This was expected to reduce profits by the full-year equivalent of £10-15m through the combined effects of keener pricing and sales lost to discounters. In the event, the impact was considerably smaller. This reflected the resilience of BTC's overall offer in the face of supermarket price competition, with the impact of RPM abolition appearing to fall mainly on independent chemists.

BOOTS THE CHEMISTS LIMITED

Directors' Report

Year ended 31st March 2002

Advantage Card

The Advantage Card scheme continues to give us a crucial edge in understanding our customers, helping us to recognise and reward the most important ones. With 13m members, it is linked with half of BTC sales. Both membership and usage received a further boost from the relaunch of the card in April 2002, when we introduced new member benefits. We also began awarding points for healthcare products, to broaden our understanding of customers in this area.

Products

Major brand launches during the year included Botanics Cosmetics, Detox and Time Delay. We also relaunched Natural Collection with great success. Our ability to refresh and revitalise established ranges is a key factor in our track record of creating and building long-term brands.

Store development

As we work to reinforce Boots' standing as the leading brand in health and beauty, we are aware that rather more of our stores than we would wish are in need of refurbishment. Work on improvements has already begun and over the next four years we plan to bring all of our retail estate into step with our latest customer offer.

We are currently testing new store formats designed to enhance our customer offer while enabling us to cut costs by simplifying merchandising and supply chain operations. The new formats have been introduced at 23 stores in Reading, Oxford, Swindon and South Yorkshire areas. We are using the lessons learnt from these stores to guide our store reinvigoration programme.

We continue to open new stores in edge of town locations where we can find suitable sites: during the year we opened five more, bringing the total to 75. Good sites are increasingly hard to obtain, and we have been looking for ways to broaden our edge of town representation more rapidly. During the year we opened trial Boots implants in six Sainsbury's superstores, offering pharmacy and a wide range of health and beauty products. These trials are continuing, and we are opening a further three stores this summer.

Pure Beauty

During the year we opened six Pure Beauty stores, which offer premium skincare and cosmetics ranges in a stylish and exciting environment. We are encouraged by their progress and will be opening a further store later this year.

Customer service

For the past three years BTC has maintained a highly effective cost reduction programme, aimed at cutting annual costs by some £160m. By the end of the year BTC had met its target. This has been achieved without adverse impacts on customer service or on-shelf availability.

BOOTS THE CHEMISTS LIMITED

Directors' Report

Year ended 31st March 2002

Outlook

This year sales will benefit from an outstanding programme of new product launches, building momentum in the run-up to Christmas, as well as the cumulative impact of store reinvigoration. To support these developments we will be focusing attention on lifting on-shelf availability and improving customer service standards. We are confident that 2002 will further enhance BTC's standing as the UK's leading health and beauty retailer.

Profit, dividends and retentions

Details of profit, dividends and retentions are shown in the profit and loss account on page 8. The directors propose a final dividend of £200.0m (2001: £683.0m) to be paid on 27th May 2002.

Payment to suppliers

The Boots Company PLC is a signatory of the Better Payment Practice Code and BTC complies with the terms of this code. 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 day's purchases outstanding at 31st March 2002 was 25 days.

Fixed assets

The company's leasehold properties were valued by directors, in conjunction with the group's own professionally qualified staff, at 31st March 1993. The valuation, which was an open market value basis for existing use, was incorporated in the financial statements of that year. The directors are of the opinion that the market value of the company's properties at 31st March 2002 was not materially different from that given in the financial statements.

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; on which there are three group employee representatives of The Boots Company PLC 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.

BOOTS THE CHEMISTS LIMITED

Directors' Report

Year ended 31st March 2002

Directors

The details of directors in office on 31st March 2002 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

J S Sinclair

D A Kneale

Date

7th June 2001

28th January 2002

Resignations

P J Shotter


Date

21st December 2001

Remuneration of directors and directors' shareholding

Details of the remuneration and shareholdings of the directors are included in notes 18 and 19 on pages 23 to 26.

By order of the board



S Fennell
Secretary

29 MAY 2002

Date

BOOTS THE CHEMISTS LIMITED
Directors' responsibilities statement
Year ended 31st March 2002

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the profit or loss for the financial year and of the state of affairs of the company at the end of that period. The directors are of the opinion that suitable accounting policies have been used and applied consistently, applicable accounting standards have been followed, and reasonable and prudent judgements and estimates have been made. The financial statements have been prepared on a going concern basis. The directors have a responsibility to ensure that the company has suitable internal controls for maintaining adequate 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 responsibilities for taking such steps that are reasonably open to them for safeguarding the assets of the company, and for preventing and detecting fraud and other irregularities.

BOOTS THE CHEMISTS LIMITED

Independent Auditors' Report

Year ended 31st March 2002

Independent Auditors' Report to the members of Boots The Chemists Limited.

We have audited the financial statements on pages 8 to 27.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 6, 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 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 affairs of the company as at 31st March 2002 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

31 May 2002
Date

BOOTS THE CHEMISTS LIMITED

Profit and Loss Account

Year ended 31st March 2002

	Notes	2002 £m	Restated* 2001 £m
Turnover	2	4,024.3	3,976.0
Cost of sales		(2,592.2)	(2,587.5)
Gross profit		1,432.1	1,388.5
Operating costs	3	(1,068.1)	(1,039.1)
Operating profit		364.0	349.4
Loss on disposal of fixed assets		(1.1)	(2.5)
Provision against investments		(0.4)	(17.2)
Provision against current accounts		-	0.1
Income from shares in subsidiary undertakings		10.1	4.6
Profit on ordinary activities before interest		372.6	334.4
Net interest	4	(0.6)	(0.9)
Profit on ordinary activities before taxation		372.0	333.5
Tax on profit on ordinary activities	5	(113.7)	(114.8)
Profit on ordinary activities after taxation and profit for the financial year attributable to shareholders		258.3	218.7
Dividends proposed		(200.0)	(683.0)
Retained profit/(loss) for the financial year		58.3	(464.3)

*Restated on adoption of FRS 19 (see note 13).

The result for the year is wholly attributable to the continuing operations of the company. In addition, Boots The Chemists acquired a number of pharmacy businesses during the year. The impact of these acquisitions on the company's operating profit is not material.

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

BOOTS THE CHEMISTS LIMITED
Statement of Total Recognised Gains and Losses
Year ended 31st March 2002

	2002 £m	Restated* 2001 £m
Profit for the financial year attributable to shareholders	<u>258.3</u>	<u>218.7</u>
Total recognised gains and losses for the year	<u>258.3</u>	<u>218.7</u>
Prior year adjustment in respect of adoption of FRS 19	(56.1)	
Total recognised gains and losses	<u><u>202.2</u></u>	

*Restated on adoption of FRS 19 (see note 13).

BOOTS THE CHEMISTS LIMITED
Reconciliation of Movements in Shareholders' Funds
Year ended 31st March 2002

	2002 £m	Restated* 2001 £m
Profit for the financial year attributable to shareholders	258.3	218.7
Dividends	(200.0)	(683.0)
Net increase/(decrease) in shareholders' funds	58.3	(464.3)
Opening shareholders' funds (restated)	654.0	1,118.3
Closing shareholders' funds	712.3	654.0

*Restated on adoption of FRS 19 (see note 13).

BOOTS THE CHEMISTS LIMITED

Balance Sheet

At 31st March 2002

	Notes	2002 £m	Restated* 2001 £m
Fixed assets			
Intangible assets	6	9.5	9.6
Tangible assets	7	544.3	568.7
Investments	8	214.4	215.6
		<u>768.2</u>	<u>793.9</u>
Current assets			
Stocks	9	281.0	289.3
Debtors falling due within one year	10	237.0	190.8
Debtors falling due after more than one year	10	344.7	448.2
Cash at bank and in hand		59.1	7.2
		<u>921.8</u>	<u>935.5</u>
Creditors: Amounts falling due within one year	11	(841.5)	(964.7)
Net current assets/(liabilities)		<u>80.3</u>	<u>(29.2)</u>
Total assets less current liabilities		848.5	764.7
Creditors: Amounts falling due after more than one year	12	(53.0)	(34.6)
Provision for liabilities and charges	13	(83.2)	(76.1)
Net assets		<u>712.3</u>	<u>654.0</u>
Capital and reserves			
Called up share capital	14,15	709.7	709.7
Profit and loss account	15	2.6	(55.7)
Equity shareholders' funds		<u>712.3</u>	<u>654.0</u>

*Restated on adoption of FRS 19 (see note 13).

The financial statements were approved by the Board of Directors on
and are signed on its behalf by: *SOMERMAN SINCLAIR*

30 May 2002



Director

BOOTS THE CHEMISTS LIMITED
Notes to the Financial Statements
Year ended 31st March 2002

1. Accounting policies

The following accounting policies have been used in dealing with items which are considered material in relation to the financial statements.

Basis of accounting

The financial statements have been prepared in accordance with applicable accounting standards and under alternative accounting rules set out in Schedule 4 of the Companies Act 1985, being prepared under the historical cost convention adjusted by revaluations of certain properties.

During the year, three new Financial Reporting Standards (FRSs) became effective for this year's financial statements: FRS 17 'Retirement Benefits', FRS18 'Accounting Policies' and FRS19 'Deferred Tax'. The transitional disclosures required by FRS 17 are included in note 20 and within the financial statements of The Boots Company PLC. The adoption of FRS 18 has had no effect on the results for the year nor is any restatement of prior year comparatives required. For the effects of FRS 19 and deferred tax policy see below.

A cash flow statement has not been presented in the financial statements of the company as permitted by paragraph 5a of the revised Financial Reporting Standard 1.

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 in the normal course of trading are taken to the profit and loss account.

Fixed assets and depreciation

Depreciation of tangible fixed assets is provided to write-off the cost or valuation, less residual value, by equal instalments over their expected economic usefulness.

Long leasehold shops with physical lives of more than 50 years are depreciated to their estimated residual values over their economic useful lives of not more than 50 years. Other tangible fixed assets are written off by equal instalments over their expected useful lives as follows:

Computer equipment	3 to 8 years
Motor cars	4 to 5 years
Fixtures and plant	3 to 20 years
Short leasehold properties	Remaining period of lease when less than 50 years

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

Stock

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

BOOTS THE CHEMISTS LIMITED
Notes to the Financial Statements
Year ended 31st March 2002

1. Accounting policies (continued)

Pensions

The company participates in a group wide 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.

Deferred tax

Deferred tax 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 at the balance sheet date. This is in accordance with FRS 19, the effects of which have been adopted in this year's financial statements and the comparative figures have been restated accordingly - see note 13.

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.

Goodwill

Goodwill on acquisitions, comprises the excess of the cost of investment over the fair value of the net assets acquired. Fair values are attributed to the identifiable assets and liabilities that existed at the date of acquisition, reflecting their condition at that date.

Goodwill arising on acquisitions prior to 1st April 1998 has been set off against reserves. For subsequent acquisitions goodwill is recognised within fixed assets in the year in which it arises and amortised on a straight line basis over its useful economic life, generally not exceeding 20 years. The carrying value of goodwill is reviewed annually and any impairment in value charged to the profit and loss account.

BOOTS THE CHEMISTS LIMITED
Notes to the Financial Statements
Year ended 31st March 2002

2. Turnover

Turnover comprises retail sales to external customers (excluding value added tax and other sales taxes).

3. Operating costs	2002	2001
	£m	£m
Selling, distribution and branch costs	950.0	919.3
Administrative expenses	118.1	119.8
Operating costs	1,068.1	1,039.1

Operating profit shown on page 8 is after charging

Operating lease rentals		
- Property rents	192.2	181.5
- Computer and plant hire	1.7	1.8
Depreciation and amortisation of fixed assets	75.7	77.6
Remuneration of auditors – Audit fees	0.1	0.1
QUEST	1.0	1.5
Operating Exceptionals		
- Restructuring costs	5.0	3.4

4. Net interest	2002	2001
	£m	£m
Interest receivable:		
From group company	5.5	5.9
Other interest	0.1	0.4
	5.6	6.3

Interest payable and similar charges:

Bank loans and overdrafts wholly repayable within 5 years	(0.1)	(0.1)
Finance leases	(0.2)	(0.3)
Other interest	(0.4)	(0.9)
To group undertaking	(5.5)	(5.9)
	(6.2)	(7.2)
	(0.6)	(0.9)

BOOTS THE CHEMISTS LIMITED
Notes to the Financial Statements
Year ended 31st March 2002

5. Tax on profit on ordinary activities	2002	Restated*
	£m	2001 £m

The tax charge on the profit for the year consists of:

Current taxation

UK corporation tax	106.3	89.6
Adjustment in respect of prior years	(2.2)	0.2
Total current tax	104.1	89.8

Deferred tax

Origination and reversal of timing differences	9.6	25.0
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Tax on profits on ordinary activities	113.7	114.8
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* Adoption of FRS 19 has required a change in method of accounting for deferred tax. As a result the comparative figure for the tax on profit on ordinary activities for 2001 has been restated from the previously reported amount of £103.7m to £114.8m. The impact of adopting FRS 19 on the 2002 results is an increase to the tax charge of £3.1m.

Reconciliation of current tax charge

The standard rate of tax for the year, based on the UK standard rate of corporation tax, is 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.

	2002	2001
	£m	£m
Profit on ordinary activities before tax	372.0	333.5
UK standard rate of corporation tax at 30%	111.6	100.1
Factors affecting charge for the year:		
Capital allowances for the period in excess of depreciation	(2.7)	(5.4)
Changes in pension fund prepayment	(6.0)	(13.1)
Other timing differences	1.2	(0.1)
Disallowable expenses	5.1	4.5
Dividends from UK companies	(3.0)	(1.5)
Provision against investments in and current accounts with subsidiary undertakings	0.1	5.1
Prior year adjustments	(2.2)	0.2
Total current tax charge for the year	104.1	89.8

BOOTS THE CHEMISTS LIMITED
Notes to the Financial Statements
Year ended 31st March 2002

6. Intangible fixed assets	Purchased goodwill £m
Cost	
At 1st April 2001	10.5
Purchase of pharmacies	0.5
Disposal of pharmacies	(0.1)
At 31st March 2002	10.9
Amortisation	
At 1st April 2001	0.9
Charge for the year	0.5
At 31st March 2002	1.4
Net book value at 1st April 2001	9.6
Net book value at 31st March 2002	9.5

BOOTS THE CHEMISTS LIMITED
Notes to the Financial Statements
Year ended 31st March 2002

7. Tangible fixed assets	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
Cost or valuation					
At 1st April 2001	19.7	60.1	975.0	11.0	1,065.8
Additions	0.1	6.1	40.6	11.1	57.9
Disposals	(0.4)	(4.8)	(22.4)	-	(27.6)
Reclassifications and transfers	0.2	-	9.3	(11.0)	(1.5)
At 31st March 2002	19.6	61.4	1,002.5	11.1	1,094.6
Depreciation					
At 1st April 2001	6.0	21.2	469.9	-	497.1
Charge for the year	1.0	9.9	64.3	-	75.2
Disposals	(0.1)	(2.9)	(15.7)	-	(18.7)
Reclassifications and transfers	-	(0.1)	(3.2)	-	(3.3)
At 31st March 2002	6.9	28.1	515.3	-	550.3
Net book value at 1st April 2001	13.7	38.9	505.1	11.0	568.7
Net book value at 31st March 2002	12.7	33.3	487.2	11.1	544.3
				2002 £m	2001 £m
Net book value of land and buildings comprises:					
Short leasehold				12.7	13.7

The cost of plant and machinery includes £4.5m (2001: £5.2m) in respect of assets held under finance leases on which accumulated depreciation at the end of the year was £1.6m (2001: £1.7m) and for which the depreciation charge for the year was £1.0m (2001: £1.1m).

BOOTS THE CHEMISTS LIMITED
Notes to the Financial Statements
Year ended 31st March 2002

8. Fixed asset investments	Shares in subsidiary undertakings £m	Loans to subsidiary undertakings £m	Total £m
Cost			
At 1st April 2001	134.3	109.8	244.1
Additions	-	0.8	0.8
Disposals	-	(19.1)	(19.1)
Currency adjustments	-	(0.1)	(0.1)
At 31st March 2002	134.3	91.4	225.7
Provision			
At 1st April 2001	11.3	17.2	28.5
Movement	-	0.4	0.4
Disposals	-	(17.6)	(17.6)
At 31st March 2002	11.3	-	11.3
Net book value at 1st April 2001	123.0	92.6	215.6
Net book value at 31st March 2002	123.0	91.4	214.4

	Incorporated in	Ordinary Shares Percentage owned %	Principal activities	Last financial year ended
Boots Stores Ltd	Great Britain*	100	Management	31st March 2002
Hammond and Hammond Ltd	Great Britain*	100	Inactive	31st March 2002
Seawade Ltd	Great Britain*	100	Inactive	31st March 2002
SCM Ltd	Republic of Ireland	100	Holding company	31st March 2002
Metcalfe – Proud Ltd	Great Britain*	100	Inactive	31st March 2002
Connors Holdings Ltd	Northern Ireland	100	Holding company	31st March 2002
Boots Dentalcare Ltd	Great Britain*	100	Dentistry	31st March 2002
A B Arnott Ltd	Great Britain*	100	Inactive	31st March 2002
Newpast Ltd	Great Britain*	100	Inactive	31st March 2002
Boots The Chemists (Jersey) Ltd	Jersey	100	Dispensing Chemist	31st March 2002
The Centre for the Study of Complementary Medicine Ltd	Great Britain*	100	Inactive	31st March 2002
Boots Card Handling Ltd	Great Britain*	100	Provides card handling services to customers of Boots	31st March 2002
Boots Health & Beauty Ltd	Great Britain*	100	Health & Beauty services	31st March 2002
Prouds Lane Pharmacy Ltd	Great Britain*	100	Inactive	31st March 2002
Canton and Riverside Centre Ltd	Great Britain*	100	Inactive	31st March 2002
Portland Ceramics Ltd	Great Britain*	100	Dentistry	31st March 2002

*Registered in England and Wales

BOOTS THE CHEMISTS LIMITED
Notes to the Financial Statements
Year ended 31st March 2002

8. Fixed asset investments (continued)

	Incorporated In	Preference Shares Percentage Owned %	Principal activities	Last financial year ended
Boots Investments Ltd	Jersey	100	Investments	31st March 2002

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.

Group financial statements have not been prepared as permitted by section 228 (2) of the Companies Act 1985.

9. Stocks	2002 £m	2001 £m
Finished goods and goods for resale	<u>281.0</u>	<u>289.3</u>

10. Debtors	2002 £m	2001 £m
Falling due within one year:		
Trade debtors	154.4	129.7
Amounts owed by group undertakings	11.1	5.1
Other debtors	37.0	25.6
Prepayments and accrued income	34.5	30.0
Corporation tax	-	0.4
	<u>237.0</u>	<u>190.8</u>
Falling due after more than one year:		
Amounts owed by group undertakings	315.0	429.7
Other debtors	29.7	18.5
	<u>344.7</u>	<u>448.2</u>
Total debtors	<u>581.7</u>	<u>639.0</u>

BOOTS THE CHEMISTS LIMITED
Notes to the Financial Statements
Year ended 31st March 2002

11. Creditors: Amounts falling due within one year	2002	2001
	£m	£m
Debenture loans	1.1	18.8
Bank overdraft	1.1	72.4
Trade creditors	7.4	10.5
Amounts due to group undertakings	473.2	23.5
Corporation tax	50.4	53.1
Taxation and social security	39.0	38.7
Other creditors	40.7	38.9
Accruals and deferred income	27.4	24.6
Finance lease creditor	1.2	1.2
Proposed dividend	200.0	683.0
	<u>841.5</u>	<u>964.7</u>

12. Creditors: Amounts falling due after more than one year	2002	2001
	£m	£m
Debenture loans	5.1	1.6
Amounts due to group undertakings	32.1	21.0
Amounts due to joint ventures	8.6	2.3
Accruals and deferred income	5.5	7.5
Finance leases	1.7	2.2
	<u>53.0</u>	<u>34.6</u>

The amounts owed to group undertakings are not interest bearing and no specific repayment terms exist.

Obligations under finance leases	2002	2001
	£m	£m
Within one year	1.2	1.2
Within one to two years	1.0	1.4
Within two to five years	0.7	0.8
	<u>2.9</u>	<u>3.4</u>

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13. Provisions for liabilities and charges	Vacant property provisions £m	Deferred Taxation £m	Total £m
At 1st April 2001	7.8	12.2	20.0
Prior year adjustment (see note below)	-	56.1	56.1
Restated	7.8	68.3	76.1
Profit and loss account	(1.2)	9.6	8.4
Utilised	(1.3)	-	(1.3)
At 31st March 2002	5.3	77.9	83.2

The vacant property provision represents recognition of 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.

	2002 £m	2001 £m
Analysis of deferred tax liability:		
Accelerated capital allowances (restated – see note below)	59.2	56.1
Pension prepayment	18.3	12.3
Other timing differences	0.4	(0.1)
	77.9	68.3

Capital losses of £8.0m (2001: £8.3m) are available for offset against any future chargeable gains arising in this company or across the group.

Prior year adjustment

The prior year adjustment arises due to deferred tax being provided using the full provision method rather than the partial provision approach, in accordance with Financial Reporting Standard 19 'Deferred Tax'. The effect has been to reduce profit after tax by £3.1m (2001: £11.1m) and to decrease net assets by £59.2m (2001: £56.1m).

14. Called up share capital	2002 £m	2001 £m
Ordinary shares of £1 each:		
Authorised, allotted, called up and fully paid	709.7	709.7

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15. Share capital and reserves	Called up Share Capital £m	Profit and Loss Account £m	Total £m
At 1st April 2001	709.7	0.4	710.1
Prior year adjustment of deferred taxation	-	(56.1)	(56.1)
Restated	709.7	(55.7)	654.0
Profit retained	-	58.3	58.3
At 31st March 2002	709.7	2.6	712.3

16. Commitments

a) Future capital expenditure approved by the directors and not provided for in these financial statements is as follows:	2002 £m	2001 £m
Contracts placed	7.5	36.2

b) Annual commitments under operating leases at 31st March 2002 are as follows:	Land and buildings £m	Other assets £m
Expiring:		
Within one year	2.9	-
Over one year and less than five years	15.0	1.2
Over five years	166.1	-
	184.0	1.2

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17. Staff numbers and cost		
	2002	2001
The average number of people employed by the company during the year was:	<u>51,250</u>	<u>55,073</u>
	2002	2001
	£m	£m
The aggregated payroll cost was as follows:		
Wages and salaries	449.5	449.9
Social security costs	24.9	25.7
Other pension costs	2.5	2.6
	<u>476.9</u>	<u>478.2</u>
18. Directors' remuneration		
	2002	2001
	£m	£m
i) Directors' emoluments for services to the company	1.1	0.9
ii) Monies received from long term bonus schemes	-	-
iii) (a) The remuneration of the highest paid director, excluding pension contributions	0.2	0.2
(b) (i) Increase in accrued pension during the year, including inflation	-	-
(ii) Accumulated total accrued pension at year end	0.1	-
The highest paid director received and exercised share options during the year.		
	2002	2001
iv) Number of directors who are members of defined benefit pension schemes	7	6
v) Number of directors who had exercised options during the year (who are not directors of the ultimate holding company)	1	1

BOOTS THE CHEMISTS LIMITED
Notes to the Financial Statements
Year ended 31st March 2002

19. 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 2002 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 2002	Ordinary shares 2001	Ordinary shares under options 2002	Average option price 2002	Exercised during the year	Exercise price	Market Price at Date of exercise	Granted during the year	Ordinary shares under options 2001
C A Baldwin	88	88	6,299	594p	-	-	-	6,299	-
A D Emson	4,802	4,785	12,957	645.8p	-	-	-	9,920	3,037
D A Kneale	855	855*	-	-	-	-	-	-	-
P G Matthews	11,905	6,472**	50,238	556.8p	3,556	485p	686p	20,238	33,556
J S Sinclair	5,261	4,159*	12,227	628.7p	-	-	-	9,523	2,704
D A Stead	7,780	7,076	23,554	624.1p	-	-	-	20,238	3,316

* At the date of appointment

** Restated

The market price of the ultimate holding company's shares at 31st March 2002 was 672.5p. The range of market prices during the year was 565p to 694.5p. Prices shown for options exercised during the year represent the weighted average of prices. The average option price for 2002 represents the weighted average price for options outstanding at 31st March 2002.

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

In previous years certain directors were granted options to subscribe for ordinary shares in The Boots Company PLC under an executive share options scheme. Such options are exercisable up to February 2005 at option prices ranging from 437p to 531p.

Certain directors were granted options to subscribe for ordinary shares in The Boots Company PLC under an executive share options scheme. These options become exercisable 3 years after grant if the performance target is met. Such options are exercisable up to 10 years from grant at option prices of 630p and 594p.

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19. Directors' shareholdings and share options (continued)

The table below shows the number of shares in The Boots Company PLC (the ultimate holding company) over which certain directors have been granted conditional rights under the Long Term Bonus scheme operated by The Boots Company PLC. 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 is paid in cash and half is converted into an equivalent number of shares. The individual will normally become entitled to receive those shares only after remaining employed for a further three years for all schemes up to and including that which commenced in 1997. For schemes which commenced thereafter, the individual becomes entitled to receive those shares immediately after grant.

Ordinary shares conditional awards					
	31st March 2002	Exercised during the year	Lapsed during the year	Granted during the year	31st March 2001
Long Term Bonus scheme					
C A Baldwin	2,360	-	-	-	2,360
A D Emson	3,908	-	-	-	3,908
P G Matthews	9,914	3,084	-	-	12,998
J S Sinclair	5,644	1,548	-	-	7,192*
D A Stead	6,130	1,128	-	-	7,258

* At the date of appointment

The table below shows the number of shares in The Boots Company PLC (the ultimate holding company) that have been conditionally awarded to certain directors under The Boots Company All Employee Share Ownership Plan 2000. The employee will normally become unconditionally entitled to these shares after remaining employed for three years from the date the award is made.

Conditional entitlement award under the All Employee Share Ownership Plan 2000			
	31st March 2002	Awarded during the year	31st March 2001
C A Baldwin	42	-	42
A D Emson	59	-	59**
P G Matthews	42	-	42
J S Sinclair	42	-	42*
D A Stead	42	-	42

* At the date of appointment

** Restated

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19. Directors' shareholdings and share options (continued)

As a potential beneficiary, each director is deemed to have an interest in a total of 18,229,074 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 Boots Company's All Employee Share Ownership Plan 2000).

20. 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 2002 the scheme had a surplus on an FRS 17 basis of £166m before tax.

Details of the most recent actuarial valuation and FRS 17 disclosures at 1st April 2001 can be found in the financial statements of The Boots Company PLC.

21. Contingent liability

The company has given its bankers the right to set off credit balances on its current accounts against amounts owed by its parent and fellow UK subsidiaries. At 31st March 2002 the contingent liability was £48.7m (2001: £nil).

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22. Ultimate holding company

The company's immediate and ultimate holding company (which is also the ultimate controlling party) is The Boots Company 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 The Boots Company PLC.

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

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.