



THE BOOTS COMPANY

Registration
Number
928555

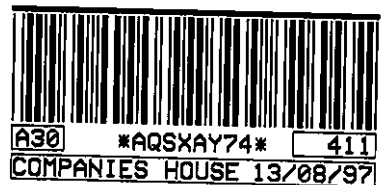
BOOTS THE CHEMISTS LIMITED

DIRECTORS' REPORT

and

FINANCIAL STATEMENTS

YEAR ENDED 31ST MARCH 1997



BOOTS THE CHEMISTS LIMITED

Board of Directors

Year ended 31st March 1997

Directors:

S G Russell (Chairman and Managing Director)

C A Baldwin, MRPharmS.

P L M Davies, MRPharmS.

P Joyce, MRPharmS.

P G Matthews, FCA

R M Scribbins, FIClog

Secretary:

Sonia Fennell

Registered Office:

Nottingham, NG2 3AA.

Registration
No: 928555

BOOTS THE CHEMISTS LIMITED

Directors' Report

Year ended 31st March 1997

The directors present their annual report together with the audited financial statements for the year ended 31st March 1997.

Principal activities

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

Review of the business

Boots The Chemists (BTC) had another good year. The impact of poor summer weather, which reduced suncare sales, was amply offset by good Christmas sales. With counter sales up 6.1 per cent and dispensing sales up 8.6 per cent, turnover grew 6.6 per cent overall. Gross margin increased by 0.3 percentage points and profits grew 11.2 per cent to £296.5 million.

Strategy BTC continues to improve performance by concentrating on three strategic objectives. First, it is differentiating its offer to consumers more sharply, focusing on beauty and healthcare and establishing Boots as the store to help customers look good and feel good. Secondly, it is continuing to expand its store portfolio in a variety of formats. Thirdly, it is seeking out profitable new growth initiatives, including new products and extensions of its activities in areas where the Boots name can add value.

People All BTC's business plans recognise that the availability of well motivated, trained, skilled and informed people throughout the business will be a critical factor in achieving these objectives. Programmes are already in place to ensure that the quality of BTC's people continues to be a major strength.

Store development In a very active year BTC opened 26 small stores, four large stores and five new edge of town stores. By the year-end BTC had opened 157 small stores in a planned 240-store expansion announced three years earlier. Recent research suggests that there is scope for even more than the total of 1,130 small stores currently envisaged. There are now eight large edge of town stores and these, too, have performed extremely well – generating customer traffic as destinations in their own right, without drawing business away from other Boots stores nearby. Other formats currently being tested include stores in hospitals – the first opened in Southampton in 1997 – and at motorway services – the first opened on the M6 north of Birmingham in 1997. Refurbishments include an improvement programme for Central London stores. The appearance of larger stores, both new and refitted, is being significantly enhanced by extension of the space devoted to premium cosmetics: these are an increasingly important part of the product mix.

International expansion BTC's first store outside the UK in recent times opened in Dublin in November 1996 and has been an outstanding success. A second store in the Republic of Ireland opened by the year end.

BOOTS THE CHEMISTS LIMITED

Directors' Report

Year ended 31st March 1997

Review of the business (continued)

New products Constant product innovation is part of a customer offer that integrates quality products, retail environments, service and advice. The relaunched No7 cosmetics range goes from strength to strength. Botanics was launched in 1995 with a skincare range – sales of which doubled in 1996/97 – and has grown into a £5 million brand embracing haircare, bath and body care and deodorants. Botanics for Men follows in 1997.

Among a total of almost 500 new own brand products launched during the year, the most successful healthcare introductions included condoms, daily vitamins and minerals, aromatherapy oils and herbal creams. New Boots branded dispensing medicines brought the total of Boots prescription generics to over 100.

Service Sales and administration tasks are being separated in stores, so that trained staff with sales skills are free to concentrate on customer service and selling. In larger stores BTC is achieving substantial sales increases by increasing the availability of specialists in areas such as skincare and dietary supplements where customers want personal advice.

Pharmacy Prescriptions dispensed grew 2.7 per cent in number and 8.6 per cent in value during the year, BTC maintaining its market share.

Boots believes that pharmacists have a major contribution to make in primary healthcare provision. BTC is working with professional bodies, the NHS and the Government to support the Royal Pharmaceutical Society's Pharmacy in a New Age initiative and help enhance the profession's consultative role.

BTC's Living with Asthma service is an excellent example of how community pharmacy can contribute to the nation's healthcare. Launched in October 1996, it gives information and advice to asthmatics and their families through leaflets, newsletters, a video and a children's book – and through personal advice at the pharmacy.

BTC actively opposes the proposed abolition of resale price maintenance (RPM) on over-the-counter medicines. This would be likely to reduce the number of pharmacies remaining in business and so undermine the profession's advisory contribution to the community. However, if RPM is abolished the impact on Boots would be broadly neutral.

Beauty and personal care Sales grew 7.8 per cent overall. Cosmetics rose almost 19 per cent, led by a further significant increase in No7 sales and good growth in the 17 teenage range. The cool summer depressed suncare sales, but BTC remains the UK's leading suncare retailer and Soltan is now the No1 brand. A good year for fine fragrances was bolstered by an excellent Christmas: in the three days of Christmas week, stores took an average week's sales every 2½ hours. Dental care is another strong growth market, and BTC is increasing its market share by combining product innovation with expert advice.

Healthcare Sales grew 8.4 per cent overall, with considerable impetus coming from strong growth in vitamins and supplements. Efforts to make pharmacists more accessible are helping to attract customers seeking advice on minor ailments. They also help to differentiate BTC from supermarkets. Boots is meeting growing demand for complementary medicine and alternative remedies through own brand products and a range of information leaflets.

BOOTS THE CHEMISTS LIMITED

Directors' Report

Year ended 31st March 1997

Review of the business (continued)

Other merchandise areas Gift sales returned to modest growth. New edge of town stores saw well above average sales intensity in gifts. Strong promotion strengthened BTC's market leadership in photo processing and the launch of the Advanced Photographic System helped raise camera sales by over 14 per cent. Food sales were boosted by an extended Shapers diet range, growing awareness of Boots as a retailer of lunchtime products and a unique new own brand range of sports nutrition foods and drinks.

Systems development BTC continues to apply technology to improve profitability and control. The first stage in a new generation of decision support systems has been implemented and the Sunrise in-store information, communication, training and staff planning system is now operating in over 800 stores. Installation will be complete throughout the business in 1998.

Information technology is also giving BTC a deeper insight into customers' shopping habits. The Advantage customer card, a smart card capable of carrying substantial amounts of data, has proved an extremely valuable source of information which will lead to new products, different positioning and display of products, and accurately targeted promotions. It has been well received in trials in East Anglia and the South West involving some 200,000 cardholders, and BTC has taken the decision to introduce it nationally. Further details will be announced later this year.

Staff training BTC continues to improve staff training and development, which are vital in differentiating Boots service to customers. In 1995 it launched its Selling The Boots Experience programme, which will involve all staff in annual customer service training. BTC's excellence in training and development was recognised in October 1995 when it became the largest organisation to be recertified under the Investors in People scheme, three years after its original certification.

Profit, dividends and retentions

Details of profit, dividends and retentions are shown in the profit and loss account on page 7.

Fixed assets

The company's leasehold properties were valued by the directors, in conjunction with the group's own professionally qualified staff, at 31st March 1993. The valuation, which was on an open market 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 1997 was not materially different from that given in the financial statements.

BOOTS THE CHEMISTS LIMITED

Directors' Report

Year ended 31st March 1997

Staff

The company continues to involve staff in the decision-making process and communicates regularly with staff during the year. Staff involvement in the company's performance is encouraged through employee bonus and share schemes and this involvement extends to the board of Boots Pensions Ltd, on which there are employee representatives. 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.

Further information is shown in note 17 on page 21.

Directors

The details of serving directors serving as at 31st March 1997 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:-

Appointment

Date

M W Bryant

1st June 1997

Resignations

Date

R J Glaister

26th March 1997

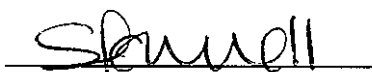
Remuneration of directors and directors' shareholding

Details of the remuneration and shareholdings of the directors are included in notes 18 and 19 on pages 22 to 23.

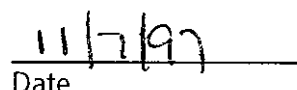
Auditors

On 8th January 1997 KPMG resigned as auditors of the company. In accordance with section 394 Companies Act 1985, KPMG submitted a statement that there were no circumstances connected with their ceasing to hold office that they considered should be brought to the attention of the members or creditors of the company. KPMG Audit Plc were appointed as auditors with effect from 28th January 1997 (and a resolution for their re-appointment is to be proposed at the annual general meeting).

By order of the board



S Fennell
Secretary


Date

BOOTS THE CHEMISTS LIMITED

Year ended 31st March 1997

Directors' responsibilities statement

The directors are required by the Companies Act 1985 to prepare financial statements which give a true and fair view of the profit or loss for the financial year and of the state of the company's affairs 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, for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities.

Auditors' report

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

We have audited the financial statements on pages 7 to 24.

Respective responsibilities of directors and auditors

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

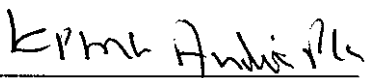
Basis of opinion

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 31st March 1997 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



Date

BOOTS THE CHEMISTS LIMITED**Profit and Loss Account**

Year ended 31st March 1997

	Notes	1997 £m	1996 £m
Turnover	2	3,312.4	3,106.3
Cost of sales		(2,204.9)	(2,079.5)
Gross profit		1,107.5	1,026.8
Operating costs	3	(811.0)	(760.2)
Operating profit		296.5	266.6
Income from shares in subsidiary undertakings		0.1	3.5
Profit on ordinary activities before interest		296.6	270.1
Net interest	4	15.3	21.4
Profit on ordinary activities before taxation		311.9	291.5
Tax on profit on ordinary activities	5	(103.3)	(95.8)
Profit on ordinary activities after taxation and profit for the financial year		208.6	195.7
Dividends	6	(216.0)	(178.0)
(Loss)/profit retained		(7.4)	17.7

The results for both periods are 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 have been no recognised gains or losses other than the profit for the financial year as stated above.

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
Reconciliation of Movements in Shareholders' Funds
Year ended 31st March 1997

	1997 £m	1996 £m
Total recognised gains and losses for the year	208.6	195.7
Dividends	(216.0)	(178.0)
Goodwill purchased	(9.1)	(8.2)
Net increase in shareholders' funds	(16.5)	9.5
Opening shareholders' funds	537.7	528.2
Closing shareholders' funds	521.2	537.7

BOOTS THE CHEMISTS LIMITED

Balance Sheet

31st March 1997

	Notes	1997 £m	1996 £m
Fixed assets			
Tangible assets	7	337.9	319.3
Investments	8	207.3	100.2
		<u>545.2</u>	<u>419.5</u>
Current assets			
Stocks	9	238.0	211.5
Debtors falling due within one year	10	131.0	125.3
Debtors falling due after more than one year	10	482.8	117.2
Cash at bank and in hand		4.2	450.2
		<u>856.0</u>	<u>904.2</u>
Creditors: Amounts falling due within one year	11	(855.7)	(763.7)
Net current assets		<u>0.3</u>	<u>140.5</u>
Total assets less current liabilities		545.5	560.0
Creditors: Amounts falling due after more than one year	12	(26.4)	(22.3)
Provisions for liabilities and charges	13	2.1	-
Net assets		<u>521.2</u>	<u>537.7</u>
Capital and reserves			
Called up share capital	14	9.7	9.7
Profit and loss account	15	511.5	528.0
Shareholders' funds		<u>521.2</u>	<u>537.7</u>

Shareholders' funds are wholly attributable to equity interests.

The financial statements were approved by the Board of Directors on
and are signed on its behalf by: **P. G. MATTHEWS**

11.7.97



Director

BOOTS THE CHEMISTS LIMITED
Notes to the Financial Statements
Year ended 31st March 1997

1. Accounting policies

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

Cash flow

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.

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.

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

No depreciation is provided on shop long leaseholds with more than fifty years to run, nor on assets in the course of construction. In the opinion of the directors, shop properties are maintained to such a high standard by a programme of repair and refurbishment that the estimated residual values of these properties, based on the prices prevailing at the time of acquisition or subsequent revaluation, are sufficiently high to make any depreciation charge unnecessary. Any permanent diminution in the value of such properties is charged to the profit and loss account. 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 or 5 years
Fixtures and plant	5 to 20 years
Short leasehold properties	Remaining period of lease when less than 50 years

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 1997

1. Accounting policies (continued)

Pension funding

The holding company and its UK subsidiaries operate pension schemes under which contributions by employees and by the companies are held in trust funds separated from the companies' finances. Actuarial valuations of the schemes are conducted at three-year intervals and include a review of contributions.

The cost of providing pensions is spread over the employees' working lives with the company. The cost charged to the profit and loss account in any year may not always equal the employer contributions to the pension schemes.

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

A deferred tax provision is made only where the effects of timing differences between profits as stated in the financial statements and as computed for tax purposes are likely to reverse in the foreseeable future. Advance corporation tax is carried forward to the extent it is expected to be recovered.

Goodwill

Goodwill on acquisitions, being the excess of the cost of investment in subsidiary undertaking over the fair value of net assets acquired, is set off against reserves. On disposal of a business, any goodwill previously set off against reserves is charged in the calculation of the profit or loss on disposal.

2. Turnover

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

BOOTS THE CHEMISTS LIMITED
Notes to the Financial Statements
Year ended 31st March 1997

3. Operating costs	1997 £m	1996 £m
Selling, distribution and branch costs	714.9	671.2
Administrative expenses	96.1	89.0
Operating costs	811.0	760.2

Operating profit shown on page 7 is after charging:

Operating lease rentals		
- Property rents	126.9	125.3
- Computer and plant hire	1.7	1.6
Depreciation	43.3	43.3
Remuneration of auditors - Audit fees	0.1	0.1
Provision against investments in subsidiary undertakings	0.6	1.4

4. Net interest	1997 £m	1996 £m
Interest receivable:		
Bank interest	22.5	21.6
From group company	2.3	-
Other Interest	0.3	-
	25.1	21.6
Interest payable and similar charges:		
Bank loans and overdrafts wholly repayable within 5 years	(9.8)	(0.2)
	15.3	21.4

BOOTS THE CHEMISTS LIMITED
Notes to the Financial Statements
Year ended 31st March 1997

5. Tax on profit on ordinary activities	1997 £m	1996 £m
The charge on the profit for the year consists of:		
UK corporation tax at 33% (1995: 33%)	105.5	95.4
Adjustment in respect of prior years	(0.1)	-
Deferred tax - other timing differences	(2.1)	0.4
	<u>103.3</u>	<u>95.8</u>
 Unprovided deferred taxation in respect of the year		
Accelerated capital allowances	0.9	7.3
Other timing differences	(0.1)	0.3
	<u>0.8</u>	<u>7.6</u>
 6. Dividends		
	1997 £m	1996 £m
Final paid	216.0	178.0
	<u>216.0</u>	<u>178.0</u>

BOOTS THE CHEMISTS LIMITED
Notes to the Financial Statements
Year ended 31st March 1997

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 1996	7.1	16.5	610.6	9.1	643.3
Additions	1.4	2.7	56.1	2.7	62.9
Disposals	(0.6)	(1.4)	(15.0)	-	(17.0)
Reclassifications and transfers	-	1.3	4.9	(3.8)	2.4
At 31st March 1997	7.9	19.1	656.6	8.0	691.6
Gross book value of depreciable assets	7.9	19.1	656.6	8.0	691.6
Depreciation					
At 1st April 1996	3.2	8.5	312.3	-	324.0
Charge for the period	0.3	1.9	41.1	-	43.3
Disposals	(0.1)	(0.9)	(12.5)	-	(13.5)
Transfers	-	0.3	(0.4)	-	(0.1)
At 31st March 1997	3.4	9.8	340.5	-	353.7
Net book value at 1st April 1996	3.9	8.0	298.3	9.1	319.3
Net book value at 31st March 1997	4.5	9.3	316.1	8.0	337.9

Tangible fixed assets	1997 £m	1996 £m
Net book value of land and buildings comprises:		
Long leasehold (more than 50 years unexpired)	0.1	0.1
Short leasehold	4.4	3.8
	<u>4.5</u>	<u>3.9</u>

The net book value of tangible fixed assets includes £3,182,566 (1996: £658,873) in respect of assets held under finance leases. The depreciation charge for the year was £399,588 (1996: £48,928).

BOOTS THE CHEMISTS LIMITED
Notes to the Financial Statements
Year ended 31st March 1997

8. Fixed asset investments	Shares in subsidiary undertakings £m	Shares in fellow subsidiary undertakings £m	Loans to fellow subsidiary undertakings £m	Total £m
Cost				
At 1st April 1996	2.5	100.0	-	102.5
Additions	0.9	-	106.7	107.6
At 31st March 1997	3.4	100.0	106.7	210.1
Provision				
At 1st April 1996	2.3	-	-	2.3
Additions	0.5	-	-	0.5
At 31st March 1997	2.8	-	-	2.8
Net book value at 1st April 1996	0.2	100.0	-	100.2
Net book value at 31st March 1997	0.6	100.0	106.7	207.3

BOOTS THE CHEMISTS LIMITED
Notes to the Financial Statements
Year ended 31st March 1997

8. Fixed asset investments
(continued)

	Incorporated in	Ordinary shares percentage owned %	Principal activities	Last financial year ended
Boots Stores Ltd	Great Britain*	100	Management	31st March 1997
Boots Canada (Finance) Ltd	Canada	100	Inactive	31st March 1997
Stearn Bros Ltd	Great Britain*	100	Inactive	31st March 1997
Hammond and Hammond Ltd	Great Britain*	100	Inactive	31st March 1997
Albionflag Ltd	Great Britain*	100	Inactive	31st March 1997
Seawade Ltd	Great Britain*	100	Inactive	31st March 1997
N G Hayter Ltd	Great Britain*	100	Inactive	31st March 1997

*Registered in England and Wales

N G Hayter Ltd is an addition during the year. The fair value of consideration paid was £1.0m and goodwill arising of £0.6m.

The investment in fellow subsidiary undertakings at 31st March 1997 is as follows:-

	Incorporated in	Preference shares percentage owned %	Principal activities	Last financial year ended
Boots Investments Ltd	Jersey	100	Investments	31st March 1997

In the opinion of the directors the value of the company's investment in subsidiary and fellow subsidiary undertakings is not less than the amount shown on page 15.

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

BOOTS THE CHEMISTS LIMITED
Notes to the Financial Statements
Year ended 31st March 1997

9. Stocks	1997 £m	1996 £m
Finished goods and goods for resale	238.0	211.5
10. Debtors	1997 £m	1996 £m
Falling due within one year:		
Trade debtors	107.2	100.6
Owed by fellow subsidiary undertakings	0.6	0.2
Other debtors	1.4	1.0
Prepayments and accrued income	21.8	23.5
	131.0	125.3
 Falling due after more than one year:		
Owed by subsidiary undertakings	-	0.5
Owed by parent and fellow subsidiary undertakings	482.2	116.2
Other debtors	0.6	0.5
	482.8	117.2
	613.8	242.5

BOOTS THE CHEMISTS LIMITED
Notes to the Financial Statements
Year ended 31st March 1997

11. Creditors: Amounts falling due within one year	1997 £m	1996 £m
Bank overdraft	367.2	0.3
Due to subsidiary undertakings	0.1	0.1
Due to parent and fellow subsidiary undertakings	270.9	561.2
Corporation tax	52.3	52.2
Advance corporation tax	53.9	44.4
Taxation and social security	31.0	29.5
Other creditors	54.0	50.8
Accruals and deferred income	25.8	25.1
Finance lease creditor	0.5	0.1
	<u>855.7</u>	<u>763.7</u>

12. Creditors: Amounts falling due after more than one year	1997 £m	1996 £m
Due to subsidiary undertakings	0.2	0.1
Due to parent and fellow subsidiary undertakings	17.1	17.1
Accruals and deferred income	7.4	4.6
Finance leases	1.7	0.5
	<u>26.4</u>	<u>22.3</u>

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

Obligations under finance leases

	£m
Within one year	0.5
Within one to two years	0.8
Within two to five years	0.9
	<u>2.2</u>

BOOTS THE CHEMISTS LIMITED
Notes to the Financial Statements
Year ended 31st March 1997

13. Provisions for liabilities and charges	Deferred taxation recoverable £m	
At 1st April 1996	-	
Profit and loss account	(2.1)	
At 31st March 1997	(2.1)	
	1997 £m	1996 £m

Analysis of deferred taxation recoverable:

Other timing differences	<u>(2.1)</u>	<u>-</u>
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Unprovided deferred taxation:

Accelerated capital allowances	36.2	35.3
Other timing differences	0.2	0.3
	<u>36.4</u>	<u>35.6</u>

There is a potential deferred tax asset of £3.1m (1996: £3.1m) in respect of capital losses in the company (stated net of rolled-over gains).

14. Called up share capital	1997 £m	1996 £m
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Authorised, allotted, called up and fully paid:

9,750,000 ordinary shares of £1 each	<u>9.7</u>	<u>9.7</u>
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BOOTS THE CHEMISTS LIMITED
Notes to the Financial Statements
Year ended 31st March 1997

15. Profit and loss account

	£m
At 1st April 1996	528.0
Loss retained	(7.4)
Goodwill	(9.1)
At 31st March 1997	<u>511.5</u>

Goodwill set off against reserves arose on the acquisition of 63 pharmacy businesses during the year.

16. Commitments

a) Future capital expenditure approved by the directors and not provided for in these financial statements is as follows:	1997 £m	1996 £m
Contracts placed	<u>29.2</u>	<u>18.4</u>
b) Annual commitments under operating leases at 31st March 1997 are as follows:	Land and buildings £m	Other assets £m
Expiring:		
Within one year	0.6	0.3
Over one year and less than five years	6.9	1.2
Over five years	128.8	-
	<u>136.3</u>	<u>1.5</u>

BOOTS THE CHEMISTS LIMITED
Notes to the Financial Statements
Year ended 31st March 1997

17. Staff numbers and costs

	1997	1996
The average number of persons employed by the company during the year was:	49,598	48,037

	1997 £m	1996 £m
The aggregated payroll cost was as follows:		
Wages and salaries	379.9	355.0
Social security costs	23.5	22.2
Other pension costs	2.0	1.8
	<u>405.4</u>	<u>379.0</u>

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18. Directors' remuneration	1997 £m	1996 £m
i) Directors' emoluments for services to the company Directors' emoluments have been restated for the period ending 31st March 1997 as required by section 257 of the Companies Act 1985.	0.9	0.8
ii) Monies received from long term bonus schemes	0.2	0.5
iii) (a) The remuneration of the highest paid director, excluding pension contributions	0.3	0.3
(b) Accrued pension entitlement at 31st March 1997	0.1	0.1
The highest paid director has exercised share options but has not received any share options during the year.		
iv) Number of directors who are members of defined benefit pension schemes	7	9
v) Number of directors who have exercised options during the year (who are not directors of the ultimate holding company)	3	3

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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 1997 are shown below. No director holds any loan capital in the ultimate holding company.

	Ordinary shares under executive and SAYE options								
			Ordinary	Average				Market	Ordinary
	Ordinary	Ordinary	shares under	exercise	Exercised				shares under
	shares	shares	options	price	during	Exercise	price at	Granted	options
	1997	1996	1997	1997	the year	price	date of	during	1996
							exercise	the year	
C A Baldwin	87	86	-	-	-	-	-	-	-
P L M Davies	17,476	17,476	74,726	348p	-	-	-	-	74,726
P Joyce	18,990	15,361	39,630	412p	3,629	310p	647p	-	43,259
P G Matthews	3,629	-	33,556	505p	3,629	310p	701p	3,556	33,629
R M Scribbins	5,530	5,362	46,650	527p	15,000	425p	619p	-	61,650

The market price of the ultimate holding company's shares at 31st March 1997 was 675p. The range of market prices during the year was 555p to 701p. No options lapsed during the year. Prices shown for options exercised during the year represent the weighted average of prices. The average exercise price for 1997 represents the weighted average price for options outstanding at 31st March 1997.

Under a savings related scheme options may be granted to qualifying employees to subscribe for ordinary share 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 option scheme and such options are exercisable as follows:

<u>Option price</u>	<u>Exercisable</u>
257p	To December 1999
286p	To July 2000
399p	To July 2001
437p	To August 2002
438p	To June 2003
531p	From June 1997 - June 2004
519p	From November 1997 - November 2004
482p	From February 1998 - February 2005

The granting of such options ceased before 31st March 1995.

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20. Pensions

The majority of the employees of the company are members of Boots Pension Scheme. This is a defined benefit scheme, the cost for which is determined by Bacon & Woodrow, consulting actuaries.

Details of the most recent actuarial valuation as at 1 April 1995 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 1997 the contingent liability was £Nil (1996: £447,532,573).

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 the Financial Reporting Standard 8.