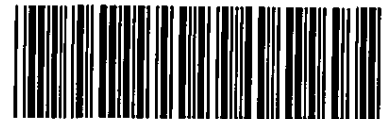


Registered Number 3802593

Pharmacy2U Limited
Annual report and financial statements
for the year ended 31 March 2011

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Pharmacy2U Limited

Annual report and financial statements for the year ended 31 March 2011

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Pharmacy2U Limited

Directors and advisers for the year ended 31 March 2011

Directors

K McCullagh	(Non-executive Chairman)
D Lee	(Managing Director)
J Harrison	(Commercial Director)
S Riddell	(Non-executive)
B Haigh	(Non-executive)
G Brand	(Non-executive)
M Glatman	(Non-executive)

Company secretary

S Joyce

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Benson House
33 Wellington Street
LEEDS
LS1 4JP

Solicitors

Pinsent Masons
1 Park Row
LEEDS
LS1 5AB

Registered Office

1 Hawthorn Park
Coal Road
LEEDS
LS14 1PQ

Registered Number

3802593

Pharmacy2U Limited

Directors' report for the year ended 31 March 2011

The directors present their report together with the audited financial statements of the company for the year ended 31 March 2011

Business review and principal activities

Pharmacy2U was the UK's first internet pharmacy, established in 1999. It is now the country's largest dedicated internet and mail order pharmacy, serving the growing number of people who either prefer or who are unable or unwilling to visit high street pharmacies. It allows prescriptions, over the counter medicines and personal care products to be delivered direct to your doorstep without having to leave the comfort of your own home.

The results for the company show a pre-tax profit of £762,000 (2010: £850,000) for the year and sales of £19,961,000 (2010: £19,521,000). At 31 March 2011, the company has net assets of £2,838,000 (2010: £2,316,000).

Pharmacy2U's key revenue streams are from the dispensing of NHS & private prescriptions and the sale of medicines and health and beauty products online. The year under review saw continued turnover growth and gross margins (which had been falling over the past 2 years due to reduced discounts from wholesalers) have slightly improved through the negotiation of improved volume-related terms with suppliers.

Future outlook

We are hopeful that the national roll-out of the NHS Electronic Prescription Service will commence during 2011-12. The company anticipates that it will gain the necessary accreditation for its pharmacy systems before the end of 2011, providing a strong opportunity to increase growth of the NHS Prescription business.

The company's private prescription business remains strong in the face of increasing competition. We remain confident that we can strengthen our current level of performance through the provision of outsourced services to third party clients.

Principal risks and uncertainties

The management of the business and the execution of the company's strategy are subject to a number of risks.

The key business risks and uncertainties affecting the company are primarily considered to relate to competition from national and internet retailers and to the difficult economic environment in which we are currently operating. Additionally, the change in Government in 2010 and their stated aim to reduce the country's deficit provides a higher level of uncertainty as to future re-imbursement levels for NHS prescriptions.

Financial risk management

Exposure to credit and interest rate risks arise in the normal course of the company's business.

Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The company does not require collateral in respect of financial assets.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

Interest risk

With the company being currently debt free, interest risk is restricted to relevant interest rates being earned on deposits. Management has a policy in place to maximise interest receivable on surplus cash balances.

Pharmacy2U Limited

Directors' report for the year ended 31 March 2011 (continued)

Key performance indicators ("KPIs")

In our opinion, the Pharmacy2U business has thrived due to focus on providing a first-class customer experience. We maintain and monitor a full range of operational KPI's and take regular feedback from our customers.

Directors

The names of the directors who held office during the year and up to the date of signing the financial statements are given below.

K McCullagh
D Lee
J Harrison
S Riddell
B Haigh
G Brand
M Glatman

Statement of directors' responsibilities

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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.

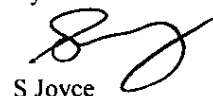
Auditors and disclosure of information to auditors

The directors confirm that, so far as they are aware, there is no relevant audit information of which the auditors are unaware and that each director has taken all reasonable steps to make themselves aware of any relevant audit information, and to establish that the auditors are aware of that information.

Independent Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

By order of the Board



S Joyce
Company secretary
9 November 2011

Pharmacy2U Limited

Independent auditors' report to the members of Pharmacy2U Limited

We have audited the financial statements of Pharmacy2U Limited for the year ended 31 March 2011 which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of accounting policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the directors' responsibilities statement set out on page 3 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Sections 495 and 496 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 March 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



Ian Morrison (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
9 November 2011

Pharmacy2U Limited

Profit and loss account for the year ended 31 March 2011

	Note	2011 £'000	2010 £'000
Turnover	1	19,961	19,521
Cost of sales		(14,425)	(14,320)
Gross profit		5,536	5,201
Distribution expenses		(3,259)	(2,755)
Administration expenses		(1,531)	(1,602)
Profit on ordinary activities before interest and taxation	2	746	844
Net interest receivable	5	16	6
Profit on ordinary activities before taxation		762	850
Total tax charge on profit on ordinary activities	6	(213)	(232)
Profit for the financial year	14	549	618

All items dealt with in arriving at profit on ordinary activities before interest and taxation above relate to continuing operations

The company has no recognised material gains and losses other than the profit above and therefore no separate statement of total recognised gains and losses has been presented

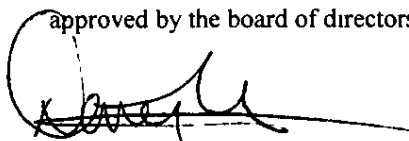
There are no material differences between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historical cost equivalents

Pharmacy2U Limited

Balance sheet as at 31 March 2011

	Note	2011 £'000	2010 £'000
Fixed assets			
Tangible assets	7	410	454
Current assets			
Stock	8	1,068	667
Debtors	9	2,399	2,468
Cash at bank and in hand		1,521	1,104
Deferred tax asset	10	443	653
		5,431	4,892
Creditors, amounts falling due within one year	11	(3,003)	(3,030)
Net current assets		2,428	1,862
Net assets		2,838	2,316
Capital and reserves			
Called up share capital	13	628	628
Share premium account	14	3,787	3,787
Profit and loss account	14	(1,577)	(2,099)
Total shareholders' funds	15	2,838	2,316

The financial statements, which comprise the profit and loss account, the balance sheet and related notes, were approved by the board of directors on 9 November 2011 and were signed on its behalf by



D Lee
Director
 Pharmacy2U Limited, registered number 3802593

Pharmacy2U Limited

Cash flow statement for the year ended 31 March 2011

	Note	2011 £'000	2010 £'000
Net cash inflow from operating activities	18	534	584
Servicing of finance			
Interest element of finance lease payments		-	(2)
Interest received		16	8
Net cash inflow from servicing of finance		16	6
Taxation: UK corporation tax paid		(2)	(1)
Capital expenditure			
Payments to acquire tangible fixed assets		(127)	(221)
Net cash outflow from capital expenditure		(127)	(221)
Financing			
Payment of finance lease liabilities		(4)	(45)
Net cash from financing activities		(4)	(45)
Net increase in cash and cash equivalents		417	323
Opening cash and cash equivalents		1,104	781
Closing cash and cash equivalents		1,521	1,104

Pharmacy2U Limited

Statement of accounting policies for the year ended 31 March 2011

Basis of accounting

The financial statements have been prepared on the going concern basis, under the historical cost convention, and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies are set out below. These have been consistently applied through the period and preceding period.

Share based payments

The Company issues share options to certain employees which are measured at fair value and recognised as an expense in the profit and loss account with a corresponding adjustment in the profit and loss reserve.

The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. The fair values of these payments are measured at the dates of grant and are recognised over the period during which employees become unconditionally entitled to the awards.

At each balance sheet date, the company revises its estimates of the number of options that are expected to vest and the Company recognises the impact of the revision to original estimates, if any, in the profit and loss account, with a corresponding adjustment to the profit and loss account reserve.

Turnover

Turnover is the invoiced value of goods and services supplied during the year, excluding value added tax. Turnover is recognised at the point of goods being despatched.

Tangible fixed assets

Tangible fixed assets are stated at their historical purchase price, together with any incidental expenses of acquisition, less accumulated depreciation. Provision for depreciation is made so as to write off the cost of tangible fixed assets on a straight line basis over the expected useful economic lives of the assets concerned. The annual rates used are as follows:

Plant and machinery	10 – 33	33%
Fixtures & fittings	20%	

Stocks

Stocks are stated at the lower of cost and net realisable value.

Pension costs

The costs of providing retirement pensions and related benefits are charged to the profit and loss account as incurred.

Website development costs

Specific projects to replace large sections of the website are capitalised as plant and machinery. Where development costs are incurred to continually improve and enhance the website, these are charged to the profit and loss account in the period which they are incurred.

Finance and operating leases

Where assets are financed by hire purchase agreements which transfer to the company substantially all the benefits and risks of ownership of an asset, the assets are treated as if they had been purchased outright. The amount capitalised is the fair value of the asset. The corresponding lease commitments are shown as obligations to the lessor. Lease payments are split between capital and interest elements using the annuity method. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit in proportion to the reducing capital element outstanding. Depreciation on the relevant assets is charged to the profit and loss account over the shorter of the lease terms and the useful lives of equivalent owned assets.

Costs in respect of operating leases are charged on a straight-line basis over the lease term.

Pharmacy2U Limited

Statement of accounting policies for the year ended 31 March 2011 (continued)

Deferred taxation

In accordance with FRS19, deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when the differences reverse based on current tax rates and laws. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the profit and loss account.

Pharmacy2U Limited

Notes to the financial statements for the year ended 31 March 2011

1 Turnover

Turnover consists entirely of sales originating and derived from the United Kingdom. The directors consider that the company has only one class of business.

2 Operating profit

	2011 £'000	2010 £'000
Operating profit is stated after charging		
Depreciation of tangible fixed assets		
- owned assets	146	111
- leased assets	-	23
Operating lease rentals - property	109	109
Website development costs	3	22
Share option (credit)/expense (note 17)	(27)	12
Services provided by the company's auditor		
Fees payable for the audit	12	12
Tax services	3	3

3 Employee information

	2011 £'000	2010 £'000
Wages and salaries	1,628	1,410
Social security costs	172	139
Other pension costs (note 20)	57	49
	1,857	1,598

The average number of persons (including executive directors) employed by the company during the year was

	2011	2010
Selling and distribution	40	35
Administration	12	12
	52	47

Pharmacy2U Limited

Notes to the financial statements for the year ended 31 March 2011 (continued)

4 Directors' emoluments

	2011 £'000	2010 £'000
Aggregate emoluments	448	363
Company contributions to money purchase pension schemes	30	27
	478	390

Highest paid director	2011 £'000	2010 £'000
Aggregate emoluments	222	177
Company contributions to money purchase pension schemes	15	14
	237	191

Retirement benefits are accruing to 2 (2010: 2) directors under a defined contribution scheme

5 Interest payable / (receivable)

	2011 £'000	2010 £'000
Interest payable on finance leases	-	2
Interest receivable and similar income	(16)	(8)
Net interest receivable	(16)	(6)

Pharmacy2U Limited

Notes to the financial statements for the year ended 31 March 2011 (continued)

6 Tax on profit on ordinary activities

	2011 £'000	2010 £ 000
Current tax		
UK corporation tax on profits for the period	(3)	(2)
Deferred tax		
Origination and reversal of timing differences	(11)	(15)
Recognition of carried forward trading losses	(180)	(215)
Changes in tax rates or laws	(28)	-
Adjustments in respect of prior years	9	-
Total deferred tax (note 10)	(210)	(230)
Total tax charge on profit on ordinary activities	(213)	(232)

The current year tax charge is lower (2010 lower) than the standard rate of corporation tax in the UK (28%)
The differences are explained below

	2011 £'000	2010 £'000
Profit on ordinary activities before tax	762	850
Profit on ordinary activities multiplied by standard rate in the UK of 28% (2010 28%)	213	238
Accelerated capital allowances and other timing differences	(11)	(15)
Expenses not deductible	4	3
Utilisation of carried forward trading losses	(180)	(215)
Relief for research and development expenditure	(23)	(9)
Total current tax	3	2

Pharmacy2U Limited

Notes to the financial statements for the year ended 31 March 2011 (continued)

7 Tangible assets

	Plant and machinery £'000	Fixtures & fittings £'000	Total £'000
Cost			
At 1 April 2010	662	277	939
Additions	111	13	124
Disposals	(25)	-	(25)
At 31 March 2011	748	290	1,038
Accumulated depreciation			
At 1 April 2010	301	184	485
Charge for the year	121	25	146
Disposals	(3)	-	(3)
At 31 March 2011	419	209	628
Net book amount			
At 31 March 2011	329	81	410
At 31 March 2010	361	93	454

The net book value of tangible fixed assets includes an amount of £nil (2010 £119,000) in respect of assets held under finance leases. Depreciation charged on these assets during the year was £nil (2010 £23,000)

8 Stock

	2011 £'000	2010 £'000
Goods for resale	1,068	667

Pharmacy2U Limited

Notes to the financial statements for the year ended 31 March 2011 (continued)

9 Debtors

	2011 £'000	2010 £'000
Trade debtors	1,049	1,240
Other debtors	203	129
Prepayments and accrued income	1,147	1,099
	2,399	2,468

10 Deferred tax asset

The movement on deferred taxation during the year was

	2011 £'000	2010 £'000
At 1 April	653	883
Charged to the profit and loss account	(210)	(230)
At 31 March	443	653

The amounts of deferred tax provided are as follows

	2011 £'000	2010 £'000
Accelerated capital allowances and other timing differences	(8)	4
Carried forward trading losses	451	649
Total deferred tax asset	443	653

The company has unutilised trading losses amounting to approximately £1,711,000 (2010 £2,319,000), which are available for relief against future profits. These losses have been recognised on the basis that trading profits are expected to be generated in the foreseeable future against which these losses may be utilised in full.

With effect from 1 April 2011, the main rate of corporation tax in the UK reduced from 28% to 26%. Deferred tax balances have therefore been measured at the tax rate of 26% (2010 28%), being the standard rate of corporation tax in the UK.

The company has no unprovided deferred tax.

Pharmacy2U Limited

Notes to the financial statements for the year ended 31 March 2011 (continued)

11 Creditors – amounts falling due within one year

	2011 £'000	2010 £'000
Trade creditors	2,560	2,742
Finance leases	-	4
Corporation tax	3	2
Other Taxation and social security	41	60
Other creditors	179	92
Accruals and deferred income	220	130
	3,003	3,030

12 Finance leases

Future minimum payments under finance leases are as follows

	2011 £'000	2010 £'000
Within one year	-	4

13 Called up share capital

	2011 £'000	2010 £'000
Authorised		
44,939,733 (2010 44,939,733) ordinary shares of 10p each	4,494	4,494
5,060,267 (2010 5,060,267) preferred ordinary shares of 10p each	506	506
	5,000	5,000
Allotted and fully paid		
1,671,695 (2010 1,671,695) ordinary shares of 10p each	167	167
4,613,429 (2010 4,613,429) preferred ordinary shares of 10p each	461	461
	628	628

Preferred ordinary shares have preferential rights to the assets of the company in the event of the company being wound up. In all other respects the preferred ordinary shares rank pari passu with the ordinary shares.

Pharmacy2U Limited

Notes to the financial statements for the year ended 31 March 2011 (continued)

14 Reserves

	Share premium account £'000	Profit and loss account £'000
At 1 April 2010	3,787	(2,099)
Retained profit for the financial year	-	549
Adjustment in respect of employee share schemes	-	(27)
At 31 March 2011	3,787	(1,577)

15 Reconciliation of movements in shareholders' funds

	2011 £'000	2010 £'000
Profit for the financial year	549	618
Adjustment in respect of employee share schemes	(27)	12
Net addition to shareholders' funds	522	630
Opening Shareholders' funds	2,316	1,686
Closing Shareholders' funds	2,838	2,316

16 Operating lease commitments

At 31 March 2011, the company had lease agreements in respect of property for which the payments extend over a number of years

	2011 £'000	2010 £'000
Annual commitments under non-cancellable operating leases expiring after 5 years	109	109

The above commitments relate to the lease of the office and distribution premises occupied by the company. This agreement contains a clause which allows the company to terminate the agreement within two years.

Pharmacy2U Limited

Notes to the financial statements for the year ended 31 March 2011 (continued)

17 Share Based Payments

The company operates an employee share option scheme. Under FRS 20 Share Based Payments, an expense is recognised in the profit and loss account for equity settled share options granted after 7 November 2002.

At 31 March 2010 there were 469,000 options outstanding. During November 2010, 389,000 of these options were surrendered and replaced. Each of the new options granted has a life of 10 years and an exercise price of £0.80.

Exercise of all options is subject to flotation or trade sale of the company. For the purposes of calculating the FRS 20 charge for the year, it has been assumed that the expected life of the options is 5 years. On this basis, the options that were issued prior to 2005 are not expected to vest and as such a reversing credit of £38,000 has been recognised in respect of charges that have been recognised in prior years for these options. No charge has been recognised in the current year in relation to those options that were not surrendered in 2010 on the basis that these options were all issued prior to 2005 and are therefore not expected to vest.

The charge for those options issued after 2005 and subsequently replaced in 2010 has been recognised on the basis of a modification in the existing terms and is therefore based on the difference in fair values immediately before and after modification.

The company has recorded a net FRS 20 credit of £27,000 for the year ended 31 March 2011 (2010: charge of £12,000). The fair value of options and significant assumptions used in the calculation of the FRS 20 charge were as follows:

Grant date	2010
Share price at date of grant (£)	£1.00
Exercise price (£)	£0.80
Number of participating employees	5
Shares under option ('000)	389,000
Vesting period (years)	5
Expected volatility	25%
Option life (years)	10
Expected life (years)	5
Risk free rate	2.00%
Expected dividend yield	Nil
Fair value per option (£)	£0.35
Valuation model	Black scholes

The expected volatility is based on the average historical volatility of certain listed companies that the Directors consider to operate in a comparable area to the company. The expected life is the average expected period to exercise.

Pharmacy2U Limited

Notes to the financial statements for the year ended 31 March 2011 (continued)

17 Share Based Payments (continued)

A reconciliation of option movements over the year to 31 March 2011 is shown below

	2011		2010	
	Number	Weighted average exercise price £	Number	Weighted average exercise price £
	'000		'000	
At 31 March	469	£0.89	520	£0.87
Surrendered	(389)	£0.91	(51)	£0.75
Granted	389	£0.80	-	-
Outstanding at 31 March	469	£0.79	469	£0.89

No share options were exercisable at 31 March 2011

Pharmacy2U Limited

Notes to the financial statements for the year ended 31 March 2011 (continued)

18 Reconciliation of operating profit to net cash inflow from operating activities

	2011 £'000	2010 £'000
Operating profit	746	844
Depreciation	146	134
Increase in stocks	(401)	(77)
Decrease / (Increase) in trade and other receivables	69	(509)
Increase in trade and other payables	1	180
Share based payments (credit)/charge	(27)	12
Net cash inflow	534	584

19 Related party transactions

On 3 May 2005, the company moved into premises owned by Scottish Equitable Plc as Trustee of The Scottish Equitable Self-Administered Personal Pension Scheme, the beneficiaries of which are D Lee and J Harrison, both of whom are directors of the company

The lease was negotiated at arm's length and is on normal commercial terms. The initial term of the lease is 15 years, with rent reviews every five years. The annual rent is £109,000. There were no balances due at 31 March 2011.

20 Pension commitments

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund and amounted to £57,000 (2010: £49,000). £4,000 (2010: £3,000) was owed to the fund at the year end.