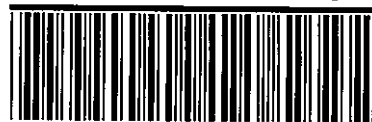


COMPANY NO. 2517178



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COMPANIES HOUSE 02/09/95

**UniChem PLC**

Annual Report 1994



COMPANIES HOUSE 23/08/95



*UniChem's Wholesale Division is a major distributor of pharmaceutical, medical and healthcare products to around 5,500 retail pharmacies and hospitals throughout the UK.*

*Moss Chemists, UniChem's Retail Pharmacy Division, owns 353 pharmacies in the UK providing a highly professional service to the patient whilst offering value for money.*

*In Europe, UniChem is a leading pharmaceutical wholesaler in Portugal and is closely linked with major wholesalers in the major European countries through IPSO, a European association.*

*Established for 56 years, UniChem has been a PLC for nearly 5 years and has a market capitalisation in excess of £400 million. It has a highly motivated work force of around 5,500.*

*UniChem's success has been achieved through commitment to customer service, an efficient and cost effective distribution network and innovation in healthcare marketing programmes.*

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# HIGHLIGHTS OF THE YEAR

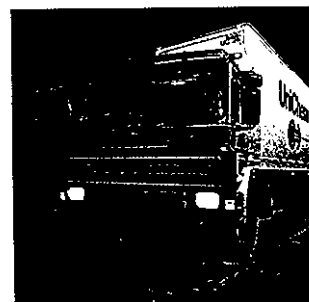
■ A strong financial performance was achieved, with all businesses showing market share gains, operating margin improving further, and strong cash generation.

■ Operational capabilities in the wholesale division were strengthened significantly as the two year twinning and automation programmes were substantially completed.

■ The acquisitions momentum was maintained, with 100 pharmacies added to the retail division and two significant wholesale acquisitions.

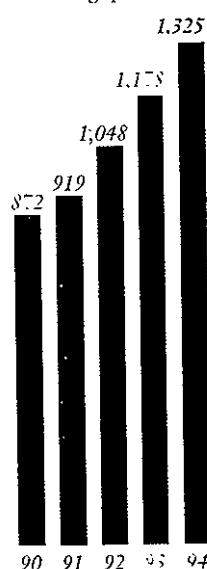
■ The acquisition of Hospital Management & Supplies has given access to a new market - wholesaling medical and surgical supplies to hospitals.

■ The successful September 1994 rights issue raised a net £58 million, enabling the Company to take advantage of further selective acquisition opportunities.

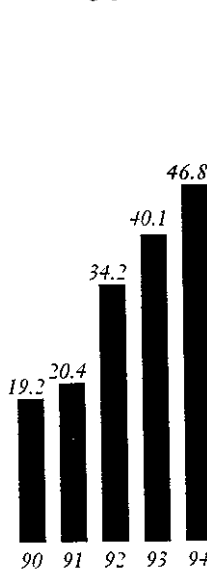


	1994 £000	1993 £000
Turnover	1,324,658	1,177,623
Operating profit	46,759	40,075
Profit on ordinary activities before taxation	44,011	37,505
Dividends per share	7.13p	6.33p
Earnings per share		
- Undiluted	19.3p	17.3p
- Fully diluted	18.8p	16.9p

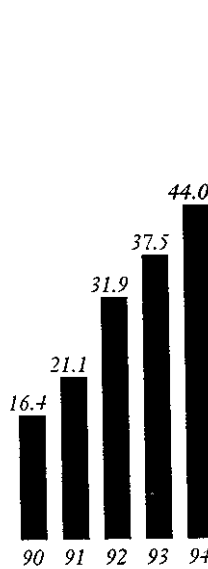
Turnover - £m  
continuing operations



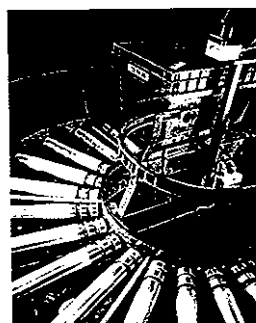
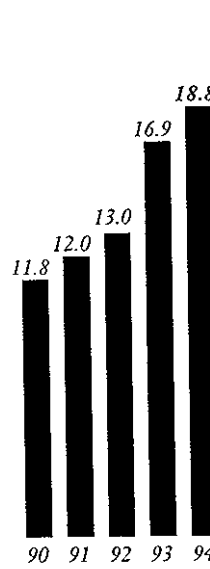
Operating profit - £m  
continuing operations



Pre-tax profits - £m  
continuing operations



EPS - pence  
fully diluted



## CHAIRMAN'S STATEMENT

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Lord Rippon,  
Chairman

*"This year has seen further progress towards development of a more broadly based healthcare group."*

I am delighted to be able to report that 1994 was a year of notable progress and achievement for UniChem. Our strong management team, combined with the determined efforts of our staff, have continued the Group's financial growth and significantly strengthened its operational capabilities. This is the 23rd consecutive year UniChem has reported an increase in sales and pre-tax profits.

### Group Development

Although UniChem remains concentrated on its UK pharmaceutical wholesaling business, this year has seen further progress towards development of a more broadly based healthcare group. As well as expanding and strengthening our core wholesale business, our retail chain has achieved significant growth, we are now one of the two main private sector suppliers of medical and surgical consumables to hospitals and we have in our portfolio emerging businesses in occupational health and special prescription pharmaceuticals. On the European front, our business in Portugal continues to develop with sales outstripping market growth and our alliance with a team of leading wholesalers from the major European markets has taken a major step forward with the formation of an expanded joint venture company.

Alongside our drive on corporate development, much work has been put into the internal development of our Group. The Wholesale Division's automation and warehouse restructuring programme has been largely completed and a new central distribution centre has been commissioned. Our computer systems and business procedures have been overhauled as part of a successful two year programme, which is nearing completion, and a similar exercise has begun in the Retail Division. In Portugal, our new Porto warehouse has been commissioned and is working well.

This year the Regional Committee structure has been realigned to reflect the new twinned relationships between

Wholesale Division branches. Much valuable advice and guidance about many aspects of the Group's development is given via the Regional Committee structure and from the practising pharmacists who serve as non-Executive Directors. A list of Regional Committee members for each of our branches is included on page 23 of this report.

### People

1994 has been a challenging year because of the pace of business acquisitions and the level of internal restructuring. Our staff have responded magnificently to these challenges and the Group's performance in 1994 is a tribute to their dedication and hard work, led by an experienced management team.

Changes to the team this year included the appointment of Geoff Cooper who joined us in March 1994 as Finance Director and who has since contributed greatly to the management team. In May 1994 we were sorry to mark the retirement of Bill Hart as Commercial Director after 22 years outstanding service to UniChem, including the last 10 years as a Board member. Bill's career in the Pharmaceutical industry spanned thirty-seven years and many of our customers and suppliers will be aware of the very significant contribution Bill has made to the development of the Group. I am sure they will join the Board in wishing him a long and happy retirement.

Bill's role as Commercial Director has been taken over by Kelvin Hide, formerly Operations Director. Chris Etherington, promoted last year to Director of Management Services, became Director of Operations. The Head of Management Services, Keith Slater, now reports directly to Jeff Harris. Biographies of Board members can be found on page 22 of this report.

### Performance

The prospects for most of our businesses are affected by the UK market for prescription pharmaceuticals. In 1994, market growth slowed, compared with the

## CHAIRMAN'S STATEMENT

scale of increases seen in the preceding few years, although the medicines market continues to grow at a level which offers satisfactory underlying sales growth to UniChem. This slowing was partly due to the Government price cut in prescription medicines imposed in late 1993. Jeff Harris, in his Chief Executive's review on pages 4 to 7, discusses this and the other major market trends apparent in 1994. Despite the slower market, our sales in 1994 increased by 12% to £1,325 million.

Profits before tax rose by 17% to £44.0 million, an increase of £6.5 million. Earnings per share (fully diluted) increased by 11% from 16.9 pence (restated for the September 1994 Rights Issue) to 18.8 pence and a final dividend of 4.7 pence per share is proposed, bringing the full year cash dividend per share up to 7.2 pence. This is equivalent to a 13% increase over last year after adjusting for the Rights Issue. The dividend is covered 2.5 times by earnings. Over a five year period, earnings per share growth, adjusted for rights issues, has averaged 13% and dividend growth over the four full years since flotation has averaged 14% per annum. A full analysis of the performance of each of our businesses can be found on pages 10 to 18 of this report.

### Financial

Net assets grew from £97.9 million to £139.0 million after writing off goodwill of £43.9 million, arising from our acquisitions of wholesale businesses and 100 retail pharmacies during the year. The 1 for 6 Rights Issue announced in September 1994, which raised a net £58.4 million, has significantly enhanced the Group's financial strength and enabled the Group to take advantage of opportunities to expand by acquisition. Strong cash generation from our operations, together with the proceeds of the Rights Issue has eliminated gearing, despite investing £56.9 million net of cash and borrowings in acquisitions and capital

expenditure and paying £21.5 million in tax and dividends. A full financial review is contained on pages 8 to 9 of this report.

### Shareholders

Approximately 85% of shareholders took up their entitlement to shares in the recent Rights Issue. The Company values highly the participation of its pharmacist shareholders, which maintains a mutuality of interest between the Company and so many of its customers. At the same time, we have also welcomed several new major institutional shareholders to our register.

Approximately one quarter of UniChem's employees have taken up options in the SAYE share purchase scheme. We operate a number of schemes to encourage small individual investors in our company. These include the single company PEP and general PEP schemes, the scrip dividend offers and employees' SAYE share option scheme.

### Outlook

UniChem continues to strengthen its position in its core businesses and to exploit opportunities in related markets. The long term growth characteristics of the markets in which we trade remain positive. The Group remains committed to providing the best customer service to its pharmacy and retail customers and to offering excellent supply chain to its suppliers. The substantial improvements in computer systems and operational infrastructure achieved during 1994 support our objective to exceed our customers' expectations. We believe our approach to investing in the future and our commitment to customer service will continue to provide long-term benefits for employees and shareholders.

*"The long term growth characteristics of the markets in which we trade remain positive."*



Rippon  
Chairman  
20 March 1995

# CHIEF EXECUTIVE'S REVIEW

*Chief Executive,  
Jeff Harris*



## Industry Perspective

1994 is likely to be judged as the first full year of a 'new reality' in the healthcare sector. In the UK, as in most developed economies around the world, government has increased the pressure to constrain increases in healthcare costs. Lower, but more sustainable market growth has emerged and is likely to be the pattern for the immediate future.

These pressures are prompting a range of responses from pharmaceutical and healthcare companies as they attempt to maintain growth and reposition themselves for the future. In these tougher market conditions, the successful companies will be those who can defend and dominate by concentrating on the fundamentals of their businesses. UniChem is well placed to succeed, with our attention to service levels to patients and customers alike, combined with the most cost-efficient network of any national wholesaler.

## Community Pharmaceutical Market

In the UK wholesale market, the 2.5% price cut imposed by the Department of Health in 1993 adversely affected value growth throughout 1994. Volume growth also suffered as newly established GP fundholders and hospital trusts found economic advantages in taking local action to constrain drug costs, such as generic prescribing. With some large seasonal variations, total market growth for the year settled down at around 6%,

some 3-4% below the levels experienced in recent years and 6% less than the Government's original predictions for 1994. Whilst the UK enjoys amongst the lowest drugs cost per capita of the leading European economies, demographic and therapeutic trends point to sustained market growth at these lower rates.

There has been much comment about the likelihood of the introduction of pharmacy benefit management and of mail order pharmacy to the United Kingdom market. Although we expect to see new initiatives developed in the healthcare markets, we judge that these will be introduced in an evolutionary way and only where economic opportunities can be combined with service efficiency.

## The OTC Market

Whilst prescription medicines represent the overriding majority of our sales, we also have very significant businesses in the over-the-counter (OTC) market. That sector divides into OTC toiletries and OTC medicines and these two elements showed very different growth patterns.

The OTC toiletries market showed very little growth, since the grocery superstores have continued to take market share from pharmacies in the traditional OTC categories such as slimming aids, haircare and baby products. With the exception of a strong Christmas trading season, consumer confidence in 1994 remained fragile. By contrast, the market in OTC medicines, particularly 'P' medicines which may only be sold under the supervision of a pharmacist, has shown faster growth.



### Competitors

During 1994, competition amongst wholesalers remained very keen and we saw a further reduction in the number of wholesalers. Having acquired one regional wholesaler (Bradford Chemists Alliance Limited; BCA) at the end of 1993, we acquired a further major regional wholesaler during 1994 (Hall Forster Limited) and one other regional wholesaler was acquired by a retail pharmacy competitor. The more significant development has been the recent hostile bid for AAH by GEHE AG, the German pharmaceutical wholesaler. Whilst the outcome of this bid cannot be foreseen, it demonstrates the strategic importance of the pharmaceutical wholesaler in the European healthcare chain.

### Hospital Market

The trend of manufacturers switching from direct supply to using the wholesale channel continued into 1994. We won a number of additional contracts, including those of Reckitt & Colman, Dumex, Bayer and Warner Wellcome, and we achieved sales growth in this sector well in excess of 30%. Whilst net margins in this sector have always been thin, it remains our policy to compete only for business which offers margins comparable with our core business.

### Retail Pharmacy

In the retail market, 1994 saw a continuation of the long-term pressures on retail pharmacy margins. The loss of OTC toiletry market share to grocery superstores and the structural impact on margins, caused by lower than inflationary increases in pharmacists' dispensing fees, are principally to blame. These economic pressures and the age profile of pharmacists continue to ensure that we have opportunities to selectively expand the Moss Chemists chain. Moss is deliberately positioned with higher

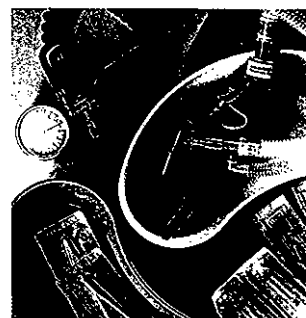
quality retail pharmacies. It is our unequivocal view that our group of consistently high-quality pharmacies represents a business which will yield excellent long-term earnings growth. Although this positioning implies a limited availability of suitable acquisition candidates from the 9,000 or so remaining independent chemists, we have in practice been able to expand at a satisfactory rate and at reasonable cost. We do not see any reason for this to change in the near future. We remain strong supporters of a healthy independent chemists' sector, providing a range of additional services from loan guarantees to merchandising advice, to a sector which we believe will remain resilient and successful.

### Numark

In 1994, as part of our acquisitions of BCA and Hall Forster, we became shareholders of Numark, the wholesaler-owned marketing organisation. During 1994, Numark changed its structure to become an Industrial and Provident Society owned by retail pharmacists. We are pleased that a sufficient number of pharmacists have subscribed for membership and that the new Numark has been launched. We have been appointed as one of the authorised Numark wholesalers serving three territories.

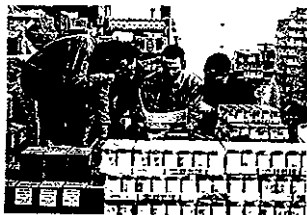
### International Pharmaceutical Services Organisation (IPSO) B.V.

Since 1991, we have held an investment in PAG Pharma Holding AG, a Frankfurt listed company which owns a significant stake in ANZAG, the third largest German pharmaceutical wholesaler. Our involvement in PAG, with other European wholesaling colleagues, was originally intended to fulfil two purposes; to create an investment holding company for ANZAG; and to act as a vehicle to explore joint venturing activities between



*"UniChem is well placed to succeed, with our attention to service levels to patients and customers alike, combined with the most cost-efficient network of any national wholesaler."*

## CHIEF EXECUTIVE'S REVIEW (CONTINUED)



the wholesalers. Following a review in 1994, it was decided to create separate vehicles for these purposes. We retain our interest in ANZAG through our shareholding in PAG and have now participated in IPSO to pursue joint venture activities. IPSO now represents the largest European alliance of eight pharmaceutical wholesalers, each of them leaders in their national markets, with market shares of between 15% and 55% in the largest European markets. IPSO serves 50,000 pharmacies in Europe with combined sales of ECUs 11 billion, making it the largest federation of its kind. As a measure of UniChem's commitment to this consortium, I was pleased to accept my appointment as Chairman of IPSO.

### Growth of Our Business

The pressures and developments in our core markets have very much set the pattern and priorities of our management attention. Our key tasks are continually to raise our efficiencies, to develop our businesses to leading positions and to look for opportunities to exploit related healthcare markets.

*"Growth in our core businesses has been satisfactory, with each sector achieving market share gains."*

We are coming to the end of a two year programme to overhaul radically the Wholesale Division's core computer systems and business processes. These changes support the longer term automation and twinning programme which reached completion in 1994. These improved operational capabilities now give us an excellent opportunity to drive further our already excellent cost efficiencies. These investments have begun to bear fruit; medical service levels seen in the first quarter of 1995 have broken new records. We expect to maintain our position as the industry's most efficient national wholesaler.

Growth in our core businesses has been satisfactory, with each sector achieving market share gains. Organically we have either kept pace with or exceeded market growth, with the Wholesale Division ending the year with a net gain in the volume and value of accounts. In Portugal, our growth outstripped the market as our investments in management, systems and latterly a new warehouse, have begun to raise service levels above the competition. The Retail Division added a net 100 new units and in particular made excellent progress in winning 7 new pharmacy licences (approximately 11% of the total awarded during the year for the whole of the UK).

Our acquisition of Hospital Management and Supplies has given us access to an important new market. We can now complement our pharmaceutical sales to hospitals with a full range of medical and surgical consumables. Trust hospitals are increasingly looking for efficient private sector suppliers who can offer a high level of customer service in this market, and the prospects for the growth of HM&S are positive. The operations of HM&S are now integrated into the Wholesale Division's distribution structure, utilising the capacity created by the depot restructuring. We are keen to explore the potential for moving into further related healthcare markets to absorb the future capacities being created.





*Right: The high density automated picking machine at our Leeds distribution centre.*

To assist us in the development of the Group, we have recruited a small Corporate Development team comprising Mark Thomas, formerly a management consultant, and Musa Dhalla, previously the Business Editor of The Pharmaceutical Journal.

### Performance

Against the background of lower market growth, structural margin pressures and a demanding programme of internal change, our performance in 1994 was all the more impressive. We have increased our market share in all our markets and Group operating margins have been increased. We have absorbed around £1.5 million of non-recurring revenue costs associated with the Wholesale Division restructuring programmes. In 1995 we shall benefit from full year contributions from these businesses bought part-way through 1994. A separate analysis of each Division's performance is set out on pages 10 to 18 of this report.

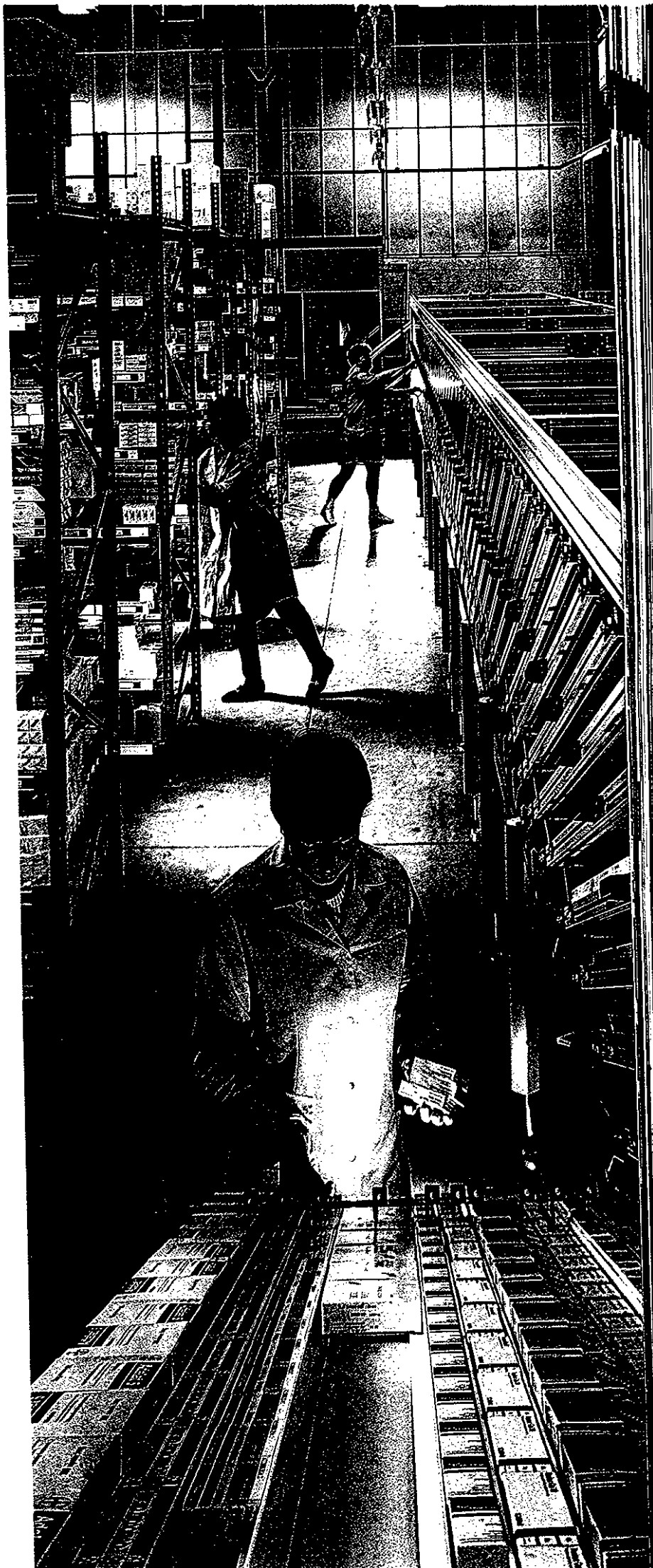
### Prospects

The more sustainable market growth for prescription pharmaceuticals and internal developments completed by the Group give us an excellent platform for future growth. The prospects for a return to growth in the OTC market are positive as an increasing range of new pharmacy-only medicines receive licensing approval. Further growth opportunities are available from our emerging businesses and our entry into related healthcare markets.

We look forward to 1995 with confidence.

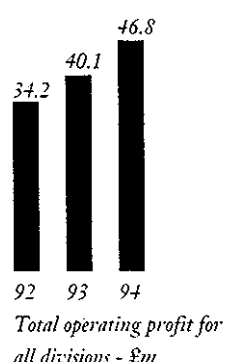
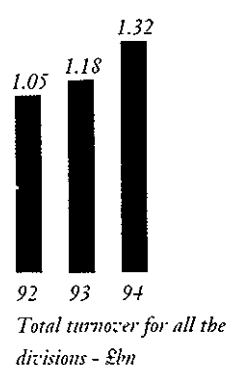
*Jeff Harris*  
*Jeff Harris*

Jeff Harris  
Chief Executive  
20 March 1995



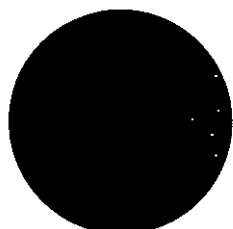
# FINANCIAL REVIEW

Geoff Cooper,  
Finance Director.



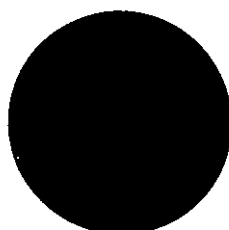
## Summary

Group turnover growth of 12.5% and an improvement in Group Operating Margin from 3.40% in 1993 to 3.53% this year resulted in a 16.7% increase in Group Operating Profits to £46.8 million. Interest costs remained broadly level and consequently the growth in Profit Before Tax was 17.3% to £44.0 million. The tax charge fell from 33.8% to 32.7% and Profits After Tax grew by 19.4% to £29.6 million. Fully diluted Earnings Per Share were 18.8 pence, an increase of 11.2% over the 1993 figure, adjusted for the Rights Issue. Cash generated from operations increased by 40% to £58.7 million, and "free cash" after tax and dividend payments increased by 53% to £34.5 million. After spending £56.9 million of cash and borrowings on acquisitions and capital expenditure, and raising £58.4 million (net) in the Rights Issue, gearing fell from 16% at the end of 1993 to 1% at the end of 1994.



Turnover by division  
1994

■ Wholesale 84%  
■ Retail 11%  
■ Portugal 5%



Operating profit by  
division 1994

■ Wholesale 79%  
■ Retail 18%  
■ Portugal 3%

## Cashflow

The main contributors to the 40% increase in cash from operations were growth in Operating Profits on the Wholesale and Retail Divisions and better working capital ratios in the Wholesale Division. After stripping out £9.1 million of working capital associated with the acquisition of Hall Forster and HM&S, underlying Wholesale Division working capital fell by £14.0 million. Retail acquisitions added £6.0 million net working capital during the year. Cash outflow on capital expenditure was £14.6 million, up by £5.6 million as the two year systems redevelopment programme neared completion. In total, £66.9 million was spent on acquisitions, of which 9% was financed by the issue of shares, 20% was financed by the issue of loan notes, 55% was settled in cash and 16% represented net borrowings acquired.

## Net Assets

Net assets grew from £97.9 million to £139.0 million. Retained earnings contributed £17.9 million of this growth, rights issued contributed £58.4 million and other share issues contributed £8.1 million. The growth of £41.1 million in net assets was achieved after writing off goodwill of £43.9 million, arising from acquisitions. To date, some £133 million of goodwill associated with acquisitions, of which £111 million relates to pharmacy goodwill, has been written off in compliance with accepted accounting practice. This policy of fully writing off all goodwill is conservative compared to that of many retailers who attach premium values to the goodwill or alternatively use valuations associated with specialist retailing and carry higher asset values in their balance sheets. It is

to be hoped that the current debate within the accounting profession about the treatment of purchased goodwill produces a policy which will enable the Group to reflect in its financial statements a more appropriate value for the assets it employs.

## Funding and Interest Costs

Total net borrowings at the end of 1994 stood at £1.0 million, with cash in hand of £50.9 million and Gross Borrowings of £51.9 million. Gross Borrowings comprised; obligations under finance leases, £7.5 million, Loan Notes, £13.6 million, issued in respect of retail pharmacy acquisitions; and £30.8 million of bank borrowings. The loan notes in issue are repayable at one month's notice on certain dates in the year or at the end of 2004 or 2005 and bear interest at LIBOR less 1%. The £30.8 million of bank borrowings comprise a fixed loan of £11.4 million secured on the Group's assets; and overdraft borrowings of £19.4 million. The fixed loan bears interest at the higher rate of 7% or LIBOR plus 1.1%. In May 1994, under the terms of the loan, the Group opted to fix the rate at 7% until April 1995 and as a result, has avoided excess interest costs of approximately £15,000 over this term.

Under arrangements re-negotiated during 1994, the Group has total UK overdraft and money market facilities of £86.7 million with 2 banks.

In Portugal, the Group has £6.3 million of facilities with 4 banks. Following a review in May 1994, £4.8 million of external borrowings were replaced by intercompany loans from the UK, so as to take advantage of the better margins available from the London Escudo market and to avoid Portuguese stamp tax.

## Financial Risk Management and Foreign Exchange

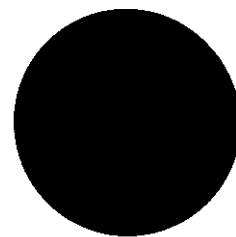
Apart from the arrangements detailed above, the Group has not entered into any agreements or obligations aimed at managing interest costs or foreign exchange exposure. As noted in the Statement of Total Recognised Gains and Losses on page 29, the Group experienced exchange gains of £253,000 (1993: losses of £503,000) due to translation differences on consolidation, following Escudo exchange movements. The Company also guarantees the borrowing of certain of its retail pharmacy customers. These arrangements are described in detail in note 33 to the accounts.

## Corporation Tax

The fall in the corporation tax rate from 33.8% last year to 32.7% in 1994 was due to a number of actions with relatively small impact taken to reduce the Group's tax exposure, following a detailed review conducted in mid-1994. It is not expected that the Group's tax rate will change significantly from current levels.

## Outlook

Underlying cash generation from our core businesses is expected to remain strong. Capital expenditure requirements are expected to decline in 1995, following completion of the current systems and automation programme. The Group remains interested in pursuing opportunities to invest into related healthcare markets.



Sources of funding

- Increased share capital 50%
- Operating activities 50%



Application of funds

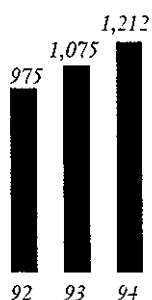
Acquisitions 52%

- Taxation 16%
- Capital expenditure 15%
- Returns on investment and servicing finance 12%
- Loans and lease payments 5%

## BUSINESS REVIEW - WHOLESALE DIVISION



*Wholesale executives  
Chris Etherington,  
Tony Foreman and  
Keith Slater in  
discussion.*



*Turnover for the wholesale  
division - £m*



*Operating profit for the  
wholesale division - £m*

Total year on year sales growth for the Division was 12.8%. The acquisitions of regional pharmaceutical wholesalers Bradford Chemists Alliance Limited (BCA), Hall Forster Limited and the specialist hospital medical/surgical wholesaler Hospital Management & Supplies Limited (HM&S) contributed some 7.0%, leaving the underlying like for like growth at approximately 6%, ahead of market growth. The operating margin improved from 3.0% to 3.1% despite absorbing £1.5 million of non-recurring costs associated with the computerisation and warehouse restructuring programmes.

### Pharmaceutical Wholesale Acquisitions

BCA was acquired on the last day of the previous financial year and has been fully integrated into our Leeds warehouse where a second automated picking machine was commissioned in August 1994. Hall Forster Limited was acquired in April 1994, and in July 1994 our existing Wallsend branch business was fully consolidated into the Hall Forster operation. We are pleased that the overriding majority of those companies' customers have remained as valued customers of the UniChem Group.

### Hospital Management & Supplies Limited (HM&S)

HM&S was acquired in May 1994 and previously operated from two depots at Glasgow and Northampton. We have withdrawn from the facilities used at Northampton and transferred the operations to our central distribution centre at South Normanton. The Glasgow operation will be consolidated with South Normanton and Livingston in early 1995, from where we shall offer high service levels using the nationwide delivery network of the UniChem depots. As well as offering a quick response daily delivery service, we operate at high levels

of cost efficiency, utilising the existing infrastructure and overhead base. HM&S has a newly-relocated Head Office at Northampton for Marketing, Sales and Customer Services functions.

We believe that the development of an efficient private sector supplier of medical and surgical consumables will be well received by manufacturers and customers alike and we judge that the growth prospects for HM&S are very positive.

### Marketing

A number of sales initiatives and promotional schemes were launched in 1994 and we ended the year with a net gain in pharmacies served and a significant gain in the value of business won. Although competition in the sector is always keen, we have not seen any significant increase in pressure on operating margins. Sales in the hospital sector were again buoyant, following our success in winning new contracts, and turnover was up 34% on the previous year's levels.

In the first half, we launched a scheme to include pharmacy-only medicines in our twice daily medical delivery service and into the product ranges qualifying for ethical medical discount. For this increasingly important product range, we now provide pharmacists with better service levels, offering them better margins and a reduced stock investment. Sales of pharmacy only OTC medicines are now running at a year on year increase of 34%. We also launched in the first half our merchandising advisory service, which has been well received and further builds on our customer relationships. In the second half we launched a major scheme to improve our market share of generic pharmaceuticals, a market where short line wholesalers have traditionally been strong. The year on year rate of generics' sales increase has now reached over 15%.

*Right: Bulk items held at the central  
distribution centre, South Normanton.*





We continue to expand our successful own label ranges. In 1994 we launched new products in the antihistamine, haircare and men's shaving categories. The range has now extended to nearly 500 products, an increase of 9%. Own label sales now account for 10% of OTC turnover. We have also extended the range of branded products made available to our customers.

Our Gold Partners' scheme continues to offer our participating pharmacists enhanced profit opportunities through better margins in return for commitments on ranging and merchandising. In the first half of 1994, general sale and pharmacy-only medicines were added to the Gold Partners' portfolio.

Our exclusive developing and printing agency with Kodak has now reached over 2,000 participating pharmacies and we are planning more range extensions into further product categories to improve our overall service to customers.

### UniChem and its Customers

A very successful annual convention was held in Vancouver in September 1994, with over 300 pharmacists and suppliers participating. The theme of the convention was "Delivering Healthcare" to coincide with the launch of our new corporate logo. The convention was again successful in forging closer relationships between UniChem and its customers and suppliers, whilst providing an important platform for the discussion of issues of concern to the industry. We were also delighted to learn that the 1993 annual convention in Bali has won a silver award from the Incentive Travel Meetings Association.

*Left: Serving our customers' needs with improved order, invoicing and query resolution systems.*

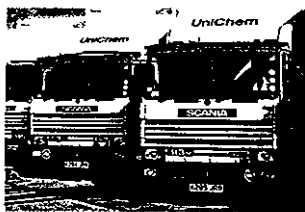
In the latter part of 1994, the two-year systems redevelopment programme began to deliver changes with direct benefit to customers. The increased speed of order assembly, resulting from the warehouse automation programme, means that we can accept orders later from customers whilst getting the medicines into the pharmacy more quickly. Improved financial systems meant we were able to reduce by one day the time between month end and the issue of statements, giving pharmacists the opportunity to improve their cashflow by obtaining quicker VAT refunds. In the early part of 1995, customers will benefit from improved invoicing and query resolution routines. Easier order placing with better pricing and stock availability data will be available following the launch of a new order entry terminal planned for the second quarter of 1995.

The implementation of these system changes has not only put great pressure on our staff, but also caused changes to routines and uncertainty for our wholesale customers. Whilst we do everything we can to minimise any disruption for our customers, we are also most appreciative of their forbearance and continued support as the changes are being made. To improve overall customer communication, we have also restructured the Sales Force. The role of Regional Sales Manager (RSM) has been created for each of the twinned pairs of UniChem depots to work with the Branch General Managers. The RSMs are responsible for the local Sales Force team and for liaison between customers and their UniChem depot.



*"The increased speed of order assembly, resulting from the warehouse automation programme, means that we can accept orders later from customers whilst getting the medicines into the pharmacy more quickly."*



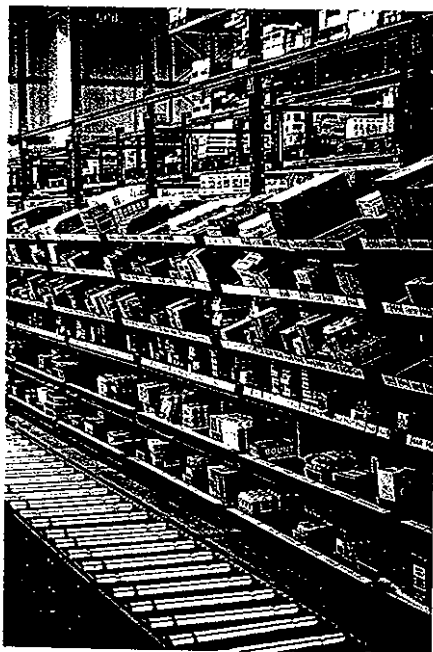


*"The investments made in new systems and the new warehouse structure will enable further improvements in stock levels, service levels and cost efficiencies to be achieved during 1995."*

The regional committees were also restructured in 1994 to reflect the new twinned depot arrangements. The committees met three times and there was also a national meeting for all delegates. Topics discussed ranged from aspects of current and proposed services from UniChem to industry-wide issues of concern to all pharmacists. The committees continue to be a highly valued and effective mechanism for communication between UniChem, its customers and the industry.

### Financial Support to Retail Pharmacy

One of the principal ways in which UniChem supports independent retail pharmacy is through the loan guarantee scheme which assists pharmacists in financing their first or subsequent pharmacy acquisition. At the end of the year we had given guarantees to financial institutions of £112.6 million to facilitate the independent pharmacists in the financing of over 1,250 pharmacies. In 1994 alone we guaranteed over £36 million to finance 180 such shop acquisitions. This financial support is rewarded by the trading commitment of the pharmacists whom we have helped and shows very low rates of commercial failure.



### Distribution

Our warehouse twinning and automation programmes have been substantially completed and the associated systems programme is nearing completion. In the latter half of 1994, new systems for inventory control and central replenishment were commissioned and in early 1995 new systems for order processing will go live. All branches are expected to be fully operational on these systems by the end of the second quarter 1995. The extended facility at South Normanton central distribution centre was commissioned and at the end of 1994, we were about halfway through the centralisation of OTC lines. The investments made in new systems and the new warehouse structure will enable further improvements in stock levels, service levels and cost efficiencies to be achieved during 1995. The one-off implementation costs of this programme in 1994 were approximately £1.5 million, together with higher inventory costs borne during the stock relocation exercise.

### Outlook

The positive prospects for long-term underlying market growth, coupled with the opportunities for additional growth from the hospital pharmaceutical, medical and surgical markets, gives us confidence that we shall see continued advances in revenue. Improving internal efficiencies are available from the system redevelopment programme of the last two years and we are confident of further increases in operating margins.

*Right: Continued improvements in order processing ensure UniChem stays highly competitive.*





PRESCRIPTION COLLECTION

GOOD ADVICE IS PART OF OUR



PRESCRIPTION COLLECTION

YOUR PHARMACIST  
GIVES YOU GOOD ADVICE

# MOSS

HEALTHCARE INFORMATION  
SERVICES AVAILABLE

NHS PRESCRIPTIONS  
PRIVATE PRESCRIPTIONS

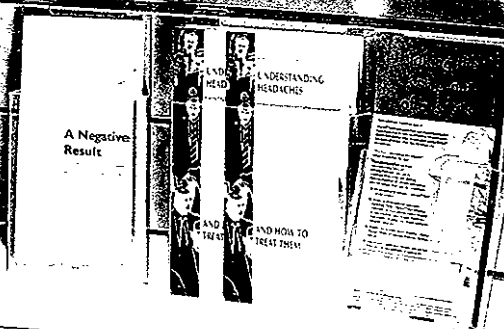
PATIENT MEDICATION RECORDS  
COMMUNITY MONITORED DOSAGE SYSTEM

AIDS FOR THE ELDERLY & DISABLED  
INCONTINENCE AIDS

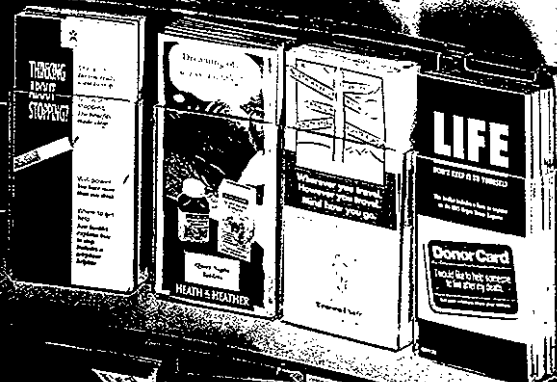
SURGICAL HOSIERY  
MEASUREMENT & FITTING

REPEAT PRESCRIPTION  
COLLECTION SERVICE

LOCAL HEALTHCARE SERVICES  
& HELPLINE INFORMATION



FREE PHARMACY HEALTHCARE LEAFLETS  
PLEASE TAKE ONE



health  
point

More  
power  
to  
your  
body

0120 55 55 44

Total year on year sales grew by 33%, with 4% coming from improved like-for-like volumes. The remainder of the sales increase came from pharmacies acquired during the year. Operating profits grew by £1.7 million to £8.3 million.

Operating margin fell slightly to 5.5%, reflecting the structural pressure on margins caused by the pharmacists' prescription fee paid by the Department of Health rising at a lower rate than prescription sales growth.

## Portfolio

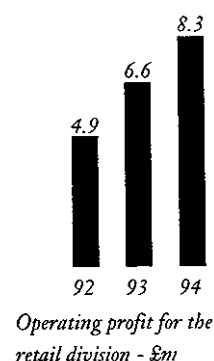
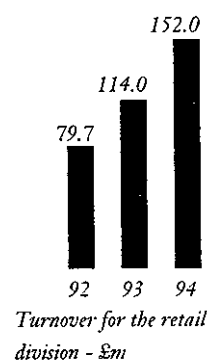
In total, 100 pharmacies were acquired during the year, 7 new licences were obtained and 7 units were sold or closed, leaving 353 units trading at the year end. The largest of the acquisitions in 1994 was that of Molescroft Holdings and Investments Limited, the Selles Group, with other smaller groups such as Em-Ess (10 shops), Galen (10 shops) and Brocklehurst (7 shops) also being acquired. The Selles business principally comprises Selles Dispensing Chemists, with 43 shops trading mainly in the Hull area. These pharmacies all adopted a very similar trading structure to our own Moss Chemists chain, with their emphasis on the highest standards of professional pharmacy advice and service. Selles also operated an occupational health business, Selles Medical Limited, and a small wholesale business, Michael Stewart Limited, which have been integrated into the Wholesale Division. The Retail Division's portfolio also now includes 21 franchised stores, demonstrating the attractions of this franchise programme to young pharmacists seeking to develop their own businesses within retail pharmacy. The number of Moss

pharmacies operating in grocery superstores has also increased, with a number of new contracts in 1994 won with ASDA, Sainsbury and Waitrose, bringing the total up to 52 units.

## Marketing

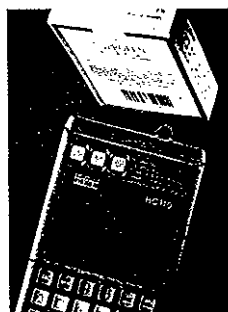
Like for like turnover of NHS dispensing improved by 7%, ahead of the market which grew at 6%. Total turnover growth of NHS dispensing was 41% giving Moss an estimated market share of 3% in this category. In the OTC market, our turnover reflected the general market trend of a continued drift of OTC toiletry business to superstores. Growth in the OTC medicines market helped to partially offset this trend, with major launches of prescription-only medicines as pharmacy medicines. This was fuelled largely by hayfever products, particularly Beconase, Nytol and the H2 antagonist products Tagamet and Pepcid AC. Moss are increasingly working jointly with manufacturers to expand these markets and exploit marketing information. We expect this market to grow significantly in 1995 since an increased number of pharmacy only medicine licences are currently being sought by manufacturers. Total OTC turnover, including the impact of acquisitions during the year, grew by 20% despite the absence of an influenza epidemic in 1994, equivalent to that of 1993, which caused a 12% like-for-like sales fall in November. Moss' emphasis on a complete medicines service continued, with 53 shops being refurbished during the year to make the dispensing, layout and merchandising of OTC medicines more effective.

*"The number of Moss pharmacies operating in grocery superstores has also increased, with a number of new contracts in 1994 won with ASDA, Sainsbury and Waitrose."*



*Left: Shop fittings reinforce the message that good advice is part of the Moss service.*

*Right: Hand held terminals incorporating bar code readers allow fast and simplified re-ordering of stock.*



## BUSINESS REVIEW - RETAIL DIVISION (CONTINUED)

### Operations

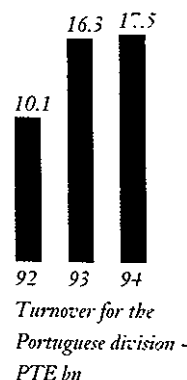
The regional management organisation was restructured and strengthened to absorb the newly-acquired units and in addition a series of training courses was held to achieve higher levels of customer care and improved stock management and procedures throughout the business. The central organisation has also been strengthened to take advantage of the revenue opportunities now available to us as a result of the scale of our enlarged high street presence and to develop our community pharmacy healthcare services. In the future, an increasing proportion of pharmacists' remuneration from the NHS will be derived from the provision of these higher added value patient services. An updated dispensing and patient medications records system "Highway"

was developed jointly with a software house. This will enable Moss to take advantage of this changing emphasis in pharmacists' remuneration.

### Outlook

We do not expect to see any easing of the Department of Health's margin pressure on retail pharmacy as a result of its action to constrain healthcare costs. However, economies of scale are emerging as the retail chain grows and Moss Chemists is well positioned to benefit from the broader remuneration sources that will become available for retail pharmacy from Government. These factors, combined with a growing OTC medicine market, should produce improvements in operating margins in 1995 and thereafter.

## BUSINESS REVIEW - PORTUGAL



Total year on year sales grew by 7.3% to 17.5 billion Escudos, £68.9 million, ahead of the market which grew at an estimated 2.6%. The one-off costs of merging warehouses in Porto held back the growth in operating profits, which were £1.4 million for the year.

### Marketing

The commercial management team in Portugal was strengthened during the year. Although we ended the year with a gain in account numbers, the majority of our market growth has come from greater turnover with existing accounts. These gains are due to improved service levels achieved from changes made to operational systems and procedures following acquisition by UniChem. The stable competition has meant that it has not been necessary for us to raise customer discount rates in achieving these increases in market share.

### Operations

The new warehouse facility in Porto was fitted out and commissioned in November 1994 and we disposed of our interest in the previous main Porto facility. The new warehouse has substantial capacity for additional growth and we plan to extend its geographic coverage in 1995 to areas not currently served by us. The consolidation of the stocks from the previous two depots will also allow improvements in working capital and cost efficiency to be achieved during 1995.

### Outlook

We expect volumes to continue growing ahead of the market and we anticipate cost efficiency gains now that the Porto warehouse has been commissioned. We are confident of continuing to grow operating margins to levels approaching those enjoyed in the UK.



ECCE SIGNUM SALUTIS  
SALUS IN PERICULIS

16-33-EX

DROGARIA GRANADO  
MANSO, PRETO  
MARTINS, MACHADO & BILELO

UniChem







UniChem complied fully with the Code of Best Practice, published by the Committee on the Financial Aspects of Corporate Governance, during 1994 to the extent that relevant guidance for directors was available and had come into effect.

The Board of Directors met formally on six occasions during 1994 and the six standing committees of the Board of Directors met as required under their terms of reference, as detailed below. Five other committees were established in 1994 to undertake specific tasks which have all been completed. Where specific decisions of the committees are relevant they are detailed in the pertinent section of the 1994 annual report.

The required frequency of meetings and the membership of the six standing committees are detailed in the table below.

The audit committee met three times in 1994 and its main purposes are: to provide a conduit for the interface between the company and the auditors; to review the financial statements of the company focusing particularly on compliance with legal, regulatory and

accounting standard requirements and the going concern assumptions; and to review the internal controls of the company.

The executive, sealing and share capital committees are constituted so that the company can function on a day to day basis taking care of routine matters not requiring the consideration of the Board as a whole. Under the terms of reference of these committees parameters have been established which limit their authority to act without consulting the Board as a whole. In 1994 the executive, sealing and share capital committees met 45, 101 and 27 times respectively.

The nomination committee did not meet in 1994. Its role is to recommend to the Board any appointment as a director and any re-appointment of a non-executive director at the end of their five year term of office.

The remuneration committee met three times in 1994 and is authorised to recommend to the Board the levels of remuneration of the directors and to grant options under the executive share option scheme.



*The audit committee, Michael Bardsley, Neil Chapman and Marianne Burton with Company Secretary, Adrian Goodenough.*

## Committees of the Board of Directors

### Frequency of meetings

- weekly, if possible
- minimum number of times per year
- as required

### Committee members:

#### non-executive directors

Lord Rippon - chairman  
M.A. Bardsley  
Mrs M.F. Burton  
W.N.P. Chapman  
D.C. Mair - deputy chairman

#### executive directors

J.F. Harris - chief executive  
B.M. Andrews - retail director  
G.I. Cooper - finance director  
K.S.S. Hide - commercial director

#### company executives

C. Etherington - director of wholesale operations  
A.D. Foreman - director of wholesale marketing & sales  
A.J. Goodenough - company secretary  
S.D. Sampson - group financial controller  
K.G.H. Slater - head of wholesale management services  
M.E. Thomas - head of corporate development

#### external

auditor's representative

	audit	executive	nomination	remuneration	sealing	share capital
Frequency of meetings	-	x	-	-	-	-
• weekly, if possible	2	-	-	1	-	-
• minimum number of times per year	-	-	x	-	x	x
• as required	-	-	-	-	-	-

	r	r	CM	CM	r	r
Lord Rippon - chairman	CE	r	-	-	r	r
M.A. Bardsley	E	r	E	-	r	r
Mrs M.F. Burton	E	r	-	-	r	r
W.N.P. Chapman	r	r	-	E	r	r
D.C. Mair - deputy chairman	r	r	-	E	r	r

	r	CM	M	M	CM	CM
J.F. Harris - chief executive	r	M	-	-	M	M
B.M. Andrews - retail director	A	M	-	-	M	M
G.I. Cooper - finance director	r	M	E	-	M	M
K.S.S. Hide - commercial director	r	M	E	-	M	M

	-	I	-	-	-	-
C. Etherington - director of wholesale operations	-	I	-	-	-	-
A.D. Foreman - director of wholesale marketing & sales	A	A	A	A	A	A
A.J. Goodenough - company secretary	A	-	-	-	-	-
S.D. Sampson - group financial controller	-	I	-	-	-	-
K.G.H. Slater - head of wholesale management services	-	I	-	-	-	-
M.E. Thomas - head of corporate development	-	I	-	-	-	-

	A	-	-	-	-	-
auditor's representative	A	-	-	-	-	-

'A' indicates an automatic attendee of the committee,

'C' indicates the chairman of the committee,

'E' indicates an elected member of the committee,

'I' indicates a regular attendee of the committee by invitation,

'M' indicates an automatic member of the committee, and

'r' indicates an individual with the right to attend a meeting of the committee.

## DIRECTORS' BIOGRAPHIES



*Executive committee, from left to right, Kelvin Hide, Jeff Harris, Geoff Cooper and Barry Andrews.*

**The Rt. Hon. The Lord Rippon of Hexham, P.C., Q.C. Chairman (Non-Executive)**  
Lord Rippon of Hexham (aged 70) is a Barrister of the Middle Temple and a Queen's Counsel. He entered the House of Commons in 1955, has served as a Cabinet Minister and was created a Privy Councillor in 1962. He was appointed a Life Peer in 1987. He is Chairman of Dun & Bradstreet (UK) Limited, Michael Page Group plc, Guerile Investments Limited, and Brassey's Limited. He was appointed to the Board and as Chairman in 1990.

**B.M. Andrews, B.Pharm., M.R.Pharm.S. Retail Director**  
Barry Michael Andrews (aged 50) is a Pharmacist. He is Managing Director of Moss Chemists, a position he held at the time the company was taken over by UniChem, and was appointed to the Board in 1992. He is a member of the Pharmaceutical Services Negotiating Committee and a Director of the Company Chemists Association.

**M.A. Bardsley, M.A. Non-Executive Director**  
Michael Ambrose Bardsley (aged 65), after obtaining extensive North American experience in marketing, assumed European managerial responsibility for Dun & Bradstreet Inc. and subsequently I.T.T. World Directories Inc.. He was appointed to the Board in 1990.

**Mrs M.F. Burton, M.A. Non-Executive Director**  
Marianne Frances Burton (aged 38) is a Solicitor. She worked for Slaughter & May before entering corporate finance with Samuel Montagu and then UBS Phillips & Drew where she was the Director that led the team that handled the UniChem flotation on the Stock Exchange. She was appointed to the Board in 1991.

**W.N.P. Chapman B.Pharm., F.R.Pharm.S. Non-Executive Director**  
William Neil Paulin Chapman (aged 57) is a Pharmacist with his own independent pharmacy business. He was an active member of UniChem's Northern Regional Committee, latterly as Chairman, and was re-appointed to the Board in 1993 having previously served between 1985 and 1990.

**G.I. Cooper B.Sc., A.C.M.A. Finance Director**  
Geoffrey Ian Cooper (aged 41) is a Cost and Management Accountant. He gained his qualification working in industry and then worked as a Management Consultant with two leading firms before joining the Gateway Group where he became Group Finance Director. He joined UniChem and the Board as Finance Director in 1994.

**J.F. Harris, B.Sc., F.C.A. Chief Executive**  
Jeffery Francis Harris (aged 46) is a Chartered Accountant. He worked for Turquands Barton Mayhew & Company and Spicer & Pegler for fourteen years. He joined UniChem as Chief Accountant in 1985, was appointed to the Board as Finance Director in 1986, was appointed Deputy Chief Executive in 1991 and was appointed Chief Executive in 1992.

**K.S.S. Hide, B.A. Commercial Director**  
Kelvin Stephen Saxby Hide (aged 47) worked for Robson-Morrow as a Management Consultant. He joined UniChem in 1971, was appointed Assistant Operations Director in 1978 and was appointed to the Board as Operations Director in 1984. He assumed his current responsibilities in 1994.

**D.C. Mair, M.R.Pharm.S. Deputy Chairman (Non-Executive)**  
David Campbell Mair (aged 59) is a Pharmacist with his own independent pharmacy business. He is a former Chairman of the Pharmaceutical General Council and a former Chairman of the National Pharmaceutical Consultative Committee. He was appointed to the Board in 1976 and was Chairman between 1985 and 1990.



# REGIONAL COMMITTEES

of UniChem PLC

The regional committees consists of independent pharmacy customers of the wholesale division chosen by the relevant chairman of the committee, who is himself an independent pharmacy customer. Each committee meets three times a year to discuss with UniChem senior personnel those issues which are important to the industry and to the service of the wholesale division. After each round of meetings the Chairmen meet as a body, together with the two pharmacist non-executive directors, to highlight particular areas of concern across the country. Once a year a national meeting is held for all committee members.

## Mid East

Mr. J. Cook (Chairman), Norwich, Norfolk, Tel. 01603 622868

## Letchworth Branch

Mr. A. Hawkins, High Wycombe, Bucks, Tel. 01494 711557

Ms. J. Lawson, Stamford, Lincolnshire, Tel. 01780 63197

Mr. H. Patel, London W13, Tel. 0181 576 0727

Mr. G. Phillips, St. Albans, Herts., Tel. 01727 852012

Mr. M. Twelvetees, Dunstable, Beds., Tel. 01582 688680

## Walthamstow Branch

Mr. V.G.H. Irvine, Woodford Green, Essex, Tel. 0181 504 6117

Mr. C. Shearer, Ipswich, Suffolk, Tel. 01473 728007

Mr. B. Shooter, Ipswich, Suffolk, Tel. 0181 500 2099

## North East

Mr. K. Swanson (Chairman), Hull, N. Humberside, Tel. 01482 657039

## Leeds Branch

Mr. I.R. Conquest, Bradford, W. Yorks, Tel. 01274 571450

Mr. M. Cutler, Morley, Leeds, Tel. 01532 533143

Mr. A. Dobson, High Burton, Huddersfield, Tel. 01484 603183

Mr. A. Penney, Barnoldswick, Lancs, Tel. 01282 813766

## Newcastle Branch

Mr. A. Cairns, Dumfries, Dumfrieshire, Tel. 01387 69183

Mr. M. Hogg, Cullercoats, Tyne & Wear, Tel. 0191 252 1282

Mr. U. Patel, Sunderland, Tyne & Wear, Tel. 0191 548 6364

## North West & Scotland

Mr. J.H.H. Groat (Chairman), Edinburgh, Lothian, Tel. 0131 225 7770

## Livingston Branch

Mr. G.E. Allan, Edinburgh, Lothian, Tel. 0131 667 4923

Mrs D.A. Fisher, Edinburgh, Lothian, Tel. 01383 723862

Dr. S. Kayne, Clarkston, Renfrewshire, Tel. 0141 644 4640

Mr. C. Sinclair, Forres, Morayshire, Tel. 01309 672262

## Preston Branch

Mr. P. Barker, Wirral, Merseyside, Tel. 0151 608 5093

Mr. P. Benson, Manchester, Tel. 0161 881 1452

## Preston Branch (continued)

Mr. M. Mansour, Blundellsands, Liverpool, Tel. 01744 814268

Mr. D. Speed, Mold, Clywyd, Tel. 01352 759030

Mr. D. Sukert, Leyland, Lancashire, Tel. 01772 421581

Mr. S. Tanna, Lancaster, Tel. 01524 32618

## South East

Mr. M.H. Smith (Chairman), Ivybridge, Devon, Tel. 01752 896787

## Chessington Branch

Mr. L. Cunliffe, Bournemouth, Dorset, Tel. 01202 428181

Mr. D. Plumb, Southampton, Hampshire, Tel. 01489 892603

Mrs. R.J. Thomas, Reading, Berkshire, Tel. 01734 428990

## Croydon Branch

Mr. S. Amin, Purley, Surrey, Tel. 0181 660 0093

Mr. D. Bishop, Rochester, Kent, Tel. 01634 250882

Mr. W. Patterson, Norbury, London, Tel. 0181 764 1438

Mr. G. Williams, Worthing, East Sussex, Tel. 01903 209767

## South West & Wales

Mr. M.J. W. Chapman (Chairman), Taunton, Somerset, Tel. 01823 282616

## Exeter Branch

Mr. G. Douglas, Bristol, Avon, Tel. 01272 569450

Mr. J. Hincks, Taunton, Somerset, Tel. 01984 623284

Mr. M. Riley, Camborne, Cornwall, Tel. 01209 713194

## Hinckley Branch

Mrs. P. Alesbury, Evesham, Worcs., Tel. 01386 446244

Mr. P.F. Brown, Boston, Lincs., Tel. 01205 364506

Mr. P. Cattee, Chesterfield, Derbyshire, Tel. 01246 862240

Mr. N. Sodha, Redditch, Worcs., Tel. 01527 402146

## Swansea Branch

Mr. P. Parry, Crymmych, Dyfed, Tel. 01239 831243

Mr. J.B. Shackleton, Abergavenny, Gwent, Tel. 01873 853219

Mr. J. Wall, Abergavenny, Gwent, Tel. 01873 853219

Mr. D.P. Williams, Dollgellau, Gwynedd, Tel. 01341 422471



*David Mair talks with Neil Chapman, both of whom are independent pharmacists and non-executive board members.*

# REPORT OF THE DIRECTORS

for the UniChem Group and UniChem PLC

The statements, reviews, notices and notes constituting the 1994 annual report are material to an appreciation of the business of UniChem and as such form part of this report of the directors.

## Directors

The current directors of the Company are shown on page 22. During the year Mr G.I. Cooper joined the board as Finance Director replacing Mr G.T. Sewell on his resignation. Mr W.H. Hart retired.

## Employees

UniChem aims to employ the best qualified personnel and to provide equal opportunity in the selection and advancement of employees regardless of age, race, colour, national origin, religious persuasion, sex or marital status.

Full and fair consideration is also given to disabled applicants for employment, having regard to their particular aptitudes and abilities. If any employee becomes disabled the objective is the continued provision of suitable employment either in the same or an alternative position with appropriate training if necessary.

The company communicates with all employees through regular staff briefings and publication of a staff newsletter. Employees with share options also receive a copy of this report. Subject to practical and commercial considerations, employees are consulted and involved in decisions that affect their employment or future prospects.

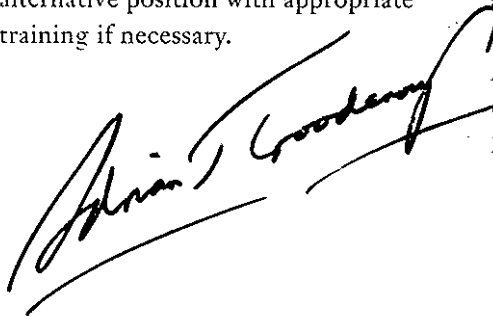
## Political and charitable gifts

The sum of £20,000 inclusive of tax credit has been given to the Charities Aid Foundation. A further £7,500 has been given to various local charities. No political gifts were made during the financial year.

## Animal testing

It is the policy of the company that only skin care products that have not been tested on animals will be introduced to our Own Brand range and that wherever possible our retail pharmacies will only stock other brands with the same policy.

Approved by the Board of Directors  
and signed on their behalf

  
A.J. Goodenough  
Company Secretary  
20 March 1995

# STATEMENT OF DIRECTORS' RESPONSIBILITIES

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## Going Concern Statement

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

## Statement of Directors' Responsibilities for the Financial Statements

This statement, which should be read in conjunction with the Auditors' Report, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the financial statements.

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 state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss for the financial year.

The directors consider that, in preparing the financial statements on pages 26 to 43 which have been prepared on a going concern basis, appropriate accounting policies have been used, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the company at any time and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

## REPORT OF THE AUDITORS

to the members of UniChem PLC

We have audited the financial statements on pages 26 to 43 which have been prepared under the accounting policies set out on page 30.

## Respective responsibilities of directors and auditors

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

## Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, 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 and the Group as at 31 December 1994 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



# **CONSOLIDATED PROFIT AND LOSS ACCOUNT** for the year ended 31 December

	Note	1994 £000	1993 £000
Turnover	2	1,324,658	1,177,623
Cost of sales		(1,206,314)	(1,077,810)
Gross profit		118,344	99,813
Administrative expenses		(79,892)	(67,807)
		38,452	32,006
Other operating income	3	8,307	8,069
Operating profit	2	46,759	40,075
Interest receivable	4	307	471
Interest payable	5	(3,055)	(3,041)
Profit on ordinary activities before taxation		44,011	37,505
Tax on profit on ordinary activities	9	(14,375)	(12,675)
Profit on ordinary activities after taxation	10	29,636	24,830
Dividends	11	(11,737)	(9,253)
Retained profit for the financial year		17,899	15,577
Earnings per share	12		
- Undiluted		19.3p	17.3p
- Fully diluted		18.8p	16.9p

# CONSOLIDATED BALANCE SHEETS

at 31 December

		The Group		Company	
	Note	1994	1993	1994	1993
		£000	£000	£000	£000
<b>Fixed assets</b>					
Tangible assets	13	59,757	39,002	34,584	23,933
Investments	14	7,598	6,212	74,804	29,878
		67,355	45,214	109,388	53,811
<b>Current assets</b>					
Stocks	15	112,486	96,023	82,798	72,876
Debtors	16	209,333	174,239	155,924	154,702
Cash at bank and in hand		50,902	9,193	42,730	5,195
		372,721	279,455	281,452	232,773
<b>Creditors: amounts falling due within one year</b>					
Bank overdraft		19,453	9,429	4,823	-
Trade creditors		211,768	159,109	197,447	145,425
Sundry creditors	17	51,161	42,243	43,821	35,457
		282,382	210,781	246,091	180,882
<b>Net current assets</b>		90,339	68,674	35,361	51,891
<b>Total assets less current liabilities</b>		157,694	113,888	144,749	105,702
<b>Creditors: amounts falling due after more than one year</b>	18	15,765	13,559	15,765	12,315
<b>Provisions for liabilities and charges</b>	19	2,937	2,443	518	239
		138,992	97,886	128,466	93,148
<b>Capital and reserves</b>					
Called up share capital	20	17,194	14,232	17,194	14,232
Share premium account	20	61,193	9,182	61,193	9,182
Shares to be issued		-	5,502	-	5,502
Special reserve	21	-	-	-	-
Profit and loss account	21	102,607	84,133	92,081	79,395
Goodwill	21	(42,002)	(15,163)	(42,002)	(15,163)
<b>Total Equity shareholders' funds</b>		138,992	97,886	128,466	93,148

The financial statements were approved by the Board of Directors of UniChem PLC on 20 March 1995 and are signed on its behalf by:

LORD RIPPON

J F HARRIS

Directors



# CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December

	Note	1994 £000	1993 £000
<b>Net cash inflow from operating activities</b>	24	58,734	41,950
<b>Returns on investment and servicing of finance</b>			
Interest received		320	471
Interest paid		(2,727)	(2,692)
Interest element of finance lease payments		(293)	(289)
Dividends paid		(7,952)	(6,487)
<b>Net cash outflow from returns on investment and servicing of finance</b>		(10,652)	(8,997)
<b>Taxation</b>			
Corporation tax (including ACT) paid		(13,563)	(10,428)
<b>Investing activities</b>			
Purchase of pharmacy goodwill via asset acquisitions		(8,329)	(5,764)
Purchase of tangible fixed assets		(14,580)	(8,969)
Purchase of subsidiary undertakings	26	(34,865)	(10,049)
Other investments		(1,386)	-
Sale of pharmacy goodwill		302	518
Sale of tangible fixed assets		1,958	1,313
<b>Net cash outflow from investing activities</b>		(56,900)	(22,951)
<b>Net cash outflow before financing</b>		(22,381)	(426)
<b>Financing</b>			
Issue of ordinary share capital	28	58,880	1,514
Loans repaid	28	(1,255)	(185)
Capital element of finance lease payments	28	(3,245)	(2,637)
<b>Net cash inflow (outflow) from financing</b>		54,380	(1,308)
<b>Increase (decrease) in cash and cash equivalents</b>	29	31,999	(1,734)

## OTHER PRIMARY STATEMENTS

for the year ended 31 December

### STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	1994	1993
	£000	£000
Profit for the financial year	29,636	24,830
Currency translation differences on foreign currency net investments	253	(503)
Total recognised gains and losses relating to the year	29,889	24,327

### MOVEMENT IN SHAREHOLDERS' FUNDS

	1994	1993
	£000	£000
At 1 January	97,886	93,158
Total recognised gains and losses for the financial year	29,889	24,327
Dividends	(11,737)	(9,253)
Goodwill acquired and written off during the year	(43,861)	(25,536)
Goodwill previously written off now realised	322	759
Shares issued	66,493	14,431
At 31 December	138,992	97,886

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 1994

## (1) ACCOUNTING POLICIES

**Convention.** The financial statements have been prepared in accordance with the historical cost convention and applicable accounting standards. The principal accounting policies adopted within that convention are set out below.

**Basis of consolidation.** The consolidated profit and loss account and balance sheets of the Group consolidate the financial statements of UniChem PLC and its subsidiary undertakings. All undertakings within the Group make up their accounts to 31 December.

**Turnover.** Turnover is the amount derived from the provision of goods and services excluding value added tax and sales between undertakings within the Group.

**Pensions.** The costs of funding the defined benefit pension schemes operated by the Group are estimated on the basis of independent actuarial advice, and are charged to the profit and loss account over the expected service lives of participating employees.

This accounting policy follows the funding policy except where an actuarial valuation indicates that a deficiency or a surplus has arisen. Such surpluses or deficiencies are, for funding purposes, dealt with as advised by the actuary. For accounting purposes, they are spread over the expected remaining service lives of participating employees. The costs of funding the defined contribution pension schemes operated by the Group are charged to the profit and loss account as they are payable.

**Goodwill.** The excess of the purchase price over the fair value of the net tangible assets of businesses acquired in the year is taken to the reserves. This treatment has been adopted in accordance with current accounting standards.

**Fixed asset investments.** Fixed asset investments are stated at cost less an amount equal to underlying goodwill on acquisition and provisions for permanent diminution in value.

**Tangible fixed assets and depreciation.** Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated to write down the cost of these assets to their estimated residual values by equal annual instalments over the period of their estimated useful economic lives at the following rates:

- (a) Freehold buildings - at 2% per annum
- (b) Long and short leasehold properties - at 2% per annum or over the period of the lease whichever is the shorter
- (c) Furniture, fixtures, equipment and motor vehicles - at rates ranging from 10% to 33%, according to their nature.

**Leased assets.** Fixed assets held under finance leases are capitalised and depreciated over the estimated useful life of the asset. The finance charges are allocated over the primary period of the lease in proportion to the capital element of the lease outstanding. The costs of operating leases are charged to the profit and loss account as they accrue.

**Stocks.** Stocks consist of goods held for resale. They are valued at the lower of cost, determined on a first-in, first-out basis, and net realisable value.

**Deferred taxation.** Deferred taxation is provided in respect of significant timing differences to the extent that it is probable that such tax will become payable.

**Foreign exchange.** Transactions of U.K. undertakings denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. These translation differences are dealt with in the profit and loss account.

Balance sheets of foreign undertakings are translated into sterling at the closing rates of exchange and profit and loss accounts are translated at the average rates of exchange for the year. Differences arising on translation are taken direct to reserves.

## (2) ANALYSIS OF TURNOVER AND OPERATING PROFIT - continuing operations

	Turnover	Operating profit	Turnover	Operating profit
	1994	1994	1993	1993
	£000	£000	£000	£000
Wholesale UK	1,212,257	37,113	1,075,121	31,972
Retail UK	151,988	8,295	113,978	6,642
Wholesale Portugal	68,888	1,351	67,382	1,461
Intra-group sales	(108,475)	-	(78,858)	-
	1,324,658	46,759	1,177,623	40,075



# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 1994

<b>(3) OTHER OPERATING INCOME</b>	1994	1993
	£000	£000
Distribution agency fees, net rental income on pharmacy computer systems and franchise fee income	8,307	8,069

<b>(4) INTEREST RECEIVABLE</b>	1994	1993
	£000	£000
Bank deposit interest	307	471

<b>(5) INTEREST PAYABLE</b>	1994	1993
	£000	£000
Bank loans and overdrafts repayable within five years	1,811	1,905
Other loans	951	847
Finance charges payable on finance leases	293	289
	3,055	3,041

<b>(6) PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	1994	1993
	£000	£000
Depreciation of owned assets	4,639	3,451
Depreciation of assets held under finance leases	2,634	2,474
Total depreciation of tangible fixed assets	7,273	5,925
Operating lease rentals - land and buildings	4,288	3,529
- plant and machinery	148	82
Audit fees	193	204
Other fees paid to the auditors	122	136

The costs of distribution are considered to be a component of cost of sales.

## (7) DIRECTORS

### (a) Directors' shares and other interests

The interests of the directors and their immediate families, all of which are beneficial, in the ten pence ordinary shares of the Company are detailed below.

#### (i) Fully paid shares

Director	1 January 1994	Movements in the year		31 December 1994	Movements in the period		20 March 1995
		bought	sold		bought	sold	
B.M. Andrews	96,410	16,850	-	113,260	-	-	113,260
M.A. Bardsley	5,169	999	-	6,168	-	-	6,168
Mrs M.F. Burton	5,040	974	-	6,014	-	-	6,014
W.N.P. Chapman	44,662	7,442	-	52,104	-	-	52,104
J.F. Harris	7,721	1,490	-	9,211	-	-	9,211
K.S.S. Hide	5,084	971	-	6,055	-	-	6,055
D.C. Mair	45,412	7,568	4,000	48,980	-	4,000	44,980
Lord Rippon	41,281	6,398	-	47,679	1,132	-	48,811
	250,779	42,692	4,000	289,471	1,132	4,000	286,603

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 1994

## (7) DIRECTORS (continued)

### (ii) Options

Director	Option reference	1 January 1994	Granted in the year	31 December 1994	Granted in the period	20 March 1995
B.M. Andrews	2	8,035	-	8,035	-	8,035
	3	3,224	-	3,224	-	3,224
	5	45,000	-	45,000	-	45,000
	6	-	45,000	45,000	-	45,000
		56,259	45,000	101,259	-	101,259
G.I. Cooper	6	-	248,076	248,076	-	248,076
J.F. Harris	1	13,534	-	13,534	-	13,534
	3	3,224	-	3,224	-	3,224
	4	300,000	-	300,000	-	300,000
	5	45,000	-	45,000	-	45,000
	6	-	45,000	45,000	-	45,000
		361,758	45,000	406,758	-	406,758
K.S.S. Hide	1	13,534	-	13,534	-	13,534
	3	3,224	-	3,224	-	3,224
	4	300,000	-	300,000	-	300,000
	5	45,000	-	45,000	-	45,000
	6	-	45,000	45,000	-	45,000
		361,758	45,000	406,758	-	406,758
		779,775	383,076	1,162,851	-	1,162,851

No options lapsed or were exercised during the financial year or between 1 January 1995 to 20 March 1995.

### (iii) Option details

Scheme	Option reference	Exercise price	Date first exercisable	Expiry date
savings related	1	£0.8312	1 November 1995	30 April 1996
savings related	2	£1.68	1 June 1999	30 November 1999
savings related	3	£2.14	1 January 1999	30 June 1999
executive	4	£0.9388	3 September 1993	2 September 2000
executive	5	£2.68	1 November 1996	31 October 2003
executive	6	£2.60	18 October 1997	17 October 2004

The mid-market price of shares at 30 December 1994 was £2.68.

Further details of the savings related share option scheme and the executive share option scheme are given in note 20.

### (iv) Other interests

On 6 October 1994 the UniChem PLC Employee Share Trust (the "Trust") purchased 450,000 nil paid rights shares at a price of £0.12 per share. The Trust also took up its entitlement to shares under the rights offer in full, bringing its total holding at 31 December 1994 to 1,033,333. There was no change to this holding between 1 January 1995 and 20 March 1995. All employees and the executive directors are eligible to benefit from the Trust.

No director has been materially interested in any contract during the financial year which is or was significant to the business of the Company or its subsidiary undertakings.

### (b) Directors' service contracts

B.M. Andrews, G.I. Cooper, J.F. Harris and K.S.S. Hide have service contracts that are terminable by the Company on twelve months notice. No other director has a service contract with the Company.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 1994

## (c) Directors' emoluments

The total emoluments of the directors for the financial year ended 31 December 1994 were:

	all directors					
	1994	1993				
	£000	£000				
basic salaries	907	990				
other cash payments	9	-	chairman		highest paid	
expenses chargeable to UK income tax	3	-	1994	1993	1994	1993
estimated money value of taxable benefits	80	62	£000	£000	£000	£000
basic emoluments	999	1,052	60	60	251	243
performance related payments	-	-	-	-	-	-
	999	1,052	60	60	251	243
contributions to pension schemes	113	182	-	-	37	48
	1,112	1,234	60	60	288	291
compensation for loss of office	100	-				
	1,212	1,234				

The emoluments, exclusive of pension contributions, of the directors, excluding the chairman and the highest paid director, were in the following bands:

	1994	1993
	Number	Number
£0 and over but not exceeding £5,000	-	2
£5,001 and over but not exceeding £10,000	3	2
£25,001 and over but not exceeding £30,000	1	1
£50,001 and over but not exceeding £55,000	1	-
£70,001 and over but not exceeding £75,000	1	-
£150,001 and over but not exceeding £155,000	1	-
£170,001 and over but not exceeding £175,000	-	4
£175,001 and over but not exceeding £180,000	2	-

In common with the rest of the staff at UniChem the salaries of the executive directors are reviewed each year. Following the reviews since flotation in 1990 this has resulted in the executive directors either having their salaries frozen or receiving broadly the same percentage increase as the rest of the staff at UniChem. The emoluments of the directors are recommended to the board by a remuneration committee consisting of the chairman (Lord Rippon), one non-executive director appointed by the board (D.C. Mair) and the chief executive (J.F. Harris).

In reviewing the emoluments for 1995, in December 1994, the committee concluded that, in order to maintain the Company's policy of recruiting and retaining personnel only of the highest calibre and to recognise the increased responsibility of the executive directors in the enlarged and expanding Group, a more fundamental review was required.

Having taken into account the contents of the paper issued by the Association of British Insurers entitled "Long Term Remuneration for Senior Executives" and a wide variety of published data, the salaries of the executive directors were again increased in line with the rest of the UniChem staff. In addition an annual performance related bonus scheme has been introduced equivalent to 10% of basic salaries, which will only be payable if the index of UniChem's total return, as calculated by Datastream, outperforms the total return on the FTSE Mid 250 over a twelve month period.

## (d) Directors' and Officers' insurance

During the year the Company maintained directors' and officers' insurance cover.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 1994

## (8) EMPLOYEES

The average number of staff employed by the Group, which includes directors were:	1994	1993
Wholesale UK	2,799	2,621
Retail UK	2,546	2,053
Wholesale Portugal	190	191
	5,535	4,865

The costs incurred in respect of these employees were:	1994	1993
Wages and salaries	£000	£000
Social security costs	46,266	37,433
Other pension costs (note 31)	3,988	3,354
	1,363	1,586
	51,617	42,373

## (9) TAX ON PROFIT ON ORDINARY ACTIVITIES

	1994	1993
	£000	£000
Corporation tax charge at 33% (1993 33%)	13,356	12,816
Deferred taxation	1,038	(124)
Under (over) provision for earlier years	(19)	(17)
	14,375	12,675

## (10) PROFIT OF THE PARENT COMPANY

	1994	1993
	£000	£000
Dealt with in the accounts of the parent company	24,423	23,067

As permitted by section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these accounts.

## (11) DIVIDENDS

	1994	1993
	£000	£000
Interim paid, net 2.43 pence (1993 2.14 pence)	3,637	3,053
Final proposed, net 4.7 pence (1993 4.19 pence)	8,100	6,200
	11,737	9,253

## (12) EARNINGS PER SHARE

Earnings per share were calculated by dividing the earnings by the weighted average number of shares in issue during the year. The fully diluted earnings per share were calculated by increasing the relevant earnings figures by the amount of interest that could have been earned assuming that the options had been exercised at the start of the relevant year. Further details of the options are given in note 20.

	1994	1993
	£000	£000
Profit after taxation	29,636	24,830
Weighted average number of shares	1994	1993
Undiluted	000	000
Fully diluted	153,503	143,374
	159,806	149,619

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 1994

## (13) TANGIBLE FIXED ASSETS

Group	Freehold land & buildings	Long leaseholds	Short leaseholds	Furniture fixtures & equipment	Motor vehicles	Total
<b>Cost</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
At 1 January 1994	19,355	6,961	1,988	24,947	9,101	62,352
Foreign exchange movement	47	-	-	44	6	97
Additions	3,479	114	122	14,359	4,209	22,283
Subsidiaries acquired	4,416	1,121	116	3,897	755	10,305
Disposals	(895)	(32)	(6)	(1,869)	(3,835)	(6,637)
At 31 December 1994	26,402	8,164	2,220	41,378	10,236	88,400
<b>Depreciation</b>						
At 1 January 1994	1,724	774	887	14,067	5,898	23,350
Foreign exchange movement	2	-	-	30	2	34
Subsidiaries acquired	85	65	63	2,401	400	3,014
Disposals	(37)	(15)	(2)	(1,563)	(3,411)	(5,028)
Charge for the year	412	160	114	4,150	2,437	7,273
At 31 December 1994	2,186	984	1,062	19,085	5,326	28,643
<b>Net book value</b>						
At 31 December 1994	24,216	7,180	1,158	22,293	4,910	59,757
At 31 December 1993	17,631	6,187	1,101	10,880	3,203	39,002
<b>Company</b>						
<b>Cost</b>						
At 1 January 1994	11,260	5,003	1,373	15,660	8,224	41,520
Additions	273	82	22	10,888	3,733	14,998
Inter company transfer	262	700	-	1,057	433	2,452
Disposals	(26)	-	-	(1,164)	(3,667)	(4,857)
At 31 December 1994	11,769	5,785	1,395	26,441	8,723	54,113
<b>Depreciation</b>						
At 1 January 1994	1,226	395	574	9,769	5,623	17,587
Inter company transfer	30	1	-	816	251	1,098
Disposals	(3)	-	-	(966)	(3,293)	(4,262)
Charge for the year	226	111	72	2,590	2,107	5,106
At 31 December 1994	1,479	507	646	12,209	4,688	19,529
<b>Net book value</b>						
At 31 December 1994	10,290	5,278	749	14,232	4,035	34,584
At 31 December 1993	10,034	4,608	799	5,891	2,601	23,933

The cost of long leaseholds includes capitalised interest of £530,000 (1993 £320,000).

The market value of properties at the end of the financial year does not, in the opinion of the directors, differ substantially from the amount at which they are included in the balance sheet.

Leased assets	The Group		Company	
Included within fixed assets held under finance leases	1994	1993	1994	1993
with the following net book values:	£000	£000	£000	£000
Furniture, fixtures & equipment	4,726	449	4,726	449
Motor vehicles	2,365	1,636	2,365	1,636
	7,091	2,085	7,091	2,085

Capital commitments	The Group		Company	
	1994	1993	1994	1993
	£000	£000	£000	£000
Contracted for, but not provided for	-	5,078	-	5,078
Authorised by the directors, but not contracted for	16,261	16,152	11,765	12,217

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 1994

## (14) FIXED ASSET INVESTMENTS

	The Group		Company	
	1994	1993	1994	1993
	£000	£000	£000	£000
<b>Subsidiary undertakings (b)</b>				
Shares at cost	-	-	23,064	10,095
Loan and current accounts (net)	-	-	44,142	13,571
	-	-	67,206	23,666
<b>Other investments (c)</b>	7,598	6,212	7,598	6,212
<b>Total</b>	<b>7,598</b>	<b>6,212</b>	<b>74,804</b>	<b>29,878</b>

(a) Company	Shares*	Loans	Total
	£000	£000	£000
Subsidiary undertakings			
At 1 January 1994	10,095	13,571	23,666
Acquired/advanced	56,831	35,594	92,425
Repaid/provided	(43,862)	(5,023)	(48,885)
At 31 December 1994	23,064	44,142	67,206

\*Shares are stated at cost less an amount equal to the underlying goodwill on acquisition and provisions for permanent diminution in value.

(b) The principal subsidiary undertakings, all of which are wholly owned by UniChem PLC, are:

E. Moss Limited - retail pharmacy operator and franchisor  
 Eldon Laboratories Limited - manufacturer of pharmaceutical specials  
 Hospital Management & Supplies Limited - distributor of medical & surgical supplies  
 Selles Dispensing Chemists Limited - retail pharmacy operator  
 Selles Medical Limited - supplier of occupational health products  
 Soler Touriste Limited - travel agent  
 UniChem Portuguesa (S.G.P.S.) Lda (Portugal) - holding company  
 UniChem Farmaceutica, S.A. (Portugal) - pharmaceutical wholesaler  
 UniChem (Warehousing) Limited - warehousing services to UniChem PLC

These principal subsidiary undertakings are registered and operate in England and Wales, except where otherwise stated.

(c) Other investments represent.

(i) The cost of investment in PAG Pharma-Holding AG, which is incorporated in Germany, is £5,088,000 (1993 £5,088,000). The Company owns 55,250 ordinary bearer shares (representing approximately 17% of the issued equity). The market value of this investment as quoted on the Frankfurt stock exchange on 31 December 1994 was £6,139,000 (1993 £5,784,000).

(ii) The UniChem PLC Employee Share Trust has an investment of £2,484,000 (1993 £1,124,000) in the Company's shares. The market value of the holding on 31 December 1994 was £2,769,000 (1993 £1,395,000). In the 1993 Annual Report this investment was disclosed as part of other debtors. The comparatives have been adjusted to reflect the reclassification. Details of the movement in this holding during the year are given in note 7 (a)(iv).

(iii) UniChem PLC had a trade investment in Numark Management Limited a voluntary trading organisation for retail and wholesale chemists of £26,000 (1993 nil).

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 1994

## (15) STOCKS

	The Group		Company	
	1994	1993	1994	1993
	£000	£000	£000	£000
Finished goods and goods held for resale	112,486	96,023	82,798	72,876

## (16) DEBTORS

	The Group		Company	
	1994	1993	1994	1993
	£000	£000	£000	£000
<b>Amounts falling due within one year</b>				
Trade debtors	190,048	161,968	145,695	149,173
Other debtors	8,161	5,728	2,120	1,747
Prepayments	8,786	4,083	5,698	1,038
	206,995	171,779	153,513	151,958
<b>Amounts falling due after more than one year</b>				
Trade debtors	221	312	221	312
Other debtors - ACT recoverable	811	897	884	1,181
Prepayments - Pension costs	1,306	1,251	1,306	1,251
	2,338	2,460	2,411	2,744
	209,333	174,239	155,924	154,702

## (17) SUNDRY CREDITORS

	The Group		Company	
	1994	1993	1994	1993
	£000	£000	£000	£000
Loan notes	13,627	-	13,627	-
Obligations under finance leases	3,064	1,874	3,023	1,843
Other creditors	558	9,504	63	6,677
Corporation tax	14,512	12,177	11,383	11,100
Other taxation and social security	4,675	5,933	4,024	5,406
Accruals and deferred income	6,625	6,555	3,601	4,231
Proposed dividend	8,100	6,200	8,100	6,200
	51,161	42,243	43,821	35,457

The Loan notes can be redeemed by the holders giving notice during the year. At the year end they bore interest at 4.5%.

## (18) CREDITORS - AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	The Group		Company	
	1994	1993	1994	1993
	£000	£000	£000	£000
Bank loans (a)	11,355	12,590	11,355	11,355
Obligations under finance leases (b)	4,410	969	4,410	960
	15,765	13,559	15,765	12,315

### (a) Bank loans

	The Group		Company	
	1994	1993	1994	1993
	£000	£000	£000	£000
Aggregate bank loan instalments repayable between one and two years	-	168	-	-
between two and five years	3,200	1,852	3,200	1,600
in five years or more	8,155	10,570	8,155	9,755
	11,355	12,590	11,355	11,355

The loans are repayable by instalments and bear interest at variable rates. The loan of £11,355,000 bore interest at the year end of 7% and is secured by charges on assets of the Group. The last instalment is due in 2004.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 1994

## (18) CREDITORS - AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR (continued)

(b) Obligations under finance leases	The Group		Company	
	1994	1993	1994	1993
	£000	£000	£000	£000
Due between one and two years	1,973	755	1,973	746
Due between two and five years	3,083	277	3,083	277
	5,056	1,032	5,056	1,023
Less: finance charges allocated to future periods	(646)	(63)	(646)	(63)
	4,410	969	4,410	960

## (19) PROVISIONS FOR LIABILITIES AND CHARGES

The Group	Provision for reorganisation	Deferred tax	Total
	£000	£000	£000
At 1 January 1994	1,701	742	2,443
Foreign exchange movements	-	15	15
Provided	3,402	-	3,402
Utilised	(2,942)	-	(2,942)
Subsidiary acquired	-	(799)	(799)
Charge for the year	-	1,038	1,038
ACT recoverable	-	(216)	(216)
Other movements	-	(4)	(4)
At 31 December 1994	2,161	776	2,937
Company	Provision for reorganisation	Deferred tax	Total
	£000	£000	£000
At 1 January 1994	-	239	239
Charge for the year	-	708	708
ACT recoverable	-	(429)	(429)
At 31 December 1994	-	518	518

The sources of the provision for deferred tax and the amount for which no provision has been made are as follows:

The Group	Not dealt with in the accounts		Dealt with in the accounts	
	1994	1993	1994	1993
	£000	£000	£000	£000
Capital allowances	-	-	1,462	960
Short term timing differences	-	-	(37)	120
Chargeable gains deferred by roll-over relief	40	40	-	-
ACT recoverable	-	-	(870)	(654)
Property revaluation	739	-	221	316
	779	40	776	742
Company	1994	1993	1994	1993
	£000	£000	£000	£000
Capital allowances	-	-	913	498
Short term timing differences	-	-	402	109
Chargeable gains deferred by roll-over relief	16	16	-	-
ACT recoverable	-	-	(797)	(368)
	16	16	518	239



# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 1994

## (20) CALLED UP SHARE CAPITAL AND SHARE PREMIUM ACCOUNT

	Called up share capital 10p ordinary shares		Share premium account
	Number	£000	£000
Issued and fully paid up			
At 1 January 1994	142,318,370	14,232	9,182
Shares issued during the year pursuant to:			
the acquisition of retail pharmacies	1,977,027	198	5,319
the acquisition of Hall Forster	103,817	10	290
the acquisition of BCA	1,961,658	196	5,217
the rights issue	24,430,796	2,443	55,933
scrip issues	665,712	67	1,818
the exercise of share options	478,877	48	456
Adjustment on cancellation of share premium	-	-	(17,022)
At 31 December 1994	171,936,257	17,194	61,193

The authorised share capital was £18.66 million (186.6 million ten pence ordinary shares) at both the beginning and end of the year.

Of the shares allotted on the acquisition of pharmacies 739,997 shares have been allotted for cash due to the fact that the Company acquired part of the consideration debt of E. Moss Limited and satisfied the debt by allotting shares. Details of these cash allotments are:

Date	Shares Allotted	Value of Shares
10 January 1994	119,893	£2.78714
31 January 1994	66,057	£2.96714
31 May 1994	74,109	£2.73429
27 June 1994	58,615	£2.67000
4 July 1994	108,725	£2.64429
12 September 1994	312,598	£3.05429

The shares offered in the rights issue were on the basis of one for six at £2.45 per share. The proceeds of approximately £58.4 million, net of expenses (£1,473,000), have been used to take advantage of opportunities as they have arisen in pharmaceutical retailing in the U.K. and to reduce borrowings in the short term.

The shares offered in the scrip issues were instead of the 1993 final dividend and the 1994 interim dividend which had cash equivalent values of £2.912 and of £2.67 respectively.

Following the passing of the enabling resolution at the annual general meeting held in 1994, on 19 July 1994 the High Court granted the application to cancel the share premium account in the sum of £17,022,361.76.

As a result of the rights issue approval is being sought from the Inland Revenue to amend the subscription prices for options granted under the Company's share option schemes as agreed with the auditors.

Details of the outstanding options at 31 December 1994 together with the effect of the rights issue amendment on these options are:

	31 December 1994		Exercisable between	After adjustment	
	price	outstanding		price	outstanding
1990 Savings	83.12p	1,704,218	1 November 1995 and 30 April 1996	80.92	1,750,589
related scheme	83.12p	562,441	1 November 1997 and 30 April 1998	80.92	577,745
	168.00p	592,706	1 June 1997 and 30 November 1997	163.55	608,833
	168.00p	152,339	1 June 1999 and 30 November 1999	163.55	156,484
	214.00p	604,611	1 January 1999 and 30 June 1999	208.33	621,062
	214.00p	141,369	1 January 2001 and 30 June 2001	208.33	145,215
	228.00p	62,837	1 July 1999 and 31 December 1999	221.96	64,546
	228.00p	5,301	1 July 2001 and 31 December 2001	221.96	5,445
	208.00p	213,707	1 December 1999 and 31 May 2000	208.00	213,707
	208.00p	70,011	1 December 2001 and 31 May 2002	208.00	70,011
		4,109,540			4,213,637

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 1994

## (20) CALLED UP SHARE CAPITAL AND SHARE PREMIUM ACCOUNT (continued)

1990 Executive scheme	93.88p	705,000	3 September 1993 and 2 September 2000	88.97	705,000
	154.72p	70,000	16 May 1994 and 15 May 2001	146.63	70,000
	217.00p	326,202	10 October 1995 and 9 October 2002	205.66	326,202
	268.00p	891,549	1 November 1996 and 31 October 2003	253.99	891,549
	260.00p	877,548	18 October 1997 and 17 October 2004	260.00	877,548
		2,870,299			2,870,299

The directors are aware of the following shareholdings at 20 March 1995 of 3% or more of the issued ordinary share capital of the Company:

	Number of shares	Percentage of present issued ordinary share capital
Newton Investment Management Limited	10,107,203	5.88
Gartmore Investment Management Limited	7,090,595	4.12
HSBC/James Capel Limited	5,936,966	3.45
Australian Mutual Provident Society	5,402,284	3.14

Save for these interests, the directors have not been notified that any person is, directly or indirectly, interested in 3% or more of the issued ordinary share capital.

## (21) OTHER RESERVES

	Profit and loss account	Special reserve	Goodwill
The Group	£000	£000	£000
At 1 January 1994	84,133	-	(15,163)
Foreign exchange movements	253	-	-
Transfer from share premium account	-	17,022	-
Goodwill acquired during the year	-	-	(43,861)
Goodwill written off during the year	-	(17,022)	17,022
Goodwill previously written off, now realised	322	-	-
Retained profit for the year	17,899	-	-
At 31 December 1994	102,607	-	(42,002)
Company			
At 1 January 1994	79,395	-	(15,163)
Transfer from share premium account	-	17,022	-
Goodwill acquired during the year*	-	-	(43,861)
Goodwill written off during the year	-	(17,022)	17,022
Retained profit for the year	12,686	-	-
At 31 December 1994	92,081	-	(42,002)

\*Includes an amount equal to the underlying goodwill on acquisition which is adjusted against the investment in subsidiaries.

## (22) GOODWILL

### (a) Retail pharmacy acquisitions

During the year the Group made a number of retail pharmacy acquisitions, either by acquiring companies which owned pharmacies or by acquiring pharmacy businesses direct. The acquired goodwill can be analysed as follows:

	£000
Company acquisitions	24,648
Asset acquisitions	9,366
	34,014

The most important acquisition was Selles Dispensing Chemists Limited (part of the Molescroft group) which was acquired for £15,260,000 (representing £14,154,000 goodwill) on the 1 December 1994 and is shown together with the other small company acquisitions below. The assets acquired and consideration paid during the year were as follows:

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 1994

## (22) GOODWILL (continued)

Assets acquired	Book value £000	Revaluation £000	Provisions £000	Fair value £000
Fixed assets	5,410	(240)	-	5,170
Stock	3,972	-	-	3,972
Debtors	6,015	-	-	6,015
Cash at bank and in hand	530	-	-	530
Bank overdrafts	(3,894)	-	-	(3,894)
Creditors	(10,002)	-	-	(10,002)
Deferred taxation	(24)	-	95	71
Reorganisation costs	-	-	(530)	(530)
	2,007	(240)	(435)	1,332
<b>Consideration paid</b>				4,480
UniChem PLC 10p ordinary shares				13,173
Loan notes				8,327
Cash				25,980
				24,648
<b>Purchased goodwill</b>				

All company acquisitions have been accounted for by the acquisition accounting method. Cumulative goodwill written off to reserves to 31 December 1994, net of that attributable to disposals was £133,299,000 of which £111,272,000 related to pharmacy goodwill.

The directors believe that the right to be reimbursed for dispensing NHS prescriptions, the pharmacy licence which is attached to a particular pharmacy, has a continuing value. Such rights, conferred by the Department of Health as contracts to dispense prescriptions, are not generally granted to new pharmacies in the same locality. It is generally accepted accounting policy that purchased goodwill arising from the acquisition of such licences be eliminated from the accounts immediately on acquisition against reserves. The directors have therefore decided to seek the approval of the shareholders at the forthcoming annual general meeting to cancel the share premium account. Your attention is drawn to the note to item 12 to the notice of the meeting on page 48.

### (b) Wholesale division acquisitions

On the 6 April 1994, UniChem acquired the entire share capital of Hall Forster Limited for £4,289,000 (representing £3,414,000 goodwill) and on 31 May 1994 Hospital Management & Supplies Limited was acquired for £9,789,000 (including £3,598,000 goodwill). These two acquisitions together with the other small wholesale acquisitions are summarised below.

Assets acquired	Book value £000	Revaluation £000	Provisions £000	Fair value £000
Fixed assets	1,578	542	-	2,120
Stock	8,562	-	-	8,562
Debtors	17,647	-	-	17,647
Cash at bank and in hand	147	-	-	147
Bank overdrafts	(7,164)	-	-	(7,164)
Creditors	(11,085)	-	-	(11,085)
Deferred taxation	-	-	728	728
Reorganisation costs	-	-	(2,871)	(2,871)
	9,685	542	(2,143)	8,084
<b>Consideration paid</b>				300
UniChem PLC 10p ordinary shares				474
Loan notes				17,157
Cash payable				17,931
				9,847
<b>Purchased goodwill</b>				

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 1994

## (23) ANALYSIS OF NET ASSETS

	1994	1993
	£000	£000
Wholesale UK	143,792	119,225
Retail UK	95,630	59,838
Wholesale Portugal	11,850	12,072
Retail pharmacy goodwill	(111,273)	(77,580)
	139,999	113,555

Net assets are shown before net borrowings.

## (24) RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	1994	1993
	£000	£000
Operating profit	46,759	40,075
Depreciation and (profit) loss on disposal of fixed assets	6,944	6,570
(Increase) decrease in stocks	(3,670)	(9,176)
(Increase) decrease in debtors	(17,321)	(7,020)
(Decrease) increase in creditors	26,022	11,501
Net cash inflow from operating activities	58,734	41,950

## (25) MAJOR NON-CASH TRANSACTIONS

(a) During the year the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of £7,638,000.

(b) Part of the purchase consideration for the acquisition of subsidiary undertakings that occurred during the year comprised shares and other loans. Further details of the acquisitions are set out below and in note 22.

## (26) PURCHASE OF SUBSIDIARY UNDERTAKINGS

	£000
Retail pharmacy company acquisitions (note 22a)	10,691
Wholesale company acquisitions (note 22b)	24,174
	34,865

Of the retail pharmacy company acquisitions shown on note 22(a) £1,000,000 was paid in 1993.

## (27) ANALYSIS OF THE NET OUTFLOW OF CASH AND CASH EQUIVALENTS IN RESPECT OF THE PURCHASE OF SUBSIDIARY UNDERTAKINGS

	£000
Cash consideration	24,484
Cash at bank and in hand acquired	(677)
Bank overdrafts acquired	11,058
Net outflow of cash and cash equivalents in respect of the purchase of subsidiaries	34,865

## (28) ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital	Loans and finance lease obligations
	£000	£000
At 1 January 1994	23,414	15,433
Cash inflows (outflows) from financing	58,880	(4,500)
Loan notes issued for non-cash consideration	-	13,647
Shares issued for non-cash consideration	13,115	-
Transfer to special reserve	(17,022)	-
Subsidiaries acquired	-	238
Inception of finance lease contracts	-	7,638
At 31 December 1994	78,387	32,456

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 1994

## (29) ANALYSIS OF CHANGES IN CASH AND CASH EQUIVALENTS DURING THE YEAR

	1994 £000	1993 £000
At 1 January	(236)	178
Net cash inflow(outflow)before adjustments for the effect of foreign exchange rate changes	31,999	(1,734)
Effect of foreign exchange rate changes	(314)	1,320
At 31 December	31,449	(236)

## (30) ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS AS SHOWN IN THE BALANCE SHEET

	1994 £000	1993 £000	Change in year £000
Cash at bank and in hand	50,902	9,193	41,709
Bank overdraft	(19,453)	(9,429)	(10,024)
	31,449	(236)	31,685

## (31) PENSIONS

The Group operates several pension arrangements. The total pension cost for the Group was £1,363,000 (1993 £1,586,000). The main scheme is the UniChem PLC Pension and Assurance Scheme which is managed externally by an independent company. The UniChem PLC Pension and Assurance Scheme is a defined benefit scheme.

Pension costs are assessed in accordance with the advice of qualified actuaries using the projected unit credit method. Actuarial valuations of the UniChem PLC Pension and Assurance Scheme fund are performed periodically, but with at least one every three years. The latest actuarial valuation was made at 1 January 1993, at which time the total market value of assets was £12,373,000. At that date, the actual value of the assets was sufficient to cover the value of the benefits that had accrued to members after allowing for future increases in earnings.

The main assumptions used in applying this method were as follows:

	% per annum
Investment return	9
Increase in salaries	7
Allowance for withdrawals	age related rates reducing from 10% at age 20 to nil from age 50

Included in the total pension costs is £100,000 (1993 £255,000) in respect of the spreading of an earlier experience deficit that is being recognised for accounting purposes over the expected remaining service lives of participating employees. Included in debtors is the excess of the cumulative amounts paid over the accumulated pension cost of £1,406,000 (1993 £1,506,000).

## (32) OTHER FINANCIAL COMMITMENTS

At 31 December 1994 the Group had the following commitments payable within one year under operating leases expiring:

	Land and buildings £000	Other £000
within one year	134	23
between two and five years	1,027	29
in five years or more	3,098	-
	4,259	52

## (33) CONTINGENT LIABILITIES

The Company has guaranteed bank loans of £112.6 million (1993 £105.5 million) to third parties for the financing of pharmacy businesses and has given other guarantees on behalf of Group companies of £3,253,000 (1993 £5,911,000). UniChem Farmaceutica has discounted bills receivable of £2,416,000 with banks who have recourse should the bill not be honoured by the customer.

## FIVE YEAR SUMMARY

<b>Consolidated Profit and Loss Accounts - year ended 31 December</b>	<b>1990 £000</b>	<b>1991 £000</b>	<b>1992 £000</b>	<b>1993 £000</b>	<b>1994 £000</b>
<b>Turnover</b>					
Continuing operations	872,018	919,115	1,047,858	1,177,623	1,324,658
Discontinued operations	1,331	990	874	-	-
	873,349	920,105	1,048,732	1,177,623	1,324,658
	(821,877)	(862,359)	(964,512)	(1,077,810)	(1,206,314)
<b>Cost of sales</b>					
Gross profit	51,472	57,746	84,220	99,813	118,344
Administrative expenses	(33,953)	(39,659)	(58,403)	(67,807)	(79,892)
	17,519	18,087	25,817	32,006	38,452
	1,787	2,573	8,315	8,069	8,307
<b>Other operating income</b>					
<b>Operating profit</b>					
Continuing operations	19,197	20,384	34,200	40,075	46,759
Discontinued operations	109	276	(68)	-	-
	19,306	20,660	34,132	40,075	46,759
Net share of results of associated undertakings	(145)	-	-	-	-
Loss on disposal of discontinued operations	-	-	(2,449)	-	-
Interest receivable	980	2,016	1,329	471	307
Interest payable	(3,791)	(2,304)	(3,588)	(3,041)	(3,055)
	16,350	20,372	29,424	37,505	44,011
	(5,735)	(7,056)	(10,795)	(12,675)	(14,375)
<b>Profit on ordinary activities before taxation</b>					
Tax on profit on ordinary activities					
	10,615	13,316	18,629	24,830	29,636
<b>Profit on ordinary activities after taxation</b>					
EPS fully diluted	11.79p	11.97p	13.00p	16.87p	18.80p
Dividends per share	1.42p	4.82p	5.50p	6.33p	7.13p
<b>Consolidated Balance Sheets - 31 December</b>	<b>1990 £000</b>	<b>1991 £000</b>	<b>1992 £000</b>	<b>1993 £000</b>	<b>1994 £000</b>
<b>Fixed assets</b>					
Intangible assets	91	84	-	-	-
Tangible assets	24,852	31,951	33,809	39,002	59,757
Investments	-	4,239	5,088	6,212	7,598
	24,943	36,274	38,897	45,214	67,355
<b>Current assets</b>					
Stocks	62,312	75,983	81,881	96,023	112,486
Debtors	107,955	144,093	163,497	174,239	209,333
Amount due from rights issue	-	35,121	-	-	-
Cash at bank and in hand	29,260	3,387	26,462	9,193	50,902
	199,527	258,584	271,840	279,455	372,721
Creditors: amounts falling due within one year	(121,744)	(168,228)	(202,322)	(210,781)	(282,382)
Net current assets	77,783	90,356	69,518	68,674	90,339
Total assets less current liabilities	102,726	126,630	108,415	113,888	157,694
Creditors: amounts falling due after more than one year	(21,139)	(13,598)	(12,888)	(13,559)	(15,765)
Provisions for liabilities and charges	(596)	(1,190)	(2,369)	(2,443)	(2,937)
	80,991	111,842	93,158	97,886	138,992
<b>Capital and reserves</b>					
Called up share capital	9,423	9,803	13,755	14,232	17,194
Share premium account	21,784	25,882	730	9,182	61,193
Shares to be issued	-	52,367	-	5,502	-
Special reserve	-	-	10,373	-	-
Other reserves	49,784	57,050	68,300	84,133	102,607
Goodwill	-	(33,260)	-	(15,163)	(42,002)
	80,991	111,842	93,158	97,886	138,992

# SHAREHOLDER INFORMATION

## 1995 Financial Calendar

21 March	1994 final profit and proposed final dividend announced
22 May	Deadline for receipt of proxy forms
23 May	Deadline for receipt of elections to receive the 1994 final dividend in shares
24 May	Annual general meeting
3 July	1994 final dividend paid to shareholders registered on 13 April 1995
20 September	1995 half year profit and interim dividend announced
6 October	1995 interim report despatched
24 November	Deadline for receipt of elections to receive the 1995 interim dividend in shares (if offered)
29 December	1995 interim dividend paid to shareholders registered on 19 October 1995

## Shareline

For UniChem's "real-time" share price phone 0891 500504. In addition to the share price the commentary will supply you with a stock market summary. As at April 1995 calls are charged at 39 pence per minute cheap rate and 49 pence at all other times.

the UniChem General PEP offer tax advantages and administrative convenience. Godwins Limited have been appointed as a plan manager of the UniChem PEPs and an explanatory booklet may be obtained from them by phoning 01252 544484.

## UniChem converted shares and capital gains tax

On 2 July 1990 UniChem shares were converted from shares in an industrial and provident society to shares in a public company limited by shares. For capital gains tax purposes shares acquired before this date will be deemed to have been acquired on 2 July 1990 at ten pence each because by virtue of Section 111(b) of the Taxation of Chargeable Gains Act 1992 (as derived from Section 113(1) of the Finance Act 1988) the capital gains indexation provisions do not apply and it is believed that the conversion is regarded by the Inland Revenue as a reorganisation of share capital.

## CREST

CREST is the new settlement system for shares currently being built by the Bank of England which will enable shareholders to hold and transfer their shareholdings in electronic form rather than in paper. The system will be voluntary thus allowing shareholders who wish to retain their certificates the right to do so. CREST will also offer active shareholders the option of sponsored membership enabling them to hold their shares in their own name in electronic form while authorising an intermediary to operate their membership on their behalf. These shareholders will continue to have a direct relationship with UniChem. It is expected that CREST will become operational in late 1996 and the company will be seeking to make UniChem shares available for settlement in CREST at the earliest opportunity.

## UniChem Corporate PEPs

UniChem offers two personal equity plans (PEPs) to individuals holding or wishing to hold shares in the company. The UniChem Single Company PEP and

# NOTICE OF THE ANNUAL GENERAL MEETING

Notice is hereby given that the fifth annual general meeting of UniChem PLC will be held at UniChem House, Cox Lane, Chessington, Surrey on Wednesday 24 May 1995 starting at 2.30 p.m. for the following purposes.

## Ordinary Business

1. To receive the reports of the directors and auditors and the audited Financial Statements for the year ended 31 December 1994.
2. To declare a final dividend on the ordinary shares.
- To re-elect as directors those retiring by rotation under the Articles of Association of the Company:
3. Mrs M.F. Burton
4. Mr D.C. Mair
5. To re-elect Lord Rippon as a director, special notice having been received, pursuant to sections 293 and 379 of the Companies Act 1985, of the intention to propose the ordinary resolution that Lord Rippon, having attained the age of seventy be re-elected a director of the Company.
6. To re-appoint Touche Ross & Co., Chartered Accountants, as auditors of the Company and to authorise that their remuneration be fixed by the audit committee of the directors.

## Special Business

7. To consider and if thought fit pass the ordinary resolution that the authorised share capital of the Company be and is hereby increased from £18,660,000 to £23,872,000 by the creation of an additional 52,120,000 new ordinary shares of ten pence each.

## Ordinary Business

8. To consider and if thought fit pass the ordinary resolution that in substitution for the authority given at the last annual general meeting the directors be and are hereby generally and unconditionally authorised for the purpose of Section 80 of the Companies Act 1985 to exercise at any time or times during the period from the passing of this resolution until the conclusion of the annual general meeting of the Company to be held in 2000 or, if earlier, 24 May 2000, any power of the Company to allot relevant securities of the company up to an aggregate nominal value of £6,675,926.10, or £1,463,926.10 in the event of the ordinary resolution numbered 7 in this notice not being passed, and the directors may, after that period, allot any relevant securities in pursuance of an offer or agreement made by the Company within that period.
9. To consider and if thought fit pass the special resolution that the directors be and are hereby empowered pursuant to Section 95 of the Companies Act 1985 during the period from the passing of this resolution until the conclusion of the annual general meeting of the Company to be held in 1996 or, if

earlier, 24 August 1996, to allot equity securities (within the meaning of Section 94 of the Companies Act 1985) for cash pursuant to the authority conferred on the directors as if sub-section (1) of Section 89 of the Companies Act 1985 did not apply to such an allotment, provided that this power shall be limited:

(a) to the allotment of equity securities in connection with a rights issue in favour of all holders of relevant equity securities where the equity securities respectively attributable to the interests of all holders of relevant equity securities are proportionate (as nearly as may be) to the respective numbers of relevant equity securities held by them but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of or the requirements of any recognised regulatory body of any jurisdiction; and

(b) to the allotment (otherwise than pursuant to paragraph (a) above), of equity securities up to an aggregate maximum nominal value of £859,803,

save that the directors may, after that period, allot any equity securities in pursuance of an offer or agreement made by the Company within that period.

## Special Business

10. To consider and if thought fit pass the ordinary resolution that the directors be and are hereby given authority to offer to ordinary shareholders in accordance with the provisions of the Articles of Association of the Company the right to elect to receive an allotment of additional ordinary shares credited as fully paid instead of cash in respect of any dividend (or any part thereof) proposed to be paid or declared on or at any time after the date of this meeting and prior to the conclusion of the annual general meeting to be held in 1996.

11. To consider and if thought fit pass the ordinary resolution that, subject to and conditional upon the approval of the Inland Revenue, the directors be and are hereby authorised to amend the rules of the UniChem Savings Related Share Option Scheme 1990 (the "Scheme") as shown in the draft of the rules (as amended) which have been produced to the meeting and initialed for the purposes of identification by the Chairman, and that the directors be authorised to take all such steps as may be necessary to implement those amendments, including the making of any further amendments necessary to maintain Inland Revenue approval of the Scheme.

12. To consider and if thought fit pass the special resolution that the amount standing to the credit of the share premium account of the Company at the date of this meeting be and is hereby cancelled.

By order of the Board

A.J. Goodenough  
Company Secretary  
1 May 1995

Your attention is drawn to the following notes to this notice.



# NOTES TO THE NOTICE OF THE ANNUAL GENERAL MEETING

at UniChem House

As a shareholder you have the right to attend, speak and vote at the forthcoming annual general meeting or at any adjournment(s) thereof. In order to exercise all or any of these rights you should read the following notes.

1. A shareholder which is a COMPANY (a "corporation") and which wishes to be represented at the meeting by a person with authority to speak, vote on a show of hands and vote on a poll (a "corporate representative") must submit a form of resolution. A suitable personalised form is enclosed with the notice for your use. A corporate representative has the same powers on behalf of the corporation he/she represents as that corporation could exercise if it were an individual member of the Company.
2. Any member of the Company entitled to attend and vote at this meeting is entitled to appoint a PROXY or proxies to attend and, on a poll, to vote instead of him/her. A suitable personalised form is enclosed with the notice for your use. A proxy need not be a member of the Company and the appointment of a proxy will not preclude a member from attending and voting at the meeting. A corporation may execute a form of proxy either under seal or under the hand of their corporate representative (see note 1 above).
3. In the case of JOINT shareholders the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority shall be determined by the order in which the names stand in the register of members.
4. Each resolution will be decided on a show of hands unless a poll is demanded in accordance with the provisions of the Articles of Association of the Company. The ordinary resolutions will be decided by a majority of the votes cast while items 9 and 12, which are proposed as special resolutions, will be decided by a majority of at least three-quarters of the votes cast.
5. Any question relevant to the business of the annual general meeting may be asked at the meeting by anyone permitted to speak at the meeting. You may alternatively submit your question in advance using either the space available below the form of proxy or by letter addressed to the Company Secretary at the registered office.
6. Your attention is drawn to the Notes on the Business of the Annual General Meeting.
7. All service contracts between the Company and directors and the rules of the employee share option schemes will be available for inspection at the registered office during business hours on any weekday (Saturdays and public holidays excepted) from the date of this notice until the conclusion of the annual general meeting.
8. The register of interest of directors in the share capital of the Company will be open for inspection during the annual general meeting.

# NOTES ON THE BUSINESS OF THE ANNUAL GENERAL MEETING

**Items 1 to 6 in the notice of meeting are routine business of an annual general meeting.**

**Item 2.** Details of the dividend being recommended by the directors are shown in note 11 to the Financial Statements.

**Items 3 and 4.** Biographical notes on all of the directors are on page 22. Details of the directors' service contracts are in note 7 to the Financial Statements.

**Item 5.** Lord Rippon has attained the age of seventy and under the Articles of Association of the Company the statutory provisions which regulate his continuation in office apply. Earlier this year the nomination committee recommended and the board agreed that Lord Rippon should be re-appointed. Since his appointment in 1990 the directors have found his support and guidance invaluable.

**Item 6.** Touche Ross & Co. have expressed their willingness to continue as auditors to the Company and this resolution is to reappoint them.

**In addition the directors propose items 8 and 9 as ordinary business and items 7 and 10 to 12 as special business. Their explanations for doing so are set out below.**

**Item 7.** The number of shares authorised for allotment and which remain unissued and unreserved for issue pursuant to the exercise of options under the UniChem share option schemes represent approximately 4 per cent of the authorised share capital of the Company as at 20 March 1995. This proposal will increase this percentage to approximately 25 per cent of the enlarged authorised share capital. The directors have no present intention of issuing any of the authorised but unissued share capital of the Company and no issue will be made which would effectively alter control of the Company without the prior approval of the shareholders in general meeting.

**Item 8.** Under a resolution passed at the last annual general meeting the directors have the power to allot the unissued shares of the Company until the 1999 annual general meeting. The directors have decided to seek your approval to replace this authority with a new power that lasts for five years, the maximum period allowed under the Companies Act. The aggregate nominal value of shares that may be allotted under this authority is limited to £6,675,926.10 (being the nominal value of the unissued ordinary share capital at 20 March 1995 plus the increase in the authorised share capital if the requisite resolution is passed). It is the directors' current intention to seek similar authority at each subsequent annual general meeting so that the period of authority is continually rolled forward.

**Item 9.** If shares are allotted using the authority the directors have and such shares are to be paid for in cash, the Companies Acts require that those shares are offered first to existing shareholders pro rata to the number of ordinary shares that they hold at that time unless the shareholders have waived these pre-emption rights. The directors have decided to seek your consent to waive your rights so that if circumstances are such that it is in the interest of the Company for the directors to make an allotment of shares without your pre-emption they have authority to do so. In order to protect your investment, however, this authority is limited to the aggregate nominal value of £859,803 (being 5% of the nominal value of the issued ordinary share capital at 20 March 1995).

**Item 10.** The directors have decided to seek your approval so that at their discretion they may offer to you the option to take ordinary shares in the Company instead of any cash dividend payment that may be proposed or declared. Under the Articles of Association of the Company the directors are required to capitalise a sum equal to the aggregate nominal amount of any additional ordinary shares allotted under this authority out of any amount standing to the credit of any capital reserve or fund (including the share premium account, any capital reserve and the profit and loss account) or otherwise available for distribution as the directors may determine.

**Item 11.** The recent Finance Bill contains a clause removing the Inland Revenue restriction on the inclusion of part-time employees in tax relieved share option schemes such as the Company's Savings Related Share Option Scheme. Although the rules of the Scheme allow the directors to waive this restriction the directors feel it is prudent to avoid any doubt in this matter and propose to amend the rules of the Scheme so that this restriction is removed.

**Item 12.** The nature of the business carried on by the Company and in particular the acquisition of new businesses or subsidiaries, is such that the Company would normally expect to pay in relation to any such acquisition a price in excess of the net asset value. In accounting terms, the difference between the net asset value and the price paid is treated as goodwill. Acquisitions between 22 March 1994 and 20 March 1995 have given rise to goodwill amounting to £31,371,000.

The Company's auditors have advised that it is necessary, in accordance with Statement of Standard Accounting Practice No. 22, for the Company to eliminate goodwill from its own balance sheet and on consolidation. Having considered the matter with the company's auditors your directors believe that the best way of achieving this is to reduce the amount standing to the credit of the share premium account in order to create a reserve against which goodwill may be written off or set off.

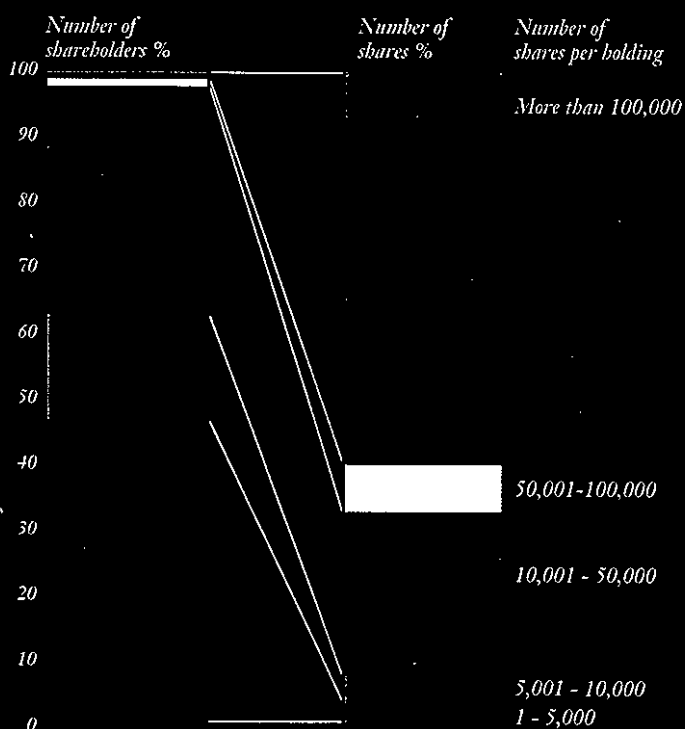
As at 31 December 1994 there was £61,193,000 standing to the credit of the share premium account and due to subsequent share issues it had as at 20 March 1995 increased to £61,201,000. Under the Companies Acts the share premium account of a company falls to be treated as share capital and cannot be reduced without the Company in general meeting passing an appropriate special resolution and the High Court confirming such reduction.

In the circumstances and given the Company's continuing policy of expanding by acquisition as well as by organic growth your directors consider that it is appropriate to cancel the share premium account and create a reserve against which current and future goodwill may be written off or set off. Following the passing of the resolution your directors will apply to the High Court for confirmation.

As part of the application to the High Court, it will be necessary to give an undertaking to the Court, for the protection of creditors, that the reserve arising upon the cancellation of the share premium account will be credited to a special reserve in the books of the Company which will be non-distributable pending payment of amounts due to creditors of the Company at the date the proposed cancellation takes effect or such creditors consent otherwise. The cancellation therefore of the share premium account will neither reduce the assets of the Company nor affect the Company's ability to pay its creditors.



*Analysis of shareholders at 31 December 1994.*



#### Advisers to UniChem PLC

**Merchant Bankers**  
UBS Limited  
100 Liverpool Street  
London EC2M 2RH

Barclays de Zoete Wedd  
Limited  
Ebbgate House  
2 Swan Lane  
London EC4R 3TS

**Bankers**  
National Westminster  
Bank PLC  
21 Lombard Street  
London EC3P 3AR

Barclays Bank PLC  
Heathrow Business Centre  
Cardinal Point  
Newall Road  
Heathrow Airport  
Hounslow TW6 2AH

**Auditors**  
Touche Ross & Co.  
Chartered Accountants  
Hill House  
1 Little New Street  
London EC4A 3TR

**Stockbrokers**  
UBS Limited  
100 Liverpool Street  
London EC2M 2RH

de Zoete & Bevan Limited  
Ebbgate House  
2 Swan Lane  
London EC4R 3TS

**Solicitors**  
Slaughter & May  
35 Basinghall Street  
London EC2V 5DB

Rakisons  
27 Chancery Lane  
London WC2A 1NF

**Registrars**  
Lloyds Bank PLC  
Registrars Department  
The Causeway  
Worthing  
West Sussex BN99 6DA

**Registered Office**  
UniChem PLC  
UniChem House  
Cox Lane  
Chessington  
Surrey KT9 1SN

Tel. 0181 391 2323  
Fax. 0181 974 1707

