

2007 Annual Report

(01.01.2007 – 31.12.2007)



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1. Historical Data

1.1. Establishment of the Company, Shareholding Structure

The joint-stock company PHARMOS was established in April 1991 and since then it has been engaged mainly in trading activity, especially wholesale distribution of pharmaceuticals. In 1992, together with its German partner Stumpf AG, it established the subsidiary Pharmos CS, a. s. with a parity representation of both companies. In 1993, Stumpf AG also acquired capital participation also in PHARMOS, a.s. In 1995, the original shareholders of PHARMOS, a. s. established Česká lékárnická, a. s., into which PHARMOS, a.s. shares were transferred, which substantially changed the shareholding structure of PHARMOS.

During its history, PHARMOS, a.s. has gained an important position in the sphere of wholesale distribution of pharmaceuticals to public and hospital pharmacies. The company strives to have a continuous close co-operation with its customers and to create favourable conditions for the development of pharmacies, thus contributing to a further increase of the respect towards the pharmaceutical profession in the Czech Republic. Since the moment it came into existence, PHARMOS has been a stable member of a group of companies gathered around Česká lékárnická, a.s.

Currently, Pharmos, a.s. has two major shareholders, Česká lékárnická, a. s., owning approximately 71.6 % of PHARMOS, a.s. shares, and a German shareholder Phoenix International Beteiligungs GmbH. Mannheim, owning 28 % of the shares (the shares were transferred onto this company by Stumpf AG, the original owner and a member of the Phoenix concern). The remaining 0.4 % of the shares is owned by small Czech shareholders – physical entities.

In 2002, PHARMOS, a.s. increased the registered capital of the company by CZK 37.7 mil., this increase being performed by a sole subscriber, Česká lékárnická, a.s., by means of a monetary deposit of a part of Česká lékárnická, a.s. The deposited part of the company included all the assets and liabilities related to the distribution activity of Česká lékárnická, and the reason for this strategic step was the effort to obtain a majority share in PHARMOS, a.s. for Česká lékárnická, a.s. (in this manner, the share of Česká lékárnická, a.s. increased from 49.2 % to 71.6 %) and also the effort to concentrate all the distribution activity in a single main distribution company, thus creating an efficiently functioning company with a strong capital. In 2004, the registered capital was further increased from retained profit and the share premium, i.e. from CZK 85.7 million to CZK 342.8 million – the ratios among individual shareholders remained unchanged.

In 2004, PHARMOS, a.s. sold the shares of THERÁPON 98, a.s. – the entire share held by Česká lékárnická, a.s.

1.2. Activities, Operation of Autonomous Outlets

The main activity of PHARMOS, a.s. is the purchase of goods for sale and resale. As regards the specific items of its assortment, the company is oriented mostly towards delivering pharmaceuticals and medicinal products to public and hospital pharmacies, as well as towards delivering medical supplies and dental supplies. Besides this basic assortment, PHARMOS, a.s. supplies its customers with a complementary assortment represented by parapharmaceuticals, cosmetic products and dietary supplements.

The company has its registered office in Ostrava-Radvanice, Těšínská 1349/296. The distribution is performed using eight main company warehouses (localities: Ostrava-Radvanice, Prostějov, Brandýsek, Brno, Ústí nad Labem, Hradec Králové, České Budějovice and Lukášov) and one auxiliary warehouse designed as a consignment and customs warehouse (Jihlava locality). Since 2004, distribution under the PHARMOS brand name has been in progress within the localities of Jihlava and Plzeň.



Within the framework of its own warehouses, the company operates a series of consignment warehouses used for distribution both within the framework of the individual distribution companies that are members of the Česká lékárnická, a.s. group and to other distributors on the Czech market. Besides the above-mentioned locality of Jihlava, these consignment warehouses are located in Ostrava, Brno, Hradec Králové, Ústí nad Labem and Brandýsek. PHARMOS, a.s. provides some suppliers/manufacturers with a new form of service – a complete package consisting of warehousing services, distribution and supplier's/manufacturers' stock management according to instructions the supplier/manufacturers strictly determines (i.e. in the name of the supplier/manufacturers).

As regards the distribution of the entire assortment, PHARMOS, a.s. is an exclusive supplier for four independent distribution companies with a limited liability, in which Česká lékárnická has at least 50% capital participation (the remaining capital is owned by the individual pharmacists within a given region). The entities in question are regional pharmaceutical distribution entities, in concrete terms Pražská lékárnická, s.r.o., Jihlavská lékárnická, s.r.o., Plzeňská lékárnická s.r.o. and PHARMACY-distribuce léčiv s.r.o. These regional distribution entities already represent an important component part of the distribution strategy of Česká lékárnická, a.s.

1.3. History of Profit and Loss

The balance of profit loss of the past years may be considered as positive and contributing to the stable position of the company on the Czech market. Such assessment does not apply solely to the evaluation of the profit/loss but also to the success in the sphere of the economic policy to be applied and the overall position of the company on the market.

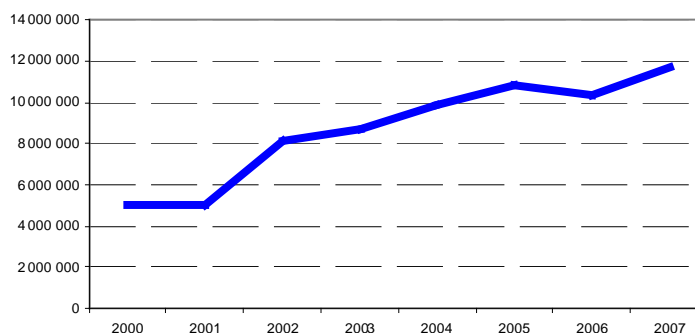
Year 2007 was significantly affected by the negative market developments as a consequence of Government measures influencing the consumption of pharmaceuticals on the Czech market. The decrease in the sales margin and the terms and conditions regarding the prescription of drugs had negative impact on our customers – pharmacies, especially public pharmacies. As a consequence of the model of degressive sales margin, the situation in this area stabilized and even later on improved from the perspective of the public pharmacies' economy. However, changes in the prescription of medicines and recipes caused further differences to develop on the market of public and hospital pharmacies (hospital pharmacies reported a significant growth). The overall negative consequences in turnover and sales margin can be characterized as follows:

- a) movement of part of the sales from public pharmacies to hospital pharmacies
- c) decreased consumption of medicines as a consequence of measures regarding prescription
- d) pressure on decrease in sales margins in hospital pharmacies as regards high-end products

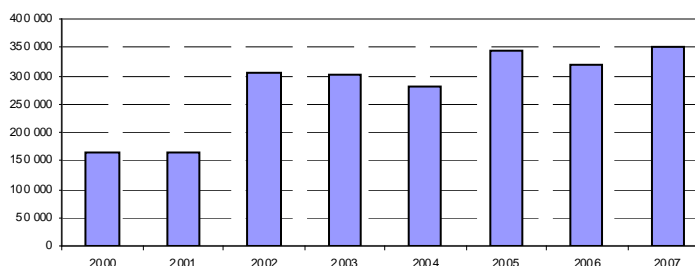
Even despite these highly negative pressures, PHARMOS reported positive economic results and managed to keep its position on the Czech market.

Indicator	2002	2003	2004	2005	2006	2007
Total revenue from normal operations (CZK '000)	8 109 214	8 675 004	9 834 677	10 838 324	10 308 792	11 688 840
Total sale of goods (CZK '000)	7 978 982	8 536 152	9 695 500	10 678 580	10 149 993	11 530 913
Total export of goods (CZK '000)	5 930	4 508	747	24 912	13 547	15 082
Share of supplies for export in total sale of goods (%)	0.07 %	0.05 %	0.01%	0.23%	0.13%	0.13%
Revenue from services (CZK '000)	130 232	138 852	139 178	159 744	158 799	157 927
Share in % of revenue from total revenue from normal operations	1.61 %	1.60 %	1.42%	1.47%	1.54%	1.35%
Gross margin in absolute figures (CZK)	304 619	300 608	282 401	344 912	318 081	349 526
Gross margin (%)	3.82 %	3.52 %	2.91%	3.22 %	3.13%	3.03%
Business surcharge (%)	3.97 %	3.65 %	3.00%	3.34 %	3.24%	3.13%

Total revenues from current operations (CZK '000)



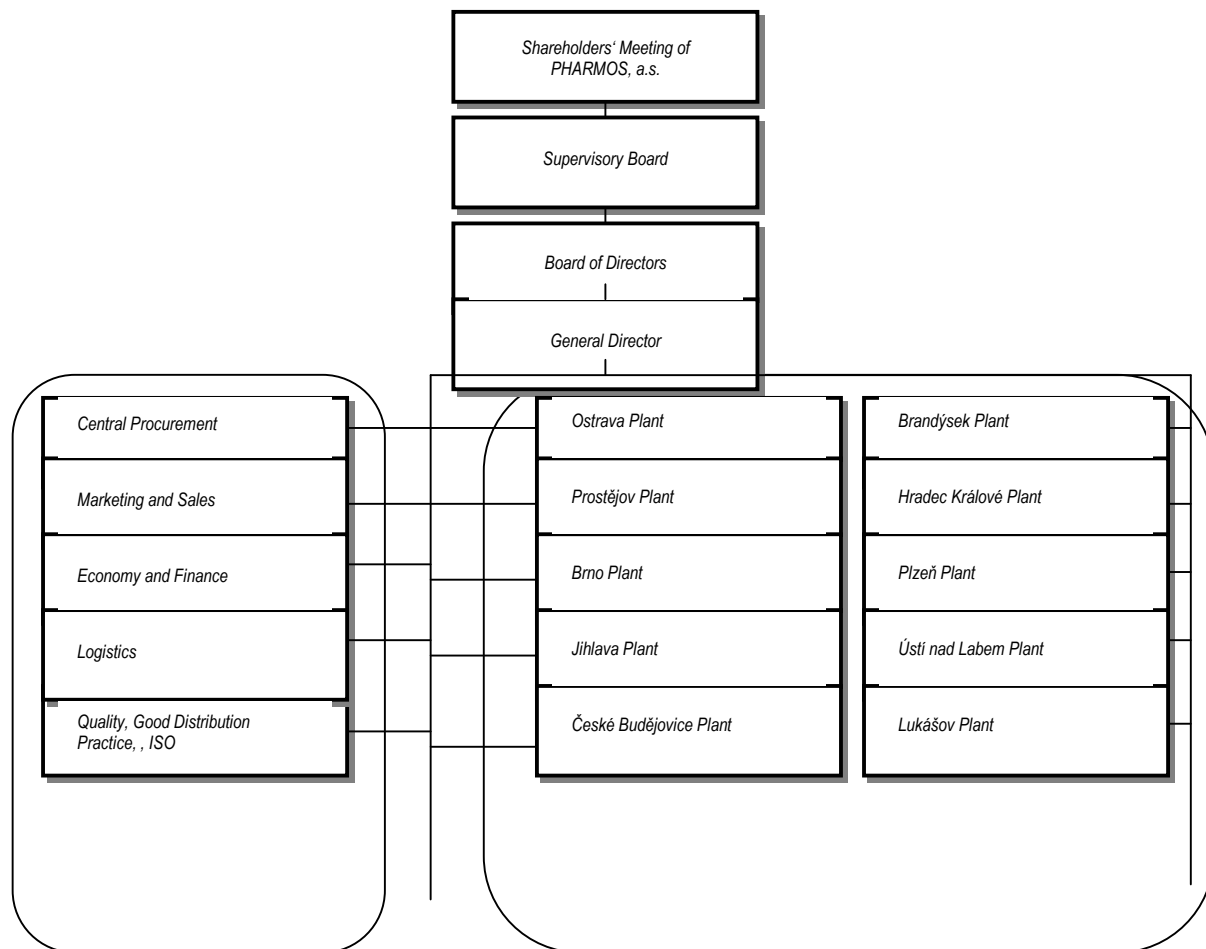
Gross margin (CZK)



2. Company Organisational Structure and Company Bodies

2.1. Company Organizational Structure

The organisational structure of PHARMOS, a.s. did not undergo any substantial changes during the year 2007. The diagram provided below represents the situation as of 31 December 2007.



2.2. Company Bodies

Supervisory Board:

- Chairman of the Supervisory Board
- Member of the Supervisory Board
- Member of the Supervisory Board
- Member of the Supervisory Board
- Member of the Supervisory Board
- Member of the Supervisory Board

Helmut Kraft
PharmDr. Petr Nalevajka
Mgr. Ilona Mravcová
Mgr. Lea Lesáková
Ing. Oldřich Fiala
Christoph Nöll

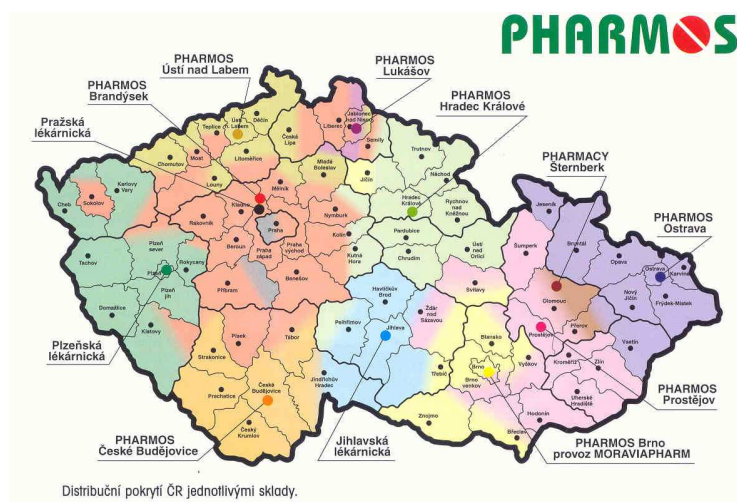
Board of Directors:

- Chairman of the Board of Directors
- Member of the Board of Directors
- Member of the Board of Directors
- Member of the Board of Directors
- Member of the Board of Directors
- Member of the Board of Directors
- Member of the Board of Directors
- Member of the Board of Directors

Ing. Roman Kejzlar
Ing. Jan Šula – until 18 May 2007
PharmDr. Marcel Cech – until 18 May 2007
PharmDr. Jiří Korta - until 18 May 2007
PharmDr. Ivan Šácha – from 18 May 2007
Mgr. Jaroslav Němeček – from 18 May 2007
Mgr. Karel Šlegr – from 18 May 2007
Alena Marynčáková – from 18 May 2007

The data in the Notes to Financial Statements reflect the situation entered in the Company Register.

Presentation of the geographic location of the distribution warehouses of the company (PHARMOS, a.s. warehouses and distribution pharmaceutical limited liability companies warehouses).



3. Profit and Loss

The profit and loss for the year 2007 may be assessed as positive, similarly to the past years, both from the viewpoint of the profit and from the viewpoint of the development of the company's balance sheet items.

The total volume of the revenue from goods sold amounted to CZK 11 530 913 thousand, significantly up by 13.6% in comparison with the same period of the last year. The total revenue from ordinary activity amounted to CZK 11 688 840 thousand, and the sale of goods had the most important share in this revenue volume. The decisive part of the revenue from goods was represented by the supplies of pharmaceuticals and other complementary assortment to public and hospital pharmacies. However, the growing sales to hospital pharmacies had a negative impact on the overall sales margins. In absolute figures, the sales margin increased against the previous year, amounting to CZK 349 526 thousand; however, in relative figures the margin decreased to 3.03%.

In the course of 2007, the development within the framework of operating cost items was successful. The development of these was influenced in a negative manner especially by the changes in the price of some inputs, particularly an increase in the price of purchased materials and power and, last but not least, an increase in the price of workforce. In the

course of the year, several partial measures were adopted in the interest of strengthening furthermore the efficiency of the entire operation of the company, and measures in the interest of further strengthening of stability and creation of conditions for further development of the company were enforced. Thanks to this effort, the purchased consumables and services decreased by CZK 4 220 thousand.

The most important items within the framework of operating costs (besides the costs of goods sold) include, above all, the costs of purchased services and staff costs.

As regards financial management, the Company's situation is complicated the most by the interests expenses which have a significant influence on the financial profit/loss. The interests payable increased by CZK 15 199 thousand against 2006.

As of the last day of the monitored period, the fixed assets of the company reached the total amount of CZK 3 915 180 thousand, and in comparison with the balance at the end of the last fiscal year, an increase was reported of approximately CZK 88 502 thousand. The net book value of the tangible and intangible fixed assets as of 31 December 2007 decreased by CZK 13 066 thousand in comparison with the balance as of 31 December 2006. The current assets of the company posted an annual increase of CZK 101 330 thousand.

The company's equity increased by CZK 12 248 thousand and its total volume reached CZK 565 120 thousand. This increase has a positive effect on the ratio indicators. In 2007, the Company's registered capital did not increase.

In view of the achieved profit for 2007, the company's equity was furthermore strengthened, which stabilized the financial resources of PHARMOS, a.s.

4. Investment Construction and Development of Activities

4.1. Investment Construction in the Past Year

The investments made in the course of the past years were focussed especially on the renewal and complementation of the Company's existing fixed assets and an overall improvement of the structure of these fixed assets. In 2007, the installation of the dispatching line in the Brandýsek plant was completed. Investments were allocated for the renovation of information technology and office equipment in order to ensure their higher performance and reliability.

4.2. Plans concerning Investment Construction and Development of Activities

The Company intends to install dispatching lines in the other two plants, with the aim of increasing the dispatching capacities of these plants and assure further savings of labour forces.

5. Selected Data from the Balance Sheet



TEXT (NET BALANCE) IN CZK '000	2002	2003	2004	2005	2006	2007
Total assets	2 796 091	3 164 198	3 835 757	4 003 788	3 826 678	3 915 180
Stock subscriptions receivable	-	-	-	-	-	-
Fixed assets	308 141	370 129	348 607	339 755	324 711	311 645
Intangible fixed assets	27 351	18 410	10 300	5 703	3 377	1 121
Tangible fixed assets	233 676	307 505	315 114	310 859	306 215	307 405
Financial investments	47 114	44 214	23 193	23 193	15 119	3 119
Current assets	2 486 825	2 793 310	3 485 296	3 662 702	3 500 013	3 601 343
Stock	672 083	759 551	974 818	1 096 882	1 081 904	906 785
Long-term debtors	108 059	104 830	101 799	48 129	54 797	66 200
Short-term debtors	1 623 409	1 877 711	2 39 210	2 482 531	2 319 073	2 563 179
Financial assets	83 274	51 218	10 469	35 160	44 239	65 179
Other assets – temporary asset accounts	1 125	759	1 854	1 331	1 954	2 192
Total liabilities	2 796 091	3 164 198	3 835 757	4 003 788	3 826 678	3 915 180
Equity	484 550	504 348	530 512	542 762	552 872	565 120
Registered capital	85 700	85 700	342 800	342 800	342 800	342 800
Capital funds	162 643	162 643	-	-	-	-
Funds from profit	82 005	125 005	135 005	145 005	176 005	176 005
Retained profit or loss from previous years	89 739	94 343	15 953	12 821	14 387	32 402
Profit or loss of current year	64 463	36 657	36 754	42 136	19 680	13 913
Liabilities	2 310 660	2 659 765	3 305 245	3 460 480	3 273 287	3 349 836
Reserves	1 860	5 710	7 700	-	6 000	18 638
Long-term liabilities	11 968	10 541	-	29 558	24 376	16 603
Short-term liabilities	1 173 312	1 328 908	1 435 538	1 509 832	1 380 086	1 360 867
Bank loans and overdrafts	1 123 520	1 314 606	1 862 007	1 921 090	1 862 825	1 953 728
Other liabilities - temporary liability accounts	881	85	-	546	519	224

6. Selected Data from the Profit and Loss Account



TEXT (CZK '000)	2002	2003	2004	2005	2006	2007
Sales of goods purchase for resale	7 978 982	8 536 152	9 695 500	10 678 580	10 149 993	11 530 913
Cost of goods sold	7 674 363	8 235 544	9 413 099	10 333 668	9 831 912	11 181 387
Gross margin	304 619	300 608	282 401	344 912	318 081	349 526
Sale of own products and services	130 232	138 852	139 178	159 744	158 799	157 927
Consumables	22 720	19 631	21 968	25 301	26 675	25 029
Services	126 796	126 676	139 897	153 765	144 226	141 652
Added value	285 335	293 153	259 714	325 590	305 979	340 772
Wages and salaries	94 785	99 091	104 428	111 314	114 096	117 605
Social and health insurance	32 521	33 313	35 667	37 788	39 514	39 071
Social benefits	3 952	4 281	3 664	5 054	6 985	8 039
Taxes and charges	999	2 854	1 186	3 806	-605	1 522
Depreciation of intangible and tangible fixed assets	29 739	27 678	22 973	20 543	20 111	27 749
Sales of fixed assets and materials	31 406	1 568	2 377	5 727	71	487
Net book value of sold fixed assets and materials	22 942	244	376	3 825	22	195
Change in the reserves and adjusting entries in the area of operations and complex retained expenses	11 633	16 814	4 116	19 525	3 528	24 734
Other operating income	6 677	10 996	9 647	6 203	9 386	11 641
Other operating expenses	6 246	23 155	10 474	18 035	26 425	28 719
Profit / loss from operations	120 601	98 287	88 854	117 630	105 360	105 266
Sales of securities and shares	-	6 000	21 416	-	-	-
Securities and shares sold	-	6 600	21 242	-	-	-
Change in the reserves and adjusting entries in the area of finance	-50	-	-	-	6 000	-
Interest income	13 019	10 725	10 495	7 118	4 811	4 899
Interest expenses	55 686	52 260	51 484	61 337	62 245	77 444
Other financial income	37 012	30 104	28 495	22 256	17 797	18 575
Other financial expenses	20 582	30 062	28 217	28 618	21 782	33 536
Profit or loss from financial operations	-26 187	-42 093	-40 537	-60 581	-67 419	-87 506
Income tax on ordinary activities – due	30 991	21 403	10 066	15 203	13 486	11 620
Income tax on ordinary activities – deferred	-21	-841	1 806	292	4 775	-7 773
Profit or loss from ordinary activities	63 444	35 632	36 445	41 554	19 680	13 913
Extraordinary income	1 021	1 038	400	687	-	-
Extraordinary expenses	2	13	91	105	-	-
Income tax on extraordinary activities – due	-	-	-	-	-	-
Extraordinary profit or loss	1 019	1 025	309	582	-	-
Profit or loss of current year	64 463	36 657	36 754	42 136	19 680	13 913
Profit or loss before taxation	95 433	57 219	48 626	57 631	37 941	17 760

7. Selected Data from the Cash Flow Statement



No.	TEXT (CZK '000)	2004	2005	2006	2007
P.	Balance of funds and monetary equivalents at the beg. of the accounting period	51 218	10 469	35 160	44 239
Z.	Book profit/loss from ordinary activity before taxation	48 315	57 049	37 941	17 760
A.1.	Adjustments with non-monetary operations	65 902	85 332	87 024	124 736
A.1.1.	Depreciation of fixed assets (+) except for net book value of fixed assets sold	30 027	20 543	27 165	27 750
A.1.2.	Variation in adjustments and reserves, and variat. in temp. asset and liab. acc. (+/-)	-2 946	12 472	2 474	24 734
A.1.3.	Profit (loss) from the sale of fixed assets (-/+)	-2 168	-1 902	-49	-293
A.1.4.	Revenue from dividends and share of profit (-)	-	-	-	-
A.1.5.	Settled expense interests (+) and settled income interests (-)	40 989	54 219	57 434	72 545
A*	Net cash flow from oper. act. before tax., changes in work. cap. and extraord. items	114 217	142 381	124 965	142 496
A.2.	Change in the need of working capital	-47 761	-46 334	-3 266	-11 604
A.2.1.	Variation in operating activity receivables (+/-)	-501 316	-69 575	158 887	-269 416
A.2.2.	Variation in operating activity short-term liabilities (+/-)	665 639	145 916	-177 188	81 140
A.2.3.	Variation in stocks (+/-)	-212 084	-122 675	15 035	176 672
A**	Net cash flow from operating activity before taxation and extraordinary items	66 456	96 047	121 699	130 892
A.3.	Expenditure on interests paid except for capitalized interests (-)	-51 484	-61 337	-62 245	-77 444
A.4.	Interests received (+)	10 495	7 118	4 811	4 899
A.5.	Tax paid on income from ordin. act. and for additional tax assess. for previous years	-27 366	3 678	-11 548	-12 371
A.6.	Receipts and expenditures related to extraordinary accounting cases	309	582	-	-
A***	Net cash flow from operating activity	-1 590	46 088	52 717	45 976
B.1.	Expenditures related to acquisition of fixed assets	-30 122	-15 511	-12 168	-14 879
B.2.	Income from sale of fixed assets	23 786	5 727	71	488
B.3.	Loans and credits for related persons				
B***	Net cash flow related to investment activity	-6 336	-9 784	-12 097	-14 391
C.1.	Variation in long-term or short-term liabilities	-22 541	-2 043	-21 957	-9 000
C.2.	Impact of variation in equity on funds	-10 282	-9 570	-9 584	-1 645
C.2.1.	Increase in funds and monet. equiv. due to increased reg. capital, reserve fund (+)				
C.2.2.	Payment of share in equity to associates (-)		-9 570	-9 584	
C.2.3.	Monet. don. and allocat. into equity and other ass.s' and shareholders' deposits (+)				
C.2.4.	Settlement of loss on behalf of associates (+)				
C.2.5.	Direct payments to the debit of funds (-)	-1 720			
C.2.6.	Dividends paid including paid withholding tax (-)	-8 562			1 645
C.3.	Received dividends (+)				
C***	Net cash flow related to financial activity	-32 823	-11 613	-31 541	-10 645
F.	Net increase/decrease in the balance of funds	-40 749	24 691	9 079	20 940
R.	Balance of funds and monetary equivalents at the end of the accounting period	10 469	35 160	44 239	65 179

8. Company Supervisory Board Report

Company Supervisory Board Report Concerning 2007 Financial Statements

The Supervisory Board of PHARMOS, a.s. was duly informed about the development of the business activity of the company and fulfilled all the pertinent tasks both according to the Czech system of law and according to the Articles of Association.

The Final Accounts and Annual Report were audited as of 31 December 2007 by AUDIT PROFESIONAL spol. s r.o., the company's auditor. The Supervisory Board has examined the Annual Report and approves of the findings contained in the Auditor's Report as of 31 December 2007.

The Supervisory Board would like to thank all the Members of the Board of Directors of PHARMOS, a.s. participating in the company's activity.

Supervisory Board

9. Independent Auditors' Report concerning the Annual Report



ČAP/ev.č. 61 / 2008

ZPRÁVA NEZÁVISLÉHO AUDITORA o ověření Výroční zprávy za rok 2007 včetně Zprávy o vztazích mezi propojenými osobami určená akcionářům společnosti **PHARMOS, a.s.**

Zpráva o účetní závěrce

Na základě provedeného auditu jsme dne 13.6.2008 vydali zprávu k účetní závěrce, která je součástí této výroční zprávy společnosti PHARMOS, a. s. následujícího znění:

„Ověřili jsme příloženou účetní závěrku společnosti PHARMOS, a. s. tj. rozvahou k 31.12.2007 a výkaz zisků a ztrát, přehled o změnách vlastního kapitálu a přehled o peněžních tocích za období od 01.01.2007 do 31.12.2007 a přílohu této účetní závěrky, včetně popisu použitých významných účetních metod. Údaje o společnosti PHARMOS, a. s. jsou uvedeny v příloze této účetní závěrky.

„Podle našeho názoru účetní závěrka podává věrný a poctivý obraz aktiv, pasív a finanční situace společnosti PHARMOS, a. s. k 31.12.2007 a nákladu, výnosů a výsledku jejího hospodaření a peněžních toků za rok 2007 v souladu s českými účetními předpisy. „

Zpráva o výroční zprávě

Ověřili jsme soulad výroční zprávy společnosti PHARMOS, a.s. k 31.12.2007 s účetní závěrkou, která je obsažena v této výroční zprávě. Za správnost výroční zprávy je zodpovědný statutární orgán společnosti PHARMOS, a.s. Naším úkolem je vydat na základě provedeného ověření výrok o souladu výroční zprávy s účetní závěrkou.

Ověření jsme provedli v souladu s Mezinárodními auditorskými standardy a souvisejícími aplikačními doložkami Komory auditorů České republiky. Tyto standardy vyžadují, aby auditor naplánoval a provedl ověření tak, aby získal přiměřenou jistotu, že informace uvedené ve výroční zprávě, které byly převzaty z účetní závěrky či z ní použity, jsou ve všech významných ohledech v souladu s touto účetní závěrkou. Jsme přesvědčeni, že provedené ověření poskytuje přiměřený podklad pro vyjádření výroku auditora.

Podle našeho názoru jsou informace uvedené ve výroční zprávě společnosti PHARMOS, a.s. k 31.12.2007 ve všech významných ohledech v souladu s výše uvedenou účetní závěrkou.

Zpráva o zprávě o vztazích mezi propojenými osobami

Prověřili jsme též věcnou správnost údajů uvedených ve zprávě o vztazích mezi propojenými osobami společnosti PHARMOS, a.s. k 31.12.2007, která je součástí výroční zprávy. Za sestavení této zprávy o vztazích je zodpovědný statutární orgán společnosti PHARMOS, a.s. Naším úkolem je vydat na základě provedené prověrky stanovisko k této zprávě o vztazích.

Prověrku jsme provedli v souladu s Mezinárodními auditorskými standardy vtažitými se k prověrce a souvisejícími aplikačními doložkami Komory auditorů České republiky. Tyto standardy vyžadují, abychom plánovali a provedli prověrku s cílem získat střední míru jistoty, že zpráva o vztazích neobsahuje významné nesprávnosti. Prověrka je omezena především na dotazování pracovníků společnosti a na analytické postupy a výběrovým způsobem provedené prověření věcné správnosti údajů. Proto prověrka poskytuje nižší stupeň jistoty než audit. Audit zprávy o vztazích jsme neprováděli, a proto nevyjadřujeme výrok auditora.

Na základě naší prověrky jsme nezjistili žádné významné věcné nesprávnosti údajů uvedených ve zprávě o vztazích mezi propojenými osobami společnosti PHARMOS, a.s. k 31.12.2007.

V Ostravě dne 20. června 2008

Za firmu AUDIT PROFESIONAL, spol. s r.o.
Heslíčská 551/57
700 30 Ostrava - Hrabůvka
osvědčení KAČR č. 64

Ing. Miluše Vašíčková, auditorka osvědčení KAČR č. 1294
a jednatelka společnosti



10. Information about Data Ascertained after 31 December 2007

As of 30 April 2008, Ing. Roman Kejzlar resigned from his position of the Chairman of the Board of Directors and General Director.

11. Anticipated Development of Company

Attention shall be further devoted to the growth of sales on the supplies to pharmacies, hospitals and medical product outlets throughout the Czech Republic; increased attention shall be given to regions where PHARMOS holds a market share below 20%.

In addition, logistics shall be taken care of particularly in Ostrava, Brno and Brandýsek. Efficiency measures will be gradually adopted to increase labour productivity and ensure further decrease in expenses of all sorts.

12. Activities in Research, Development and the Environment Protection

PHARMOS, a.s. pursues no activities in research or development. This also applies to the area of environment protection, where our long-term effort is to pursue our business to ensure that we do not harm the environment.

In our capital construction and redevelopment projects, we make sure that these projects have no negative impact on the environment.

PHARMOS, a.s. runs no outlets or organizational constituents outside the Czech Republic. All operating premises are situated in the Czech Republic and all activities are carried out in the Czech Republic.

Ostrava, 16 June 2008

PharmDr. Ivan Šácha
Board of Directors member

Alena Marynčáková
Board of Directors member

2007 Financial Statements

Minimum binding account of information acc. to
Decree 500/2002 Coll.

BALANCE SHEET

unabbreviated

as of 31 December 2007

(rounded to CZK '000)

ID No.

19010290

Trade name of accounting unit

PHARMOS, a.s.

Registered office of accounting unit

Těšínská 1349/296

Ostrava - Radvanice

716 00

Identification a	ASSETS b	Current fiscal year			Previous fiscal year
		Gross 1	Correction 2	Net 3	Net 4
	TOTAL ASSETS (line 02 + 03 + 31 + 62) = line 66	4 208 417	-293 237	3 915 180	3 826 678
B.	Fixed assets (line 04 + 13 + 23)	517 661	-206 016	311 645	324 711
B. I.	Intangible fixed assets (line 05 to 12)	44 577	-43 456	1 121	3 377
3.	Software	18 035	-16 914	1 121	3 377
4.	Valuable rights	26 542	-26 542		
B. II.	Tangible fixed assets (line 14 to 22)	469 863	-162 458	307 405	306 215
B. II. 1.	Lands	15 919		15 919	15 026
2.	Structures	230 814	-44 638	186 176	178 370
3.	Machinery, tools & equipment, vehicles and fixtures	116 407	-75 499	40 908	30 626
7.	Tangible fixed assets not-in-use				10 051
8.	Prepayments for tangible fixed assets	920		920	1 607
9.	Difference in valuation of acquired assets (+/-)	105 803	-42 321	63 482	70 535
B. III.	Long-term investments (line 24 to 30)	3 221	-102	3 119	15 119
3.	Other long-term securities and shares	221	-102	119	119
4.	Loans and credits - controlling entity, substantial effect				12 000
6.	Acquired long-term investments	3 000		3 000	3 000
C.	Current assets (line 32 + 39 + 47 + 57)	3 688 564	-87 221	3 601 343	3 500 013
C. I.	Inventories (line 33 to 38)	908 587	-1 802	906 785	1 081 904
5.	Merchandise	908 587	-1 802	906 785	1 081 904
C. II.	Long-term debtors (line 40 to 46)	66 200		66 200	54 797
C. II. 1.	Receivables from trade relations	47 531		47 531	54 797
2.	Receivables from subsidiaries and controlled undertakings	18 669		18 669	
C. III.	Short-term debtors (line 48 to 56)	2 648 598	-85 419	2 563 179	2 319 073
C. III. 1.	Receivables from trade relations	2 556 601	-85 419	2 471 182	1 801 280
2.	Receivables from controlling entities	6 182		6 182	440 413
6.	Taxes receivable				1 762
7.	Short-term prepayments	2 549		2 549	3 132
8.	Estimated receivables	80 741		80 741	67 657
9.	Other receivables	2 525		2 525	4 829
C. IV.	Short-term investments (line 58 to 61)	65 179		65 179	44 239
C. IV. 1.	Cash	2 870		2 870	3 006
2.	Bank accounts	48 149		48 149	41 233
3.	Short-term securities and shares	14 160		14 160	
D. I.	Accruals and deferrals (line 63 to 65)	2 192		2 192	1 954
D. I. 1.	Deferred expenses	1 603		1 603	1 155
3.	Accrued income	589		589	799

Identification a	LIABILITIES b		Current fiscal year	Prior fiscal year
			5	6
	TOTAL LIABILITIES (line 67 + 84 + 117) = line 001		3 915 180	3 826 678
A.	Equity (line 68 + 72 + 77 + 80 + 83)		565 120	552 872
A. I.	Registered capital (line 69 to 71)		342 800	342 800
A. I. 1.	Registered capital		342 800	342 800
A. III.	Reserve fund, indivisible fund and other funds from profit (line 78 + 79)		176 005	176 005
A. III. 1.	Statutory reserve fund / indivisible fund		140 000	140 000
A. III. 2.	Statutory and other funds		36 005	36 005
A. IV.	Retained profit or loss from prior years (line 81 + 82)		32 402	14 387
A. IV. 1.	Retained profit of prior years		32 402	14 387
A. V.	Profit / loss of current year. (line 01 - 68 - 72 - 77 - 80 - 84 - 117) = line 60 of Profit and Loss Account, unabbreviated		13 913	19 680
B.	Liabilities (line 85 + 90 + 101 + 113)		3 349 836	3 273 287
B. I.	Reserves (line 86 to 89)		18 638	6 000
4.	Reserves according to the relevant legal regulations		18 638	6 000
B. II.	Long-term payables (line 91 to 100)		16 603	24 376
10.	Deferred tax liability		16 603	24 376
B. III.	Short-term payables (line 102 to 112)		1 360 867	1 380 086
B. III. 1.	Payables from trade relations		1 309 287	1 329 184
2.	Payables to controlling entity			12 258
4.	Payables to partners and consortium members		21	19
5.	Accounts payable to employees		6 594	6 592
6.	Payables from social security and health insurance		3 475	3 662
7.	Taxes payable and subsidies		12 142	2 265
8.	Short-term advances received		7 822	7 302
10.	Anticipated liabilities		21 406	18 404
11.	Other creditors		120	400
B. IV.	Bank loans and borrowings (line 114 to 116)		1 953 728	1 862 825
B. IV. 1.	Long-term bank loans			9 000
2.	Short-term bank loans		1 953 728	1 853 825
C. I.	Accruals and deferrals (line 118 + 119)		224	519
C. I. 1.	Accrued expenses		151	519
2.	Accrued income		73	

Compiled on: 12.06.2008	Approved on: 12.06.2008	Signature of the statutory body of the accounting unit
Legal form: joint stock company		Subject of enterprise: Purchase of goods for sale and resale
Incorporated in the Company Register kept on file by the Regional Court in Ostrava, Section B, Insert 188.		

Minimum binding account of information acc. to Decree 500/2002 Coll.

PROFIT AND LOSS STATEMENT

unabbreviated

as of 31 December 2007

(rounded to CZK '000)

ID No.

19010290

Trade name of accounting unit
PHARMOS, a.s.

Registered office of accounting unit
Těšínská 1349/296
Ostrava - Radvanice
716 00

a	b	Figures posted during fiscal year	
		current 1	prior 2
I.	Sales of goods purchased for resale	11 530 913	10 149 993
A.	Cost of goods sold	11 181 387	9 831 912
+	Gross margin (line 01 - 02)	349 526	318 081
II.	Production (line 05 to 07)	157 927	158 799
II. 1.	Sale of own products and services	157 927	158 799
B.	Purchased consumables and services (line 09 + 10)	166 681	170 901
B. 1.	Consumption of material and energy	25 029	26 675
B. 2.	Services	141 652	144 226
+	Added value (line 03 + 04 - 08)	340 772	305 979
C.	Staff costs (line 13 to 16)	164 715	160 595
C. 1.	Wages and salaries	117 605	114 096
C. 3.	Social security and health insurance expenses	39 071	39 514
C. 4.	Social benefits	8 039	6 985
D.	Taxes and charges	1 522	-605
E.	Depreciations of tangible and intangible fixed assets	27 749	20 111
III.	Sales of fixed assets and materials (line 20 + 21)	487	71
III. 1.	(line 20 + 21)	487	71
F.	Sales of fixed assets	195	22
F. 1.	Net book value of sold fixed assets and materials (line 23 + 24)	195	22
G.	Net book value of sold fixed assets	24 734	9 528
IV.	Change in reserves and adjusting entries in the area of operations and complex retained expenses (+/-)	11 641	9 386
H.	Other operating income	28 719	26 425
*	Other operating expenses [line 11 - 12 - 17 - 18 + 19 - 22 - (+/-25) + 26 - 27+ (-28) - (-29)]	105 266	99 360
X.	Interests receivable	4 899	4 811
N.	Interests payable	77 444	62 245
XI.	Other financial income	18 575	17 797
O.	Other financial expenses	33 536	21 782
*	Financial profit or loss [line 31 - 32 + 33 + 37 - 38 + 39 - 40 - (+/-41) + 42 - 43 + 44 - 45 + (-46) - (-47)]	-87 506	-61 419
Q.	Income tax on ordinary activities (line 50 + 51)	3 847	18 261
Q. 1.	- due	11 620	13 486
Q. 2.	- deferred	-7 773	4 775
**	Profit or loss from ordinary activities (line 30 + 48 - 49)	13 913	19 680
***	Profit or loss of current year (+/-) (line 52 + 58 - 59)	13 913	19 680
****	Profit or loss before tax	17 760	37 941
Compiled on: 12 June 2008		Signature of the statutory body of the accounting unit	
Legal form: joint stock company		Subject of enterprise: Purchase of goods for sale and resale	
Incorporated in the Company Register kept on file by the Regional Court in Ostrava, Section B, Insert 188.			

Notes to Financial Statement of PHARMOS, a.s., as of 31 December 2007

The Notes are issued in accordance with the Ministry of Finance Decree 500/2002 Coll. of 6 November 2002, implementing some provisions of Act 563/1991 Coll., concerning accountancy, as amended by subsequent regulations, for accounting units with double-entry bookkeeping. The data in the Notes are based on the bookkeeping papers of the accounting unit (accounting documents, books and other papers) and on other data available to the accounting unit. The values are expressed in thousands of CZK, unless stated otherwise.

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General data

1. Description of accounting unit (II.1)

Trade name: **PHARMOS, a.s.**

Registered office: Těšínská 1349/296, Ostrava-Radvanice, Postcode: 716 00

Legal form: Joint-stock company

ID No.: 19010290

VAT No.: CZ19010290

Subject of enterprise:

- Purchase of goods for sale and resale
- Organization of cultural, sports, community and education events (except Section 3, Paragraph 9)
- Advisory services (except accounting, economic, organizational) and consultants

Major subject of enterprise:

- Purchase of goods for sale and resale

Establishment of company:

The company was established on 30 April 1991 upon its incorporation in the Company Register kept on file at the Regional Court in Ostrava, Section B, Insert 188.

BALANCE SHEET DATE 31.12.2007

DATE OF FINANCIAL STATEMENT 12.6.2008

INFORMATION CONCERNING IMPLEMENTED OR FORESEEN TRANSFORMATION OF THE COMPANY

The accounting unit does not plan any transformation of the company.

INFORMATION CONCERNING CHANGES IN FISCAL YEAR

The accounting unit does not plan to shift to a marketing year

Incorporated registered capital:

Total volume: CZK 342 800 000 (100% paid-up)

Incorporated on 10 September 2004 on the basis of a decision adopted by the Shareholders' Meeting in March 2004

Shares:

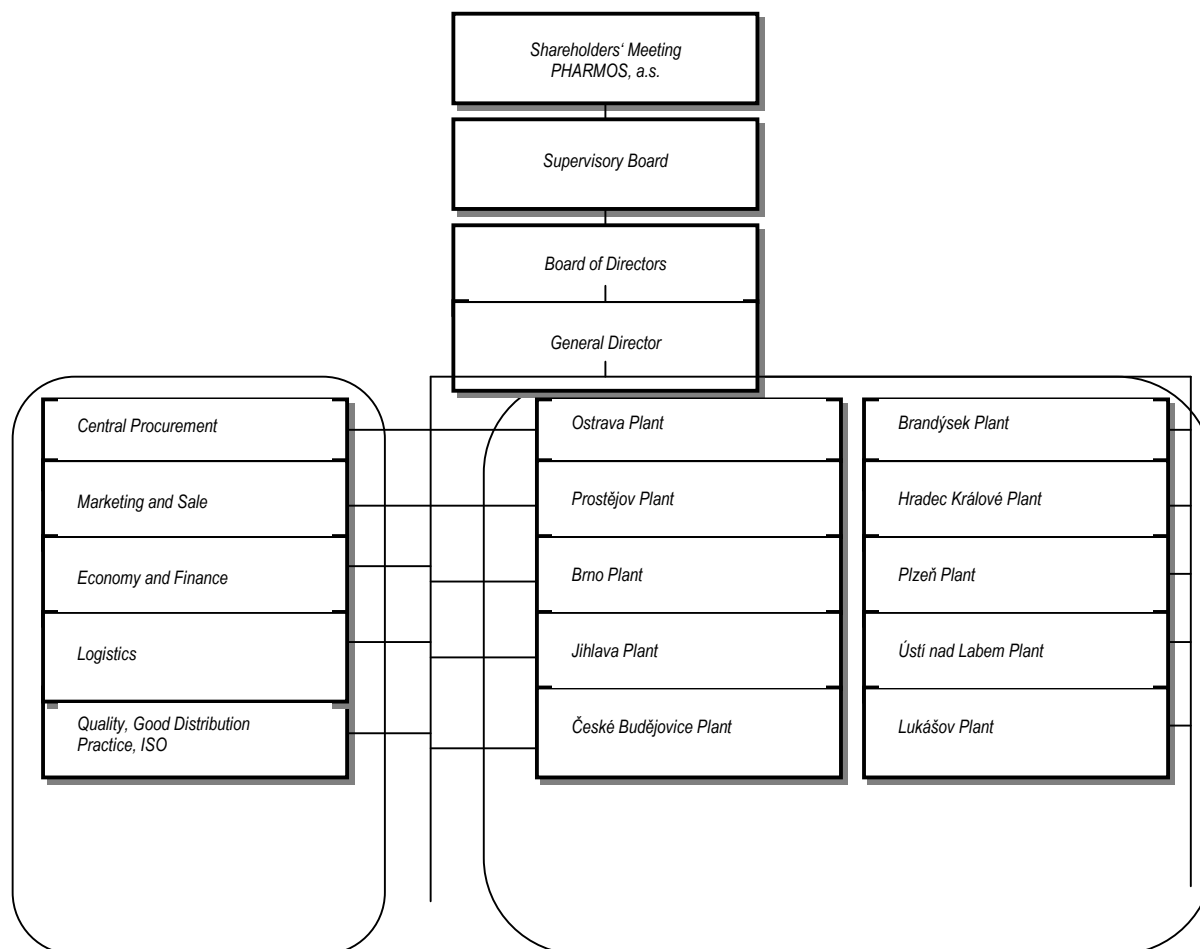
- 275 registered shares at a nominal value of CZK 1 000 000
- 5710 bearer shares at a nominal value of CZK 5 000
- 13 registered shares with a nominal value of CZK 50 000
- 386 registered shares with a nominal value of CZK 100 000

Persons holding shares in the registered capital of the accounting unit exceeding 20%:

Name of individual or trade name of corporation	Residence, registered office	As of 31 Dec 2007		As of 31 Dec 2006		As of 31 Dec 2005		As of 31 Dec 2004	
		i.e. %	Share	i.e. %	Share	i.e. %	Share	i.e. %	Share
PHOENIX International Beteiligungs GmbH	Mannheim, Germany	28.00	96 000	28.00	96 000	28.00	96 000	28.00	96 000
Česká lékárnická, a.s.	Těšínská 1349/296, 71600 Ostrava-Radvanice, Czech Republic	71.55	245 280	71.55	245 280	71.55	245 280	71.55	245 280

Organizational structure of accounting unit and any significant changes thereof during the previous fiscal year:

There were no significant changes to the organizational structure as compared to the situation during the previous year.



Members of statutory and supervisory bodies as of the balance sheet date:

Title	Last name	Name	Degree	Note
Chairman of the Board of Directors	Kejzlar	Roman	Ing.	
Member of the Board of Directors	Šácha	Ivan	PharmDr.	Member since 18 May 2007
Member of the Board of Directors	Marynčáková	Alena		Member since 18 May 2007
Member of the Board of Directors	Šlegr	Karel	Mgr.	Member since 30 August 2007
Member of the Board of Directors	Němeček	Jaroslav	Mgr.	Member since 18 May 2007
Chairman of the Supervisory Board	Kraft	Helmut	Dr.	
Member of the Supervisory Board	Nalevajka	Petr	PharmDr.	
Member of the Supervisory Board	Mravcová	Ilona	Mgr.	
Member of the Supervisory Board	Lesáková	Lea	Mgr.	
Member of the Supervisory Board	Fiala	Oldřich	Ing.	
Member of the Supervisory Board	Nöll	Christoph		

2. Property or contractual interests of the accounting unit in other companies (II.2)

Ownership interests exceeding 20% - none

3. Company employees, staff costs (II.3)

Item	Employees total		Of this: members of management	
	2007	2006	2007	2006
Average headcount	672	693	69	81
Wages and salaries	117 605	114 096	23 570	23 689
Social security expenses	39 071	39 514	7 638	8 197
Social benefits	8 039	6 985	580	680
Cost of staff, total	164 715	160 595	31 788	32 566

Remuneration to members of statutory and supervisory bodies	2007	2006
Remuneration to members of statutory bodies	400	900
Remuneration to members of supervisory bodies	260	160
Total	660	1.060

4. Compensations and benefits (II.4)

No former or current members of the statutory, management and supervisory bodies were awarded any compensations or benefits during the course of the fiscal year. According to the Statutes, members of the Board of Directors are employees of PHARMOS, a.s.

Applied accounting methods, general accounting principles and methods of evaluation (III)

The presented Financial Statement was processed in accordance with Act 563/1991 Coll., concerning accountancy, and Notice by the Czech Ministry of Finance No. 500/2002 Coll., implementing some provisions of Act 563/1991 Coll., concerning accountancy, as amended by subsequent regulations, for accounting units with double-entry bookkeeping, and the applicable Czech Accounting Standards.

1. Method of asset evaluation (III.2.1)

1.1. Inventories

Accounting of stock (III.2.1.a)

- According to method A of stock recording
- Release of stock from warehouse is accounted:
 - using the FIFO method

Evaluation of stock (III.2.1.a) (III.2.3.)

- Evaluation of stock created at own costs:
 - not applied during the year
- Evaluation of purchased stock:
 - in actual acquisition prices, including:
 - price of acquisition
 - secondary acquisition costs:
 - transport expenses
 - customs

1.2. Evaluation of tangible and intangible fixed assets

Tangible and intangible fixed assets are evaluated on the basis of the acquisition prices, i.e. prices for which such assets were acquired (price of acquisition) and expenses related to the acquisition (secondary acquisition costs).

As regards tangible and intangible fixed assets acquired on the basis of a non-monetary deposit of Česká lékárnická a.s. in PHARMOS, a.s., the acquirer (i.e. PHARMOS, a.s.) continues – from the tax perspective – in the depreciations commenced by the original owner, in accordance with Section 30, Paragraph 12, Letter b) of the Income Tax Act, i.e. the entry price for the evaluation of assets in the company's books is the net book value of such assets at the depositor.

In connection with the implementation of a non-monetary deposit of Česká lékárnická, a.s., PHARMOS, a.s. also registers, as of 1 January 2002, an adjustment to the acquired assets in a total amount of CZK 105 803 thousand; this adjustment represents the differences in the accounting evaluation of the subject of the non-monetary deposit with the depositor adopted in the accountancy books of the acquirer (i.e. PHARMOS, a.s.) and the evaluation provided by 2 independent experts appointed by the court for the evaluation of the non-monetary deposit of Česká lékárnická, a.s., i.e. Ing. Petr Korč (an expert appointed by the Regional Court in Ostrava on 30 November 1983, ref. No. 4056/83, for the fields of economy, prices and assessment of real property, vehicles, machinery, devices and systems, market evaluation of enterprises; the expert's report is registered under ref. No. 22036) and Mgr. Pavel Procházka (an expert appointed by the Regional Court in Ostrava on 25 October 2001, ref. No. 3476/2001 for the fields of economy, specializing in prices and assessment of enterprises.; the expert's report is registered under ref. No. 07-05/2002). The expert report was made out in order to ascertain the actual status on the basis of the pertinent assessment methodology, as of the assessment record date, i.e. 31 December 2001. The synthesis of the methods used for the calculation of the market value (normal value calculated with the use of the substance method and normal value of the non-monetary deposit calculated with the use of the return method of discounted net flows into the company) was conducted with the use of the method of weighted average. The value of the non-monetary deposit of the depositor (Česká lékárnická, a.s.) while maintaining the going concern assumption was determined at CZK 180,787 thousand.

1.3. Evaluation of securities and ownership interests (III.2.1.c)

During the fiscal year concerned, the company owned securities and ownership interests evaluated on the basis of acquisition prices.

1.4. Evaluation of livestock increments (III.2.1.d)

The company does not have any assets of this category.

2. Determination of reproduction acquisition price (III.2.2)

During the current or previous fiscal year, the company did not make use of reproduction acquisition prices.

3. Changes in evaluation, depreciations and accounting proceedings (III.2.4)

During the fiscal year concerned, the accounting unit reported no changes regarding the accounting methods.

4. Adjustments to assets (III.2.5)

Adjustment	Method of determining	Source of information concerning the determining of adjustment amount
Adjustment to financial investments	% of the value of financial investment (deposit)	Registration of securities and deposits
Adjustment to stock	Stock expiring within 3 months: 50% of the stock value. Stock expiring within 6 months: 20% of the stock value.	Stock records
Adjustment to receivables	Statutory adjustments are created depending on the number of months overdue (i.e. for receivables overdue for a period exceeding 6 months, adjustments are generated at the amount of 20% For receivables for which court proceedings have been initiated, the adjustment is created as follows: overdue for a period exceeding 12 months: 33% overdue for a period exceeding 18 months: 50% overdue for a period exceeding 24 months: 66% overdue for a period exceeding 30 months: 80% overdue for a period exceeding 36 months: 100% An adjusting entry is created to receivables against companies under bankruptcy in the amount of 100%.	Accounts receivable ledger, book inventory and recording of legal proceedings

Adjustments to:	Balance as of 1 Jan		Additions		Payments		Balance as of 31 Dec	
	2006	2007	2006	2007	2006	2007	2006	2007
Tangible and intangible fixed assets	-	-	-	-	-	-	-	-
Stock	3 412	3 355	-	-	57	1 553	3 355	1 802
Financial investments	77	102	25	-	-	-	102	102
Receivables - statutory	75 264	71 770	-	13 649	3 494	-	71 770	85 419
Other receivables	-	-	-	-	-	-	-	-

5. Depreciations (III.2.6)

The depreciation plan concerning tangible fixed assets was defined by the accounting unit in its internal directives, based on the assumed wear and tear of the registered property corresponding to the standard conditions of its use; the accounting and tax depreciations are not equal.

The depreciation plan concerning intangible fixed assets was defined during the period concerned with respect to the period during which such assets were used. The accounting and tax depreciations are not equal.

In the depreciation of tangible and intangible fixed assets, there were no changes in 2006 reported compared to the previous years. Depreciation plans are compiled separately for each individual property. The accounting depreciations are defined as an even percentage during the entire service life of such tangible and intangible fixed assets. Tax depreciations of tangible fixed assets are determined according to the pertinent provisions of the Income Tax Act, as linear (i.e. equal) and accelerated depreciations. As regards tangible fixed assets, the accounting and tax depreciations are not equal.

As regards tangible and intangible fixed assets acquired on the basis of a non-monetary deposit of Česká lékárnická a.s. in PHARMOS, a.s., the acquirer (i.e. PHARMOS, a.s.) continues – from the tax perspective – in the depreciations commenced by the original owner, in accordance with Section 30, Paragraph 12, Letter b) of the Income Tax Act, i.e. the entry price for the evaluation of assets in the company's books is the net book value of such assets at the depositor.

Depreciation system of petty intangible and tangible fixed assets

Petty tangible fixed assets are reported at a separate analytical account 022028 - Petty tangible fixed assets. Tangible fixed assets can be classified as petty on condition that they do not fulfil the conditions for being classified as tangible fixed assets and this concerns office furniture (without limitation of the acquisition price lower limit), office equipment and machinery with the acquisition price exceeding the amount of CZK 3 000 excl. VAT and the service life exceeding 1 year, other separate assets with the acquisition price exceeding the amount of CZK 5 000 excl. VAT and the service life exceeding 1 year, or assets classified in listed categories according to internal directives.

Petty tangible assets falling outside the conditions above are reported as company's expenses at account 501 - Consumption of material.

Petty intangible fixed assets are reported at a separate analytical account 013018 - Petty intangible fixed assets. Intangible fixed assets can be classified as petty on condition that they do not fulfil the conditions for being classified as fixed assets and this concerns intangible assets with the acquisition price exceeding the amount of CZK 10 000 excl. VAT.

As of 1 January 2003, petty intangible assets and petty tangible assets are depreciated over a period of 24 months.

Petty intangible assets falling outside the conditions above are reported as company's expenses at account 518 – Other services.

Adjustments to acquired assets are depreciated evenly during a period of 15 years.

6. Conversion of foreign currency to Czech currency (III.2.7)

In the conversion of foreign currencies to the Czech currency, the company makes use of:

- current daily exchange rate announced by the Czech National Bank (daily exchange rates are valid for the entire following business day). As of the balance sheet date, receivables, cash and liabilities were recalculated using the CNB exchange rate valid as of 31 December 2007.

7. Determination of deferred tax

In accordance with the Czech Accounting Standard 3 (hereinafter the CAS), the accounting unit reported deferred tax from previous accounting and tax differences:

Item	Fiscal year	
	current	prior
Residual value (accounting) > residual value (tax)	-21 974	-24 915
Outstanding default interest - receivable	-4 244	-2 521
Unapplied reinvestment	-	-
Adjustments to acquired assets, by 31 Dec 2004	-63 482	-84 642
Total taxable	-89 700	-112 078
Deferred tax liability (2006-24%; 2007-21%, 2007-19%)	-17 128	-26 899
Residual value (accounting) < residual value (tax)	-	-
Adjustments to securities	-	102
Adjustments to stock	1 802	3 355
Adjustments to acquired assets	-	7 054
Accounting adjustments to receivables	-	-
Accounting reserves	-	-
Outstanding property transfer tax	-	-
Outstanding penalties	697	-
Unapplied reinvestment	-	-
Unapplied tax loss	-	-
Total deductibles	2 499	10 511
Deferred tax liability (2006-24%, 2007-21%)	525	2 523
Deferred tax, total (+ receivables / - liabilities)	-16 603	-24 376

The calculation for 2007 is adjusted in accordance with the actual clearance of the adjustment to the acquired assets.

1. Data critical for the assessment of the property and financial situation of the company (IV.1)

1.1. Back income tax for previous fiscal years

For the prior fiscal year, the company posted a back income tax in the amount of CZK 257 thousand.

1.2. Long-term bank loans

The company reported a long-term loan of CZK 60 000 000 for the purchase of a warehouse and land, situated at Hudcova 72, Brno (Certificate of Ownership No. 1389, cadastral district of Medlánky, Real Estate Registry in Brno). The monthly instalment is CZK 1 000 000 and as of 31 December 2007, the balance was CZK 9 000 000. The Contract was signed on 27 March 2003; the credit is repayable by 22 September 2008. Because the loan will be payable within 12 months, the loan was posted in the category of short-term loans payable within 1 calendar year.

Maturity	Total loans	
	2007	2006
Payable according to a long-term schedule		12 million
Payable within 1 year	9 million	9 million
TOTAL	9 million	21 million

1.3. Breakdown of subsidies accepted for investment and operating purposes

Reason for subsidy	Provider	2007	2006
No subsidies for investment or operating purposes accepted		-	-
TOTAL		-	-

1.4. Short-term investments

As of the Financial Statement date, the company posts Short-term investments in the amount of CZK 14 160 thousand. These are shares of Česká lékárnická, a.s., purchased from the original share owners under the Moje lékárna (My Pharmacy) project. The aim of the project is to further increase the company's sales. The shares purchased under the Moje lékárna (My Pharmacy) project will be offered to pharmacists on a reciprocal basis for an increase in the volume of sales – in accordance with a resolution of the Shareholders' Meeting of Česká lékárnická, a.s.

2. Important events following the Financial Statement date (IV.2)

Prior to the compilation of the Notes to the Financial Statement, Mr Ing. Roman Kejzlar, resigned from his position of a Chairman of the Board of Directors.

During its meeting of 15 May 2008, the Supervisory Board approved the sale of real estate properties – former warehouses at Švabinského street in Ostrava.

In 2008, a decision adopted by the Office for the Protection of Economic Competition became legally effective, regarding a penalty further specified in Article 6 of the Notes. The penalty was settled according to the agreed instalment schedule, and in May 2008, the Office for the Protection of Economic Competition issued a decision adjourning the instalments for 2009.

3. Additional information concerning tangible and intangible fixed assets

3.1. Main categories of tangible fixed assets (IV.3.1.a)

Category	Acquisition price		Allowances		Net book value		Increase (acquisition price)	Decrease (net book price, depreciations)
	2007	2006	2007	2006	2007	2006	2007	2007
Lands	15 919	15 026	-	-	15 919	15 026	893	0
Buildings, halls, structures	230 814	216 179	44 638	37 809	186 176	178 370	14 634	6 828
Machinery, tools & equipment, vehicles and fixtures	116 407	97 851	75 499	67 225	40 908	30 626	21 660	11 378
- Machinery, tools & equipment,	72 248	55 021	37 407	32 097	34 841	22 924	18 677	6 760
- Vehicles	4 563	5 430	3 502	3 678	1 061	1 752	0	691
- Inventory	6 970	6 852	5 392	4 785	1 578	2 067	118	607
-Other tangible fixed assets	32 626	30 548	29 198	26 665	3 428	3 883	2 865	3 320
Tangible fixed assets in progress	-	10 051	-	-	-	10 051	-	10 051
Adjustments to acquired assets	105 803	105 803	42 321	35 268	63 482	70 535	0	7 054

Prepayments for tangible fixed assets as of 31 December 2007 were CZK 920 thousand.

3.2. Intangible fixed assets (IV.3.1.b)

Category	Acquisition price		Allowances		Net book value		Increase (acquisition price)	Decrease (net book price, depreciations)
	2007	2006	2007	2006	2007	2006	2007	2007
Software	16 726	16 465	15 776	13 164	950	3 301	261	2 612
Valuable rights	26 542	26 542	26 542	26 542	-	-	-	-
Results of scientific activities	1 309	1 143	1 139	1 067	170	76	166	72
Other intangible fixed assets	-	-	-	-	-	-	-	-
Intangible fixed assets in progress	-	-	-	-	-	-	-	-

Prepayments for intangible fixed assets as of 31 December 2007 were CZK 0.

3.3. Tangible fixed assets acquired in the form of financial lease (IV.3.1.c)

(Financial leasing with subsequent purchase of the leased item, together according to individual categories of assets, figures excl. VAT, except for passenger vehicles.)

Summary of financial leasing		Total value	First instalment (prepayment)	Total instalments	Instalments paid	Instalments to be paid	
						less than 1 year	after 1 year
Current fiscal year – 2007	Passenger vehicles, utility vehicles, stock equipment	12 572	3 814	8 758	3 321	1 843	3 594
Previous fiscal year – 2006	Passenger vehicles, utility vehicles, stock equipment	9 836	3 170	6 666	3 212	1 785	1 669

3.4. Tangible fixed assets acquired in the form of operative lease

The company does not acquire any assets via operative lease

3.5. Total amount of off-balance assets (IV.3.1.e)

The accounting unit reports no such assets as of the balance sheet date.

3.6. Breakdown of tangible fixed assets subject to right of lien (IV.3.1.f)

Current year – 2007

Property	Book value	Security	Purpose	Duration	Liability
Warehouse complex Ostrava-Radvanice (building and land)	Buildings - approximately CZK 216 million in acquisition price	Entry of right of lien to Certificate of Ownership registered by the Real Estate Registry.	021000- Buildings, halls, structures 031000 - Lands	During the period of the credit contract according to the credit and security agreement	Based on credit contracts entered into with financial institutions.
Warehouse complex Prostějov (building and land)	(approximately CZK 130 million in net book prices)				
Warehouse complex Brandýsek (building and land)	Land - approximately CZK 14 million in acquisition prices.				
Warehouse complex Ostrava-Švabinského (building and land)					
Warehouse complex Brno (building and land)					

Previous year – 2006

Property	Book value	Security	Purpose	Duration	Liability
Warehouse complex Ostrava-Radvanice (building and land)	Buildings - approximately CZK 216 million in acquisition price	Entry of right of lien to Certificate of Ownership registered by the Real Estate Registry.	021000- Buildings, halls, structures 031000 - Lands	During the period of the credit contract according to the credit and security agreement	Based on credit contracts entered into with financial institutions.
Warehouse complex Prostějov (building and land)	(approximately CZK 178 million in net book prices)				
Warehouse complex Brandýsek (building and land)	Land - approximately CZK 14 million in acquisition prices.				
Warehouse complex Ostrava-Švabinského (building and land)					
Warehouse complex Hradec Králové (building and land)					
Warehouse complex Brno (building and land)					

3.7. Summary of assets with significant differences between market and book values (IV.3.1.g)

Assets	Book value	Market value
Terminated leasing agreements (before 31 Dec 2007 incl. prior years)	135	3 623
Terminated leasing agreements (before 31 Dec 2006 incl. prior years)	129	3 162
Terminated leasing agreements (before 31 Dec 2005 incl. prior years)	123	2 699

3.8. Long-term investments – securities and ownership interests (IV.3.1.h)

Summary of securities and ownership interests in and outside the Czech Republic (subsidiaries and associates).

Current year – 2007

Trade name	Registered office	Acquisition price	Share (%)	Adjustment	Dividends	Profit/loss of current year
AGB Praha a.s.	Prague, CR	102		102	-	-
Lekis s.r.o.	Ostrava, CR	119	17.7 %	-	-	-

Previous year – 2006

Trade name	Registered office	Acquisition price	Share (%)	Adjustment	Dividends	Profit/loss of current year
AGB Praha a.s.	Prague, CR	102		102	-	-
Lekis s.r.o.	Ostrava, CR	119	17.7 %	-	-	-

4. Equity (IV.3.3)

4.1. Increase or decrease in equity (IV.3.3.a,b)

	As of 31 Dec 2007	As of 31 Dec 2006
Registered capital	342 800	342 800
Changes in registered capital	0	0
Statutory reserve fund	140 000	140 000
Capital funds – share premium	0	0
Statutory and other funds	36 005	36 005
Retained profit of prior years	32 402	14 387
Accumulated loss from previous years	-	-
Profit or loss of current year	13 913	19 680
Equity capital, total	565 120	552 872

Pursuant to a decision of the Shareholders' Meeting, the profit generated in 2006 was divided as follows:

Allocation for dividends (gross dividend)	985
Allocation to royalties for statutory and supervisory bodies	680
Allocation to reserve fund	-
Allocation to statutory and other funds	-
Transfer to retained profit from previous years	18 015
Allocation to increase in registered capital	-
Profit / loss for 2006, total	19 680

Proposal for the distribution of profit generated during current year:

A proposal for the distribution of profit generated during current year will be presented by the Board of Directors for approval during Shareholders' Meeting.

4.2. Registered capital (IV.3.3.c)

Current year – 2007

Types of shares	Number of shares	Nominal value	Outstanding shares	Maturity period
Registered shares	275	CZK 1 000 000	-	-
Registered shares	13	CZK 50 000	-	-
Bearer shares	5 710	CZK 5 000	-	-
Registered shares	386	CZK 100 000	-	-

Previous year – 2006

Types of shares	Number of shares	Nominal value	Outstanding shares	Maturity period
Registered shares	275	CZK 1 000 000	-	-
Registered shares	13	CZK 50 000	-	-
Bearer shares	5 710	CZK 5 000	-	-
Registered shares	386	CZK 100 000	-	-

5. Receivables and liabilities (IV.3.2, 3.4)

5.1. Overdue receivables (IV.3.2.a)

Number of days	As of 31 Dec 2007		As of 31 Dec 2006	
	Trade debtors	Other debtors	Trade debtors	Other debtors
Less than 30	317 082	-	288 112	-
30 – 60	80 511	-	39 786	-
60 – 90	28 654	-	15 690	-
90 – 180	47 493	-	14 084	-
180 and more	80 717	-	104 948	-

5.2. Overdue liabilities (IV.3.4.a)

Number of days	As of 31 Dec 2007		As of 31 Dec 2006	
	Trade debtors	Other debtors	Trade debtors	Other debtors
Less than 30	301 770	-	273 720	-
30 – 60	31 107	-	42 636	-
60 – 90	6 448	-	8 007	-
90 – 180	8	-	171	-
180 and more	-286	-	-6 847	-

5.3. Receivables and liabilities with regard to group members (IV.3.4.b)

Debtor	Receivables from consortium members			
	As of 31 Dec 2007		As of 31 Dec 2006	
	Total	Overdue	Total	Overdue
Plzeňská lékárnická s.r.o. (ID No.:25238213)	148 759	9 802	130 915	50 433
Česká lékárnická a.s. (ID No.: 63080877)	1	-	52	-
Pražská lékárnická s.r.o. (ID No.: 25633741)	112 729	15 513	100 212	14 580
Jihlavská lékárnická s.r.o. (ID No.: 25534459)	51 020	6 438	51 955	6 076
Lekis s.r.o. (ID No.: 25356089)	162	-	134	-
PHARMACY-distribuce léčiv s.r.o.(ID No.: 65139577)	208 861	910	150 604	46 339
THERÁPON 98, a.s. (ID No.: 25399195)	105	-	162	130
GALMED a.s. (ID No.:47672145)	305	92	381	155
Lektrans s.r.o. (ID No.:27779271)	23	10	114	-
Pharmos, a.s. Sk. (ID No.:35974559)	8 867	8 846	168	-

As of 31 December 2007, we register the following loans:

Therapón 98, a.s. CZK 6 000 thousand

Galmed a.s. -

Česká lékárnická, a.s. CZK 182 thousand

Lekis, s.r.o. CZK 5 000 thousand

PHARMOS, a.s. Sk. CZK 13 669 thousand

These loans have exceeded the maturity period.

Creditor	Liabilities to consortium members			
	As of 31 Dec 2007		As of 31 Dec 2006	
	Total	Overdue	Total	Overdue
Plzeňská lékárnická s.r.o. (ID No.:25238213)	-	-	667	-
Česká lékárnická a.s. (ID No.: 63080877)	45	-	1 420	-
Pražská lékárnická s.r.o. (ID No.: 25633741)	80	-	-	-
Jihlavská lékárnická s.r.o. (ID No.: 25534459)	-	-	-	-
Lekis s.r.o. (ID No.: 25356089)	850	-	995	-
PHARMACY-distribuce léčiv s.r.o.(ID No.: 65139577)	62	-	-	-
THERÁPON 98, a.s. (ID No.: 25399195)	-	-	-	-
GALMED a.s. (ID No.:47672145)	2 300	-	9 042	6 970
Lektrans s.r.o. (ID No.:27779271)	2 971	-	1 090	-
Pharmos, a.s. Sk. (ID No.:35974559)	2 254	2 254	-	-

5.4. Receivables and liabilities based on application of right of lien and security (IV.3.2.c, 3.4.c)

A significant part of the Company's receivables is covered by a right of lien in favour of the crediting bank institutes.

5.5. Liabilities not included in books and off-balance liabilities (IV.3.4.d)

(guarantees assumed for another enterprise on the basis of a bank loan, letter of credit or law of exchange, unless an accounting reserve has been created)

Type of guarantee	As of 31 Dec 2007	As of 31 Dec 2006
Bank guarantees provided to entities – Stavovská s.r.o.	-	3 375
Bank guarantees provided to entities – Lekis s.r.o.	-	3 000

5.6. Accruing of important groups of other receivables

Interest-bearing loans to customers represent an important group of receivables (trade debtors).

Of the total volume granted in 2007, the most important part is represented by loans for the financing of receivables (a form of an interest-bearing timetable for repayment) and short-term bridging loans for a period of approximately 3-5 months (total share in the total volume of approximately 76 %). The remaining part is represented by the financial interest-bearing loans for assistance in the solution of business plans concerning the development of pharmacies. Each contract is provided with securing instruments (bills, right of lien on real estates, contract for assignment of claims, etc.).

	Total amount	Payable within 1 year	Payable later than within 1 year
Total	67 053	19 522	47 531
of this Financial loans	18 531	2 942	15 589
Interest-bearing timetables for repayment	44 322	12 380	31 942
Short-term bridging loans	4 200	4 200	0

As of the Balance Sheet Date, interest-bearing instalment schedules are reported with the maturity date exceeded, in the amount of CZK 23,008 thousand.

Provided loans and balance of interest-bearing timetables for repayment of debts

	Total	Payable within 1 year	Payable later than within 1 year
As of 31 Dec 2007 (current year)	67 053	19 522	47 531
As of 31 Dec 2003 (previous year)	179 005	38 204	67 324

OTHER LIABILITIES

We register an amount of CZK 25 108 thousand on the account 325 – Other liabilities, of which CZK 24 856 thousand represents accepted interest-running loans from individuals. These liabilities have not exceeded the maturity period.

RECEIVABLES WITH TERM OF PAYMENT EXCEEDING FIVE YEARS

None registered.

LIABILITIES WITH TERM OF PAYMENT EXCEEDING FIVE YEARS

None registered

5.7. Receivables and liabilities in foreign currency

RECEIVABLES IN FOREIGN CURRENCY as of 31 Dec 2007

Currency	EUR/CZK 26.62	SKK/CZK 0.79179	USD/CZK 18.078
Receivables in currency	38/1.012	17.389/13.768	37/676

LIABILITIES IN FOREIGN CURRENCY as of 31 Dec 2007

Currency	USD/CZK 18.078	EUR/CZK 26.62	DKK/CZK 3.569	SKK/CZK 0.79179
Liabilities in currency	2.066/37.349	1.482/39.504	84/300	2.391/1.893

5.8. Liabilities to state authorities

AMOUNTS PAYABLE ON SOCIAL INSURANCE

- no payable overdue liabilities

AMOUNTS PAYABLE ON PUBLIC HEALTH INSURANCE

- no payable overdue liabilities

TAX ARREARS TOWARDS REVENUE AUTHORITIES

- no tax arrears

Important potential loss for which no reserve has been created in the company's books

Description of uncertain circumstances	Affecting factors	Estimated financial impact
None known	-	-

On 13 March 2007, Pharmos, a.s. was delivered a payment demand from Braddock Finance & Capital Ltd., Stoper House, Weber Street 15, London SE1 0RE, represented by Mgr. Marek Vojáček, attorney, with registered office at Týn 1049/3, 110 00 Prague 1 in the amount of CZK 100,000,000, including interests on late payments accruing by 5.5% until the date of payment. Pharmos, a.s. filed an objection against this payment demand on 13 March 2007 and suggested that the petition is rejected in full. The legal dispute is still pending.

6. Reserves (IV.3.5)

On 14 December 2006, Pharmos, a.s. was given a fine by the Office for the Protection of Economic Competition in Brno, in the amount of CZK 18,638,000 for the suspension of the supplies of pharmaceuticals to three university hospitals and the shortening of maturity periods. These were the following hospitals – Fakultní Thomayerova nemocnice s poliklinikou Praha, Fakultní nemocnice na Bulovce Praha, Fakultní nemocnice u sv. Anny v Brně. The fine was payable after the date of legal force. Pharmos, a.s. filed an appeal on 21 December 2006 against this decision, via a legal representative - Law Firm of JUDr. Ivan Rott. The matter is still pending. For this reason, a reserve was created in 2006 for the fine, in the amount of CZK 6,000,000. In 2007, a reserve was further created for the balance of the fine, i.e. CZK 12,638 thousand. For more details, see clause 2. Important events following Financial Statement date.

Description of reserve	Current year – 2007			Previous year – 2006		
	Additions	Withdrawal	Balance	Additions	Withdrawal	Balance
Statutory reserves	-	-	-	-	-	-
-Reserve on repairs	-	-	-	-	-	-
-Other reserves	-	-	-	-	-	-
-Reserves on exchange rate loss	-	-	-	-	-	-
-Reserve on audit	-	-	-	-	-	-
-Reserve on accumulated leave and benefits	-	-	-	-	-	-
- Reserve on fine	18 638	-	24 638	6 000	-	6 000

7. Revenues from current activities (IV.3.6)

	Current year – 2007	Previous year - 2006
Income from ordinary activities	11 688 840	10 308 792
of this: Sales of goods purchased for resale	11 530 913	10 149 993
of this: Sales of goods on export	81 750	13 547
Sales of services	157 927	158 799
Penalties	6 464	4 144
Exchange rate differences	17 890	16 690
Other income	11 248	11 231
Total	11 724 442	10 340 857

8. Expenses incurred during fiscal year on research and development (IV.3.7)

The Company made no expenses on research and development in 2007.

9. Changes in reporting values in financial statements owing to legislative changes

No changes were effected to the form of reporting.

Compiled on: 12 June 2008	Compiled by:	Signature of statutory representative:
Approved on: 12 June 2008	Ing. Dana Kristenová	

Binding account of information acc. to Ministry of Finance Regulation No. 500/2002 Coll.	Report of Changes in Equity						Trade name	
							PHARMOS, a.s. Registered office	
ID No.: 19 01 02 90	as of 31 December 2007 (rounded to CZK '000)						Těšínská 1349/296, Ostrava - Radvanice 716 00	

	Registered capital	Other capital funds	Changes in registered capital	Reserve fund	Other funds	VHMO	VHBO	VK total
01	02	03	04	05		06	07	08
Opening balance, as of 1 January 2006	342 800			120 000	25 005	12 821	42 136	542 762
Subscription of registered capital increase								0
Allocation to statutory and other funds					11 000		-11 000	0
Allocation to reserve fund from 2004 profit				20 000			-20 000	0
Allocation for dividend payment							-8 570	-8 570
Allocation for royalty payment							-1 000	-1 000
Allocation to retained profit from previous years						1 566	-1 566	0
Profit/loss of current year							19 680	19 680
Closing balance, as of 31 December 2006	342 800	0	0	140 000	36 005	14 387	19 680	552 872

Opening balance, as of 1 January 2007	342 800	0	0	140 000	36 005	14 387	19 680	552 872
Subscription of registered capital increase								0
Share premium from registered capital increase								0
Gains or losses from revaluation of assets								0
Allocation to reserve fund from 2005 profit								0
Allocation for dividend payment							-985	-985
Allocation for royalty payment							-680	-680
Allocation to retained profit from previous years						18 015	-18 015	0
Profit/loss of current year							13 913	13 913
Closing balance, as of 31 December 2007	342 800	0	0	140 000	36 005	32 402	13 913	565 120

Legal form: joint stock company	Compiled by:	Compiled on: 14 April 2007	12 June 2008
Subject of enterprise:	(name, signature)		
Purchase of goods for sale and resale	Statutory body signature	Approved on:	
	(name, signature)		
Incorporated in the Company Register kept on file by the Regional Court in Ostrava, Section B, Insert 188			

Minimum binding account of information acc. to
Ministry of Finance Regulation No. 500/2002 Coll.

Cash Flow Statement

(cash-flow) (indirect method)

as of (date) 31.12.2007

(rounded to CZK '000)

YEAR	Month		ID No.							
2007	1	2	1	9	0	1	0	2	9	0

Trade name:

PHARMOS, a.s.

Registered office of accounting unit

Těšínská 1349/296

Ostrava-Radvanice

716 00

Identification a	TEXT b	Line No.: c	Figures posted during fiscal year	
			current 1	prior 2
P.	Cash and cash equivalents at the beginning of accounting period	01	44 239	35 160
Cash flows from ordinary activities			02	
Z.	Profit/(loss) from ordinary activities before tax	03	17 760	37 941
A. 1.	Adjustments for non-monetary operations	04	124 736	87 024
A. 1. 1.	Depreciation of fixed assets(+) excluding book value of fixed assets sold, amortization of adjustments to acquired assets (+/-)	05	27 750	27 165
A. 1. 2.	Changes in adjusting entries and reserves	06	24 734	2 474
A. 1. 3.	Profit (loss) from the sale of fixed assets (-/+)	07	-293	-49
A. 1. 4.	Revenue from dividends and share of profit (-)	08		
A. 1. 5.	Posted interest expense (+) excluding capitalised interest and interest income (-)	09	72 545	57 434
A. 1. 6.	Adjustments for other non-monetary operations	10		
A. *	Net cash flow from operating activities before tax, movements in working capital and extraordinary items	11	142 496	124 965
A. II.	Change in non-monetary elements of working capital	12	-11 604	-3 266
A. II. 1.	Change in receivables from operating activities (+/-), active accounts of temporary and anticipated assets	13	-269 416	158 887
A. II. 2.	Change in payables from operating activities (+/-), temporary and anticipated liabilities	14	81 140	-177 188
A. II. 3.	Variation in stocks (+/-)	15	176 672	15 035
A. II. 4.	Change in short-term investments not falling under cash and cash equivalents	16		
A. **	Net cash flow from operating activities before tax and extraordinary items	17	130 892	121 699
A. III.	Interests paid except for capitalized interests (-)	19	-77 444	-62 245
A. IV.	Interests received (+)	19	4 899	4 811
A. V.	Income tax paid for operating activities, additional tax paid for previous periods (-)	20	-12 371	-11 548
A. ***	Net cash flow from operating activity	23	#REF!	#REF!
Cash flow from investment activity			24	
B. I.	Expenditures related to acquisition of fixed assets	25	-14 879	-12 168
B. II.	Receipts from fixed assets sold	26	488	71
B. III.	Loans and credits for related persons	27		
B. ***	Net cash flow related to investment activity	28	-14 391	-12 097
Cash flow from financial activities			29	
C. I.	Change in long-term liabilities, or short-term liabilities falling in the area of financial activities to cash and equivalents	30	-9 000	-21 957
C. II.	Impact of variation in equity on cash and cash equivalents	31	-1 645	-9 584
C. II. 1.	Decrease of cash and cash equivalents due to change in registered capital, share premium or reserve fund, including prepayments made for this increase (+)	32		
C. II. 2.	Payment of share in equity to associates (-)	33		
C. II. 3.	Other monetary deposits by partners and shareholders (+)	34		
C. II. 4.	Settlement of loss by partners (+)	35		
C. II. 5.	Direct payments to the debit of funds (-)	36		
C. II. 6.	Dividends or shares in profits, royalties (incl. withdrawal tax) relating to such claims	37	-1 645	-9 584
C. ***	Net cash flow related to financial activity	38	-10 645	-31 541
F.	Net increase or decrease of cash and cash equivalents	39	#REF!	#REF!
R.	Cash and cash equivalents at the end of the accounting period	40	65 179	44 239

Compiled on: 12 June 2008	Approved on: 12 June 2008	Signature of the statutory body of the accounting unit
Legal form of accounting unit: Joint-stock company	Subject of enterprise: Purchase of goods for sale and resale	
Incorporated in the Company Register kept on file by the Regional Court in Ostrava, Section B, Insert 188		

Report on the Relationships between Controlling and Controlled Entity issued pursuant to the provisions of Section 66a(9) of the Commercial Code

PHARMOS, a.s., with registered office at Těšínská 1349/296, Ostrava-Radvanice, Postcode: 71600, IČ (ID No.): 19010290, incorporated in the Companies Register kept on file at the Regional Court in Ostrava, Section B, Insert 188 (hereinafter the "**Submitter**"). As regards the provisions of Section 66a) of Act 513/1991 Coll. - the Commercial Code, as amended, the Company is a member of a business group (trust) in which the following relationships have been established between the Submitter and the entities controlled by the same controlling entities (hereinafter the "**Affiliated Entities**").

This Report regarding the relationships among the entities specified below was issued in accordance with the provisions of Section 66a Paragraph 9 of Act 513/1991 Coll., the Commercial Code (hereinafter the ComCo), as amended, during the fiscal year from 1 January 2007 to 31 December 2007 (hereinafter the "**Fiscal Year**").

The following contracts and agreements were entered into between the Submitter and the below-specified entities during this Fiscal Year, and the following legal and other deeds were adopted or effected:

A. CONTROLLING ENTITIES

The vertical relationships between the controlling and controlled entities are specified hereunder. For detailed information, see Annex 1 Group Structure. The Structure is as follows:

Česká lékárnická, a.s. with its registered office at Těšínská 1349/296, Ostrava - Radvanice, IČO (Company ID No.): 63080877

Phoenix International Beteiligungs GmbH, with a registered office at Mannheim, Germany

Relationship to the Company: controlling entity

B. OTHER AFFILIATED ENTITIES

a) Companies controlled by the Submitter

Lekis, s.r.o. with its registered office at Těšínská 1349/296, Ostrava - Radvanice, IČO (Company ID No.): 25356089

b) Companies controlled by the same controlling entity as the Submitter (affiliated companies) and the companies controlled by them with whom business relationships were established during the evaluated period

Pražská lékárnická s.r.o., with its registered office at Theodor 28, 273 08 Pchery, IČO (Company ID Number): 25633741

Jihlavská lékárnická s.r.o., with its registered office at Pávovská 3136/73, Jihlava-Bedřichov, IČO (Company ID Number): 25534459

Plzeňská lékárnická s.r.o., with its registered office at Domažlická 65, 318 00 Plzeň, IČO (Company ID Number): 25238213

PHARMACY-distribuce léčiv s.r.o., with its registered office at Dvorská 960/13, 785 01 Šternberk, IČO (Company ID Number): 65139577

Lekis s.r.o. with its registered office at Těšínská 1349/296, Ostrava - Radvanice, IČO (Company ID Number): 25356089

THERÁPON 98, a.s. with its registered office at Štefánikova 1301, 742 21 Kopřivnice, IČO (Company ID Number): 25399195

GALMED a.s., Těšínská 1349/296, Ostrava - Radvanice, IČO (Company ID Number): 47672145

LEKTRANS, s.r.o., Těšínská 1349/296, Ostrava - Radvanice, IČO (Company ID Number): 27779271

Pharmos, a.s., Odbojárov 340/29, 955 01 Topolčany, Slovakia

- Other members of the Group with the same top controlling entity which whom the Submitter entered into business relationships during the period concerned:

None.

c) *Other companies controlled by the same controlling entity as directly controlling entity with whom business relationships were established during the evaluated period*

None.

This Report provides a summary of the business and economic relationships between the controlled entity, the controlling entities above this controlled entity and the companies controlled by the same top entity.

1. Contracts

1.1. Sales

1.1.1. Fixed assets

As regards sales, there were no business relationships established and implemented as of the date of this Report in 2007 within the group with respect to the controlled entity or the affiliated entities within the same Group, regarding the sale of fixed assets, other assets, material and products.

The Submitter does not lease out any assets].

1.1.2. Merchandise

The Submitter entered into the following sales and other contracts during the period specified below, pursuant to which products were sold during the fiscal year.

Title	Party	Description	Price	Detriment (if any)	Advantages / Disadvantages
<i>Separate Contract of Sale – delivery according to an invoice</i>	<i>Jihlavská lékárnická, s.r.o.</i>	<i>Products – pharmaceuticals, parapharmaceuticals, additional assortment</i>	<i>Common</i>	-	-
<i>Separate Contract of Sale – delivery according to an invoice</i>	<i>PHARMACY-distribuce léčiv, s.r.o.</i>	<i>Products – pharmaceuticals, parapharmaceuticals, additional assortment</i>	<i>Common</i>	-	-
<i>Separate Contract of Sale – delivery according to an invoice</i>	<i>Plzeňská lékárnická, s.r.o.</i>	<i>Products – pharmaceuticals, parapharmaceuticals, additional assortment</i>	<i>Common</i>	-	-
<i>Separate Contract of Sale – delivery according to an invoice</i>	<i>Pharmos, a.s. Slovakia</i>	<i>Products – pharmaceuticals, parapharmaceuticals, additional assortment</i>	<i>Common</i>	-	-
<i>Separate Contract of Sale – delivery according to an invoice</i>	<i>Pražská lékárnická, s.r.o.</i>	<i>Products – pharmaceuticals, parapharmaceuticals, additional assortment</i>	<i>Common</i>	-	-

1.1.3. Services

The Submitter entered into contracts during the fiscal year, pursuant to which the Submitter rendered services during the fiscal year with respect to the controlling entity or affiliated entities within the same Group.

Description	Party	Description	Price	Detriment (if any)	Advantages / Disadvantages
<i>Software Lease Agreement, according to invoices</i>	<i>Česká lékárnická, a.s.</i>	<i>Lease of accounting IS NORIS 27</i>	<i>Common</i>	-	-
<i>Non-residential Premises Lease Agreement</i>	<i>Česká lékárnická, a.s.</i>	<i>Non-residential premises at Těšínská 1349/296 Ostrava-Radvanice</i>	<i>Common</i>	-	-
<i>Software Lease Agreement, according to invoices</i>	<i>Jihlavská lékárnická, s.r.o.</i>	<i>Lease of accounting IS NORIS</i>	<i>Common</i>	-	-
<i>Re-invoicing of services – separate contracts according to invoices</i>	<i>Jihlavská lékárnická, s.r.o.</i>	<i>Re-invoicing of services – promotional events, advertising objects, data services and fire prevention</i>	<i>Common</i>	-	-
<i>Software Lease Agreement, according to invoices</i>	<i>PHARMACY-distribuce léčiv, s.r.o.</i>	<i>Lease of accounting IS NORIS</i>	<i>Common</i>	-	-
<i>Re-invoicing of services – separate contracts according to invoices</i>	<i>PHARMACY-distribuce léčiv, s.r.o.</i>	<i>Re-invoicing of services – promotional events, advertising objects, data services and fire prevention</i>	<i>Common</i>	-	-
<i>Software Lease Agreement, according to invoices</i>	<i>Plzeňská lékárnická, s.r.o.</i>	<i>Lease of accounting IS NORIS</i>	<i>Common</i>	-	-
<i>Re-invoicing of services – separate contracts according to invoices</i>	<i>Plzeňská lékárnická, s.r.o.</i>	<i>Re-invoicing of services – promotional events, advertising objects, data services and fire prevention</i>	<i>Common</i>	-	-

Re-invoicing of services – separate contracts according to invoices	Plzeňská lékárnická, s.r.o.	Re-invoicing of marketing bonuses	Common		
Software Lease Agreement, according to invoices	Pražská lékárnická, s.r.o.	Lease of accounting IS NORIS	Common		-
Re-invoicing of services – separate contracts according to invoices	Pražská lékárnická, s.r.o.	Re-invoicing of services – promotional events, advertising objects, data services and fire prevention	Common		
Contract for transportation of goods	Pražská lékárnická, s.r.o.	Compensation for transportation of goods	Common		
Distribution Services Agreement	Pražská lékárnická, s.r.o.	Compensation for distribution services	Common		
Re-invoicing of services – separate contracts according to invoices	Therapón 98, a.s.	Re-invoicing of leasing expenses	Common		-
Lease Agreement, according to invoices	Galmed a.s.	Rental for leased items and energy	Common		-
Re-invoicing of services – separate contracts according to invoices	Galmed a.s.	Re-invoicing of services, fuels, telephone fees, data services, etc.	Common		
Contract for Management of Consignment Stock	Galmed a.s.	Consignment stock management in Hradec Králové	Common		
Separate deliveries – according to invoices	Lekis s.r.o.	Rental, communication, lease services	Common		
Non-residential Premises Lease Agreement	LEKTRANS, s.r.o.	Non-residential premises at Těšínská 1349/296 Ostrava-Radvanice	Common		

1.1.4. Other contractual relationships

PHARMOS, a.s. provided the following companies with the following interest-bearing loans

Description	Party	Balance as of 1 Dec 2007	Description	Price	Detriment (if any)	Advantages / Disadvantages
Loan Agreement	THERÁPON 98, a.s.	6 000 000	Loan	Common	-	-
Loan Agreement	Česká lékárnická, a.s.	182 379	Loan	Common	-	-
Loan Agreement	Lekis, s.r.o.	5 000 000	Loan	Common	-	-
Loan Agreement	Pharmos, a.s. SLOVAKIA	13 668 640	Loan	Common	-	-

Česká lékárnická, a.s. provided PHARMOS, a.s. with a guarantee for the loan for operations in the amount of CZK 80 million.

Description	Party	Description	Price	Detriment (if any)	Advantages / Disadvantages
Guarantee Agreement	Česká lékárnická, a.s.	Payment guarantee	Common	-	-

1.2. Purchase

As regards purchasing, the following purchase relationships were established and implemented as of the date of this Report in 2007 within the group with respect to the controlled entity or the affiliated entities within the same Group, regarding fixed assets, other assets and material.

1.2.1. Services (except for leasing)

The Submitter entered into contracts during the fiscal year, pursuant to which the following services were rendered during the fiscal year:

<i>Description</i>	<i>Party</i>	<i>Description</i>	<i>Price</i>	<i>Detriment (if any)</i>	<i>Advantages / Disadvantages</i>
<i>Separate deliveries, according to invoices</i>	<i>Česká lékárnická, a.s.</i>	<i>Intermediation Services</i>	<i>Common</i>	-	-
<i>Service Agreement</i>	<i>Lekis, s.r.o.</i>	<i>Installation of network modems</i>	<i>Agreed</i>		
<i>Service Agreement</i>	<i>Lekis, s.r.o.</i>	<i>HW, SW service</i>	<i>Agreed</i>	-	-
<i>Separate deliveries – according to invoices</i>	<i>Lekis, s.r.o.</i>	<i>Repairs of IT equipment, installation</i>	<i>Agreed</i>	-	-
<i>Re-invoicing of services – separate contract</i>	<i>Jihlavská lékárnická, a.s.</i>	<i>Re-invoicing of parts of lease for the use of non-residential premises</i>	<i>Common</i>	-	-
<i>Re-invoicing of services – separate contract</i>	<i>Jihlavská lékárnická, a.s.</i>	<i>Re-invoicing of the purchase of services and material</i>	<i>Agreed</i>		
<i>Re-invoicing of services – separate contract</i>	<i>Pražská lékárnická, s.r.o.</i>	<i>Re-invoicing of the lease of the Pchery warehouse</i>	<i>Agreed</i>		
<i>Re-invoicing of services – separate contract</i>	<i>Plzeňská lékárnická, s.r.o.</i>	<i>Re-invoicing of transportation, marketing campaigns, data communication, expenses of Edukafarm</i>	<i>Common</i>		
<i>Contract for provision of expert consultancy</i>	<i>Galmed a.s.</i>	<i>Consultancy services regarding tender procedures for the supplies of pharmaceuticals</i>	<i>Common</i>		
<i>Packaging Agreement</i>	<i>Galmed a.s.</i>	<i>Medical product secondary packaging</i>	<i>Common</i>		
<i>Marketing cooperation agreement</i>	<i>Česká lékárnická, a.s.</i>	<i>Marketing cooperation</i>	<i>Common</i>		
<i>Contract for transportation of distributed goods</i>	<i>LEKTRANS, s.r.o.</i>	<i>Arrangement for transportation of goods</i>	<i>Common</i>		
<i>Contract for lease of space on commercial vehicles</i>	<i>LEKTRANS, s.r.o.</i>	<i>Lease of spaces for the placing of logos</i>	<i>Common</i>		
<i>Contract for lease of vehicles</i>	<i>Pharmos, a.s. Slovakia</i>	<i>Leasing of motor vehicle</i>	<i>Common</i>		

1.2.2. Purchase of material

The Submitter purchased material during the fiscal year from the controlling entity or the affiliated entities within the same Group.

<i>Description</i>	<i>Party</i>	<i>Description</i>	<i>Price</i>	<i>Detriment (if any)</i>	<i>Advantages / Disadvantages</i>
<i>Separate deliveries – according to invoices</i>	<i>Lekis, s.r.o.</i>	<i>Consumables – paper, toners, disks.</i>	<i>Common</i>	-	-

1.2.3 Purchase of goods

The Submitter purchased products during the fiscal year from the controlling entity or the affiliated entities within the same Group.

<i>Description</i>	<i>Party</i>	<i>Description</i>	<i>Price</i>	<i>Detriment (if any)</i>	<i>Advantages / Disadvantages</i>
<i>Separate deliveries – according to invoices</i>	<i>GALMED, a.s.</i>	<i>Products – pharmaceuticals, parapharmaceuticals, additional assortment</i>	<i>Common</i>	-	-
<i>Separate deliveries – according to invoices</i>	<i>Pharmos, a.s. SLOVAKIA</i>	<i>Products – pharmaceuticals, parapharmaceuticals, additional assortment</i>	<i>Common</i>	-	-

1.2.4. Purchase of fixed assets

The Submitter entered into agreements during the fiscal year, pursuant to which the Submitter purchased fixed assets from the controlling entity or the affiliated entities within the same Group.

<i>Description</i>	<i>Party</i>	<i>Description</i>	<i>Price</i>	<i>Detriment (if any)</i>	<i>Advantages / Disadvantages</i>
<i>Separate deliveries – according to invoices</i>	<i>Lekis, s.r.o.</i>	<i>Hardware – PCs, printers, components</i>	<i>Common</i>	-	-

1.2.5. Other contractual relationships

None.

Other legal operations

None.

Other measures

None.

Statement

The statutory body hereby declares, pursuant to the provisions of Section 66a) Paragraph 15 of the Commercial Code that the statutory body guarantees jointly and severally the fulfilment of liabilities regarding the indemnification of the company and its partners as a consequence of a failure to specify agreements or other transactions within this Report from which the Company suffered detriment provided that such detriment was not compensated or that no agreement for its compensation has been entered into

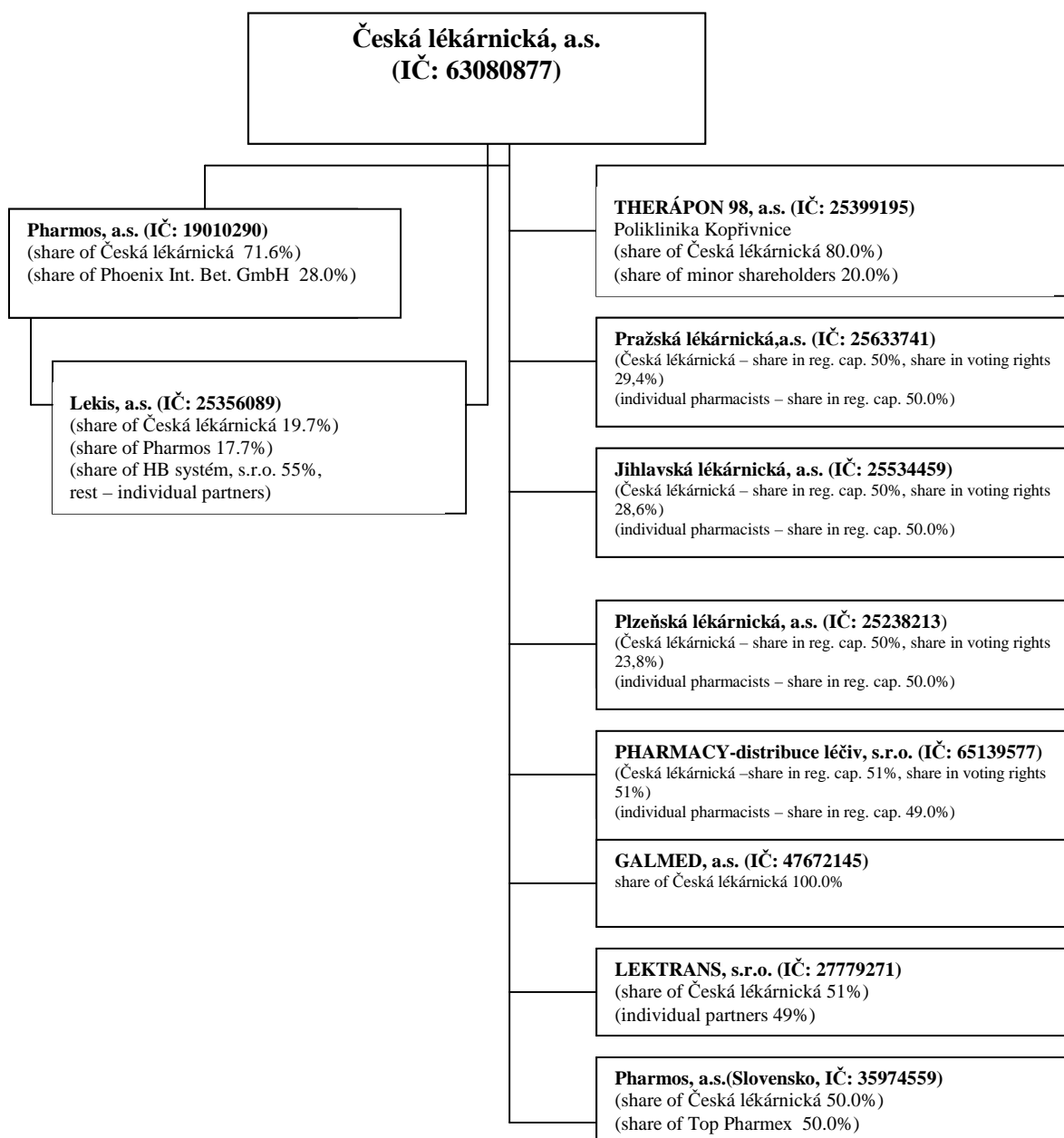
Ostrava, 31 March 2008

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PharmDr. Ivan Šácha, member of the Board of Directors

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Alena Marynčáková, member of the Board of Directors

Annex 1 to Report on the Relationships between Controlling and Controlled Entity issued pursuant to the provisions of Section 66a(9) of the Commercial Code

Organizational structure
(as of 31 Dec 2007)



Organizational Structure of Group – Personnel Linkage (as entered in the Company Register as of 31 December 2007)

