Annual Report 2008

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ALLIANCE PHARMA plc

Company No. 4241478

Contents

Alliance Pharma plc is an AIM listed speciality pharmaceutical company. Alliance sells a range of 35 acquired and licensed prescription brands across a range of therapeutic categories. The Group commenced trading in 1998 and has since grown to an annual turnover of £22m.

Alliance is based in the UK and employs 32 people.

Cautionary statement regarding forward-looking statements
This Annual Report has been prepared for the members of the Company and no one else. The Company, its Directors, employees or agents do not accept or assume responsibility to any other person in connection with this document and any such responsibility or liability is expressly disclaimed.

This Annual Report contains certain forward-looking statements with respect to the principal risks and uncertainties facing Alliance. By their nature, these statements and forecasts involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts. The forward-looking statements reflect the knowledge and information available at the date of preparation of this Annual Report, and will not be updated during the year. Nothing in this Annual Report should be construed as a profit forecast.

Report of the Directors
Pages 01 to 18, inclusive, of this Annual Report comprise a Report of the Directors that has been drawn up and presented in accordance with English company law and the liabilities of the Directors in connection with that report shall be subject to the limitations and restrictions provided by such law.

In particular, Directors would be liable to the Company (but not to any third party) if the Report of the Directors contains errors as a result of recklessness or knowing misstatement or dishonest concealment of a material fact, but would not otherwise be liable.

01 Highlights

Key facts

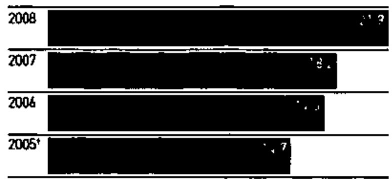
- → Adjusted EPS five-fold increase to 1.17p (2007: 0.23p)
- → Dividend expected to commence within the next year
- → Hydromol® sales growth of 38%
- → Sales of Deltacortil® doubled on improved production volumes
- → Acquisition of Pavacol-D® in August 2008
- → Successful first full year in China – underlying sales up 11%
- → Over £1m of cost savings successfully delivered

Key numbers

Sales

+20%

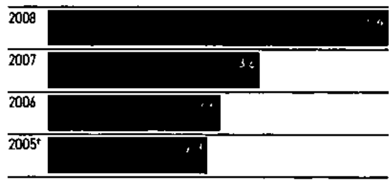
2007→2008



Operating profit*

+76%

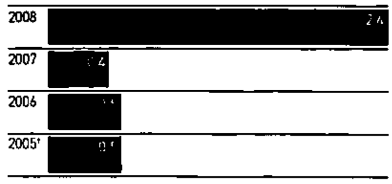
2007→2008



Profit before tax*

+562%

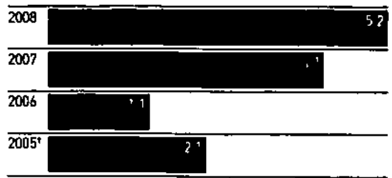
2007→2008



Cash generated from operations

+28%

2007→2008



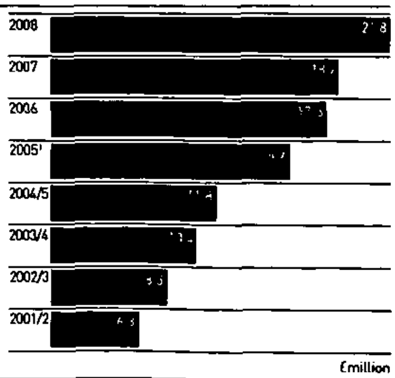
*Before exceptional items
†10 months annualised

£million

02 Strategy

Our business model has high operational leverage as the infrastructure can absorb additional brands with minimal increase in overheads. We continue to look for further suitable brands to add to the portfolio in order to enhance shareholder value.

Sales history



+20%

2007→2008

Alliance Pharma is a profitable, cash generative trading business

The business has been built up by a combination of acquiring and licensing established prescription brands. Each of these brands has been assessed to ensure it meets a set of criteria, including an established and stable sales history. The products have typically been on the market for 30–40 years and therefore have many years of trading history, which is analysed before the brand is acquired. The products are generally in niche areas which are typically too small to attract competition and in which there is therefore limited foreseeable prospect of erosion of sales.

Alliance's products are generally well established and require no promotion to maintain sales. Maintenance of the brands is therefore at low cost. As the sales are mainly prescription driven they tend not to be affected very much by the wider economic environment. A small number of products do benefit from promotion for a period of time, and some have grown considerably since acquisition as a result of promotional investment.

Alliance contracts out the labour- and capital-intensive activities of manufacturing and warehousing of the products, and logistics. As a result the business is able to operate with a low headcount.

The model has high operational leverage as the infrastructure can absorb additional brands with minimal increase in overheads. We continue to look for further suitable brands to add to the portfolio in order to enhance shareholder value.

Acquisitions of brands are typically financed by a combination of bank debt and equity. Surplus cash generated by the brands after servicing the debt and providing resources to build the business gives scope for future dividends.

Alliance's management team have extensive experience across the pharmaceutical industry, including a good range of experience across different therapy areas and in different countries and markets.

Alliance also has two development projects: Isprelor® and Posidorm®. Isprelor® is a vaginal tablet containing misoprostol for induction of labour. Posidorm® is a specially formulated tablet of melatonin for sleeping disorders which works in two stages: the first is a quick release dose to promote sleep; the second is a slow release dose that is used to maintain sleep. Alliance's strategy is now to focus on the trading business and therefore it is intended that only modest amounts will be invested by Alliance in development projects. Partners are being sought to help fund both existing projects.

04 Trading Brands

Alliance sells a range of 35 acquired and licensed prescription brands across a range of therapeutic categories, including dermatology, childbirth, the prevention of heart disease, nutrition and in the treatment of Parkinson's disease. Set out below are our largest brands by turnover.

Top ten brands by sales

	Nu-Seals®	Forceval®	Hydromol®	Deltacortril®	Symmetrel®
Percentage of sales in 2008	21.4%	15.5%	10.2%	9.7%	7.9%
Description	Low dose aspirin used to help prevent recurrence of heart attacks and strokes. Enteric coated to reduce impact on stomach lining.	Multivitamin and multimineral medicine available on prescription in UK for use in patients with nutritional deficits. Used before and during pregnancy in China to reduce risks of birth defects.	Range of creams, emollients and ointments for moisturising and treatment of dry skin conditions such as eczema.	Enteric coated prednisolone tablets used in the treatment of a wide range of inflammatory and auto-immune conditions such as allergies, arteritis, rheumatic fever and rheumatic disorders.	Amantadine – used in the treatment of Parkinson's disease.
Date acquired	September 2002	November 2004 (excluding China) March 2007 (China)	February 2006	July 2006	Fostered April 1998 October 2001
Launch year	1978	1970	1987	1957	1970
Vendor	Eli Lilly & Co	Unigreg	Ferndale Pharmaceuticals	Pfizer	Novartis
Key markets	Republic of Ireland, UK	UK, China, Other International	UK	UK	UK

	Syntocinon®	Naseptin®	Syntometrine®	Synacthen®	Slow-K®
Percentage of sales in 2008	7.6%	4.0%	3.6%	2.1%	2.0%
	A synthetic form of the hormone oxytocin used in the induction of labour and to stop excessive bleeding following delivery.	An antimicrobial cream for inside the nose, used in treating and preventing nasal infections.	A combination of oxytocin and ergometrine used during the last stage of childbirth or following delivery of the placenta to prevent excessive bleeding.	Used to test the function of the adrenal glands.	A potassium supplement.
Date acquired	Fostered April 1998	January 1999	Fostered April 1998 Acquired IP October 2001	Fostered April 1998	Fostered April 1998 October 2001
Launch year	1956	1959	1956	1968	1965
Vendor	Novartis	Bioglan Labs	Novartis	Novartis	Novartis
Key markets	UK	UK	UK	UK	UK

06 Business Review

We have established a new level of profitability within the business.

Overview
Alliance Pharma has now delivered its third successive half-year of much improved profitability since the restructuring and strategic changes announced in 2007. Sales, profits and cash generation all reached record levels in 2008 in a very encouraging year for the Group.

These results reflect the resilience of the Group's portfolio, which, by being predominately prescription driven, is highly resistant to recessionary pressures. It also benefits from the continuing success of our dermatology strategy – spearheaded by the promotion of the Hydromol® range of products for eczema and other dry skin conditions.

As a result of this strengthening financial performance, we have decided that the business is now reaching the appropriate point in its development to commence paying a dividend.

Financial performance
Throughout the year the Group achieved strong sales growth with steady margins, well controlled costs and solid cash generation.

Turnover was up 20% on the previous year to £21.8m. Sales benefited from the continuing success of the Hydromol® range, the build up of Deltacortril® to higher production levels, the benefits of both volume growth and a favourable euro exchange rate on our sales of Nu-Seals® in Ireland, and the growth of Forceval® in China.

Gross margins benefited from product mix effects together with foreign exchange gains and were 51.2%, up from 49.0% the previous year. We expect underlying margins to remain broadly steady at around 50%. We are experiencing some modest cost pressure from suppliers, but have a programme of efficiency improvements to help offset it.

Operating costs remain well controlled, and the restructuring in mid-2007 has successfully delivered more than £1m per annum of cost savings.

The outcome of the strong sales growth and the containment in operating costs is that operating profit grew to £6.4m, an increase of 76% over the previous year's pre-exceptional figure of £3.6m.

Pre-tax trading profit was ahead of expectations at £2.4m – a major advance on the previous year's £0.4m pre-exceptional trading profit. We also benefited from £0.6m received from HM Revenue & Customs following our successful claim for tax credits relating to Research & Development (R&D) costs in previous years.

With the business now firmly restored to profit, we have begun paying down debt to reduce finance costs. During the year we made debt repayments totalling £1.9m. Further details are provided in the Financial Review.

Trading
Our 20% sales growth during the year was led by good performances from both promoted and non-promoted brands.

Sales of the Hydromol® range of emollients, which is used in eczema and other dry skin conditions, increased by £0.6m to £2.2m. This reflected the success of our targeted marketing approach, communicating with the appropriate healthcare

A record year

professionals in a cost-effective manner, and the strong brand loyalty from existing customers.

Deltacortril®, our treatment for inflammatory and auto-immune conditions, doubled sales to £2m as we resolved issues that had constrained production in 2007 and the early part of 2008. The improved production meant that sales were significantly higher in the second half than in the first; 2009 should benefit from a full year of sales at these higher volumes, assuming no significant changes in the market.

Nu-Seals®, low-dose aspirin for prevention of heart attacks and strokes, which is our single largest brand, grew by 30%. This was partly due to favourable currency effects, as the majority of the brand's sales are in the Republic of Ireland and therefore benefited from the rising value of the euro against sterling.

Forceval®, the multi-mineral, multi-vitamin product which is sold in the UK, China and a number of other international markets, now constitutes £3.4m of Alliance's sales. After acquiring the rights to Forceval® in China in April 2007, the joint venture we established with a local Chinese distributor completed its first full year of sales in 2008. Buoyed by underlying growth of around 11%, our share of the joint venture sales was £1.4m. Our experience in China so far has been encouraging, but the pace of sales growth may be reduced by the slowdown in economic expansion there. Any decline in consumer confidence could affect Forceval® sales in China, as patients pay for the product themselves.

Our acquisition in August 2008 of Pavacol-D®, the cough suppressant that is suitable for diabetic patients, made its first contribution of £0.3m sales in the second half.

We also saw 18% growth in sales of Symmetrel® to £1.7m, despite having had no promotion for the past three years. As a result of previous promotional campaigns, Symmetrel® is a well recognised and established treatment for Parkinson's disease.

The strong trading performance is an endorsement of our past acquisition selections, coupled with our highly targeted approach to brand promotion.

The UK's new Pharmaceutical Price Regulation Scheme (PPRS), which sets the framework for drug pricing to the National Health Service (NHS), came into force at the start of 2009. We expect it to have an impact equivalent to reducing this year's sales by £0.3m, and smaller changes in 2010 through to 2013. However on the positive side, it does provide us with relative certainty on the pricing front over its five-year duration.

Development projects

In May 2008 we announced a regulatory delay to the development of Isprelor®, for induction of labour. Although the 2007 Phase III clinical trials confirmed that Isprelor® has similar effectiveness to the current standard treatment, the regulators asked for more work to be done. We are currently planning and costing the final stages of development and are actively engaging with potential funding partners. The remaining development work is likely to take around three years.

08 Business Review continued

We are also continuing to talk with potential development partners for Posidorm®, our melatonin treatment for sleep disorders.

We are now restricting our own investment in development projects to very modest levels, which is why we are looking for partners to help fund the remaining work on Isprelor® and Posidorm®.

Strategy

Since mid-2007, we have focused on profitability and cash generation, sharply reducing expenditure on our development projects and confining marketing investment to those products that will clearly deliver a strong return in increased sales.

The tightly targeted sales investment strategy has proved its worth. The majority of our products were originally selected for their established demand and cash flows, and they have maintained overall sales levels without needing any sales support. This has enabled us to focus investment on our dermatology portfolio, and Hydromol® has responded with sales growth of 38% in 2008. Given this success and our improving cash position, we are making a modest increase in the investment behind Hydromol® in 2009. We are also seeking to take full advantage of our strength in this area by extending the range.

We will continue to focus management attention on products with growth potential. One product that has grown substantially during 2008 is Deltacortril®; this has been facilitated by increased production capacity during the year. We aim to capitalise further on this improved capacity in 2009.

We are still seeing a steady flow of opportunities to acquire new brands for our non-promoted portfolio, which is the core of the business. The brands within this core are very well established with prescribers who continue to use them because they are clinically effective and offer very good value. As always, we are applying particularly stringent criteria to possible acquisitions and will only consider products that can make a positive profit contribution.

Dividend

We expect to be able to announce the commencement of modest dividend payments within the next year. This conclusion has been reached after careful scrutiny of our cash generation capabilities, the resources required to maintain the growth of the business and the scheduled debt repayments, so that a sustainable and growing level of dividend can be comfortably funded.

People
We have strengthened the management team with two senior appointments. Dr David Yau joined the Group in May 2008 as Production and Technical Director. Dr Margaret Boulton joined in February 2009 as Regulatory Affairs and Quality Compliance Director. They bring considerable industry experience to these two critical areas.

Post the year end, we were delighted to welcome MVM Life Science Partners LLP (MVM) as a new shareholder and Thomas Casdagli, a partner of MVM, to the Company's Board.
Thomas brings substantial experience of the healthcare sector.

2008 has been the most successful year in the Group's history. This was not achieved overnight: it is the result of many people's hard work and determination, overcoming a range of challenges year after year. We thank them all for what they have achieved.

Charitable donations
As a pharmaceutical business, we recognise the universal need for healthcare and accept a responsibility to help those who cannot help themselves. In 2008 we began supporting International Health Partners (IHP), an organisation founded in 2004 to make up kits of commonly needed drugs and distribute them to doctors in the world's most needy areas. IHP has identified Deltacortril® and Alphaderm® as valuable additions to its portfolio, and we made our first donations of these products in the past few months. This year we plan to donate some £20,000 of stock to IHP's programmes.

Outlook
Overall, demand for our products is not being affected by the current economic downturn. The NHS is our main customer and, although prescribers are under continual pressure to cut costs, they will not withhold cost-effective treatment from their patients. Our products have stood the test of time and deliver very good value for money; therefore they remain favoured by prescribers.

We have established a new level of profitability within the business. Our growth in the dermatology area and the reduction of interest payments as debt is paid down will continue this trend. We believe this momentum can be accelerated if the right acquisition targets present themselves. In this regard, MVM coming on board as an investor that is keen to assist in the future expansion of the business is a very welcome development.

10 Financial Review

Turnover

For the eighth year in a row, Alliance has delivered record sales. Turnover in 2008 was £21.8m, up 20% on the previous year (2007: £18.2m). The compound annual growth rate over the past five years is 16%, of which 6% has been organic growth.

Of the additional £3.6m of sales in the year, £1.2m came from a doubling in Deltacortril® sales as the benefits of improved production capacity fed through. Nu-Seals® in the Republic of Ireland contributed £1.0m to the growth, of which £0.5m was due to sterling being weaker against the euro. Hydromol® sales grew by £0.6m to £2.2m, driven by promotional activity. Our share of sales of Forceval® to China grew by £0.5m to £1.4m, with underlying sales growth of 11%. Additionally, Pavacol-D®, the brand we acquired in August 2008, contributed £0.3m.

The brands that we have not been promoting have very stable sales because the products are well-established and well known by prescribers. Indeed, like-for-like sales of these brands have grown at an average rate of around 3% per annum over the past few years.

Profit and other key performance indicators

The gross margin for the year was 51.2%, compared with 49.0% in 2007. Part of the improvement in margin was due to product mix effects, and part was due to exchange translation gains on euro-denominated working capital balances in 2008.

Following the reductions in operating expenses implemented mid-2007, costs have been kept under tight control. Operating expenses in the year were £4.8m, £0.5m lower than 2007 and more than £1m lower than the run-rate before the restructuring in mid-2007.

As a result of the improved sales, better margins and tight control of costs, operating profit for 2008 was 76% higher at £6.4m, compared with £3.6m before exceptional costs in 2007.

Financing costs

Net financing costs for 2008 were £3.9m (2007: £3.2m). Most of the increase was due to the 23% weakening of sterling against the euro in 2008, which led to a £0.7m cost on re-translation of the euro-denominated bank loans against a £0.2m cost in 2007. This translation cost was largely offset by a £0.5m gain on euro-denominated working capital balances, which was recognised within gross margins.

Net interest payable was £3.1m, £0.2m higher than 2007 as a result of the expiry in early 2008 of an interest rate swap.

Taxation

During the year claims were made for R&D tax credit rebates relating to previous years. This generated £0.6m of cash rebates, of which £0.4m was received during the year and the balance since the year end.

A £0.2m current tax charge arose in 2008 on the income to the Group from the Chinese joint venture, and there was a £0.4m deferred tax charge.

As the Group still has substantial unrelieved tax losses the Group does not expect to be paying corporation tax on its non-China trading profits for some time, but it is likely that there will be non-cash deferred tax charges in the meantime.

Operating profit for 2008 was 76% higher at £6.4m

Earnings per share (EPS)
Basic EPS for 2008 was 1.55p, a complete turnaround from the 1.98p loss recorded in the previous year. The underlying measure of adjusted basic EPS, excluding the one-off tax credits, was 1.17p (2007: 0.23p), a five-fold improvement.

Cash flow
Cash flow from operations increased 28% from £4.1m to £5.2m, reflecting the substantial improvement in profitability. In addition £0.4m of tax rebates were received.

The amount reinvested in development projects was just £0.1m compared with £0.8m the previous year. During the year £0.4m of deferred consideration was paid for Deltacortril® and Atarax®. The purchase cost of Pavacol-D® was £0.6m, which was part-funded from internal funds and part-funded by a small additional term loan.

Following the refinancing in 2007, scheduled repayments on the term loans commenced in 2008, with £1.9m being repaid during the year.

Intangible assets
As a result of the Pavacol-D® acquisition in August 2008, intangible assets in respect of product licences increased by £0.6m to £37.2m. In addition, there is £2.7m on the balance sheet for Isprelor® development costs (2007: £2.6m).

Working capital
Stock value at the year end was £2.3m, compared with £1.9m the previous year when stock levels were unusually low. Trade receivables were £5.8m at the year end, compared with £4.1m the previous year, with the increase due to strong sales at the end of 2008 and re-translation of the euro debtors at the year end rate. Trade payables were also higher at £2.6m (2007: £2.2m), reflecting the growth in the business.

Funding and risk management
The sterling equivalent value of the euro-denominated loans increased by £0.7m because of the substantial exchange rate movement in the year. With the scheduled repayments of £1.9m and a new £0.4m loan drawn to fund the acquisition of Pavacol-D®, total term loans outstanding at the end of 2008 were £22.8m, compared with £23.5m in 2007.

The Group is securely financed for the medium term. The term loans currently run to the end of 2012, giving the Group plenty of time before it needs to address refinancing. The scheduled repayments on the loans are approximately £2.5m per annum in the meantime, which are expected to be quite manageable, and there is a £3m working capital facility in place, providing comfortable headroom against day-to-day needs.

The Board remains confident that all the bank covenants will continue to be met. One requirement is for cash generation to exceed debt servicing. Recent reductions in interest rates have further enhanced the headroom on this measure. With the bank debt:EBITDA ratio currently at 3.6, there is comfortable headroom against the covenant limit, and the ratio is set to improve considerably over the next year.

The Group uses interest rate swaps to reduce the risk arising from changes in interest rates and the Convertible Unsecured Loan Stock is at a fixed coupon. A new three-year swap was put in place in December 2008 to lock in some of the large reductions in interest rates. Around 70% of the net debt is now subject to fixed interest rates.

Around 10% of the debt is denominated in euros as a hedge against the currency risk on revenues from the Republic of Ireland and mainland Europe.

Other principal risks and uncertainties are discussed in the Business Review.

12 Board of Directors

Directors who held office at the date of this report are set out below. All were Directors throughout 2008 except Thomas Casdagli, who was appointed to the Board on 3 March 2009. No other Directors held office during 2008.

Michael Gatenby – Chairman
Michael joined the Board of Alliance as non-executive Chairman in 2004. He had a successful career in corporate finance for over 25 years, having been a director of Hill Samuel and Co and vice-chairman of Charterhouse Bank. Michael graduated in Law from Trinity Hall, Cambridge in 1966 and qualified as a Chartered Accountant in 1969 with Peat, Marwick, Mitchell (now KPMG).

John Dawson – Chief Executive Officer
John founded Alliance in 1996. He gained multi-disciplinary experience in the pharmaceutical industry over 30 years. John held various senior roles at Sandoz (now Novartis) as director of finance and administration and deputy managing director. John has a BSc (Pharmacy) and an MSc (Finance) from the London Business School.

Richard Wright – Finance Director and Company Secretary
Richard joined the Board of Alliance in 2007. He is a Chartered Accountant with over 15 years of experience in financial roles across a variety of sectors. Richard read Mathematics at Robinson College, Cambridge and qualified as an accountant with Ernst & Young before joining Somerfield. More recently, he held senior finance positions at FirstGroup and Parragon Publishing.

Tony Booley – Sales and Marketing Director
Tony joined Alliance in 1998. He has had around 30 years' sales and marketing experience in the pharmaceutical and healthcare industries, with positions at Leo Pharma, Glaxo Wellcome (now GSK) and Getinge Industrier. He has considerable senior management experience in the UK and internationally, including overseas positions in India and the Middle East. Tony graduated in Physiology, has an MBA from Warwick and is a Chartered Marketer.

Dr Mark Tomlinson – Medical Director
Mark joined the Board of Alliance in 2007. He is a pharmaceutical physician with over 15 years' experience in clinical research and development, and in medical affairs in UK, European, US and worldwide settings. He has held positions at Bristol Myers Squibb and Sanofi and was most recently medical director at Sequani, a contract research organisation. Mark graduated from the University of Wales College of Medicine in 1985, was awarded membership of the Royal College of General Practitioners in 1989, the Diploma in Pharmaceutical Medicine in 1996 and Membership of the Faculty of Pharmaceutical Medicine (Royal Colleges of Physicians) in 2002. He was elected to the Board of Examiners of the Faculty of Pharmaceutical Medicine in 2008.

Thomas Casdagli – non-executive Director
Thomas joined the board of Alliance as a non-executive Director on 3 March 2009. He is a partner at MVM Life Science Partners LLP, a life science venture capital fund. He has been an active investor in life sciences since joining MVM in 2002. Before joining MVM, Thomas worked at PricewaterhouseCoopers where he qualified as a Chartered Accountant. Thomas graduated in Molecular and Cellular Biochemistry from the University of Oxford in 1998.

Paul Ranson – non-executive Director
Paul has worked in a legal capacity in the pharmaceutical sector for over 25 years. He spent the early years of his career as an in-house lawyer for Smith Kline & French and Merck. He is a partner in the international law firm Fasken Martineau and specialises exclusively in the commercial and regulatory aspects of life sciences.

Andrew Smith – non-executive Director
Andrew joined the Board of Alliance in 2006. He has held various senior positions in the pharmaceutical industry throughout the UK and overseas having been managing director and senior vice-president of SmithKline Beecham (now GSK), chief executive of Cerebrus plc until its sale and president international medical marketing services with Parexel International. He is non-executive chairman of Fishawack Communications Ltd, a specialist Medical Educational Services company, and a consultant with Navitas BioPharma Consulting.

Corporate Governance

INTRODUCTION
The Board of Alliance Pharma plc is committed to achieving good standards of corporate governance, integrity and business ethics for all activities.

RESPONSIBILITIES OF THE BOARD
The Board is responsible to the shareholders for:
- setting the Group's strategy;
- maintaining the policy and decision-making process around which the strategy is implemented;
- ensuring that necessary financial and human resources are in place to meet strategic aims;
- monitoring performance against key financial and non-financial indicators;
- providing leadership whilst maintaining the controls for managing risk;
- overseeing the system of risk management; and
- setting values and standards in corporate governance matters.

There is a list of matters reserved for the Board which may be updated by the Board and approved by the Board only.

The Chairman is responsible for leading the Board, facilitating the effective contribution of all members and ensuring that it operates effectively in the interests of the shareholders. The Chief Executive Officer is responsible for the leadership of the business and implementation of the strategy. The Company Secretary is responsible, on behalf of the Chairman, for ensuring that all Board and Committee meetings are conducted properly, that the Directors receive the appropriate information prior to the meeting, for ensuring that governance requirements are considered and implemented and for accurately recording each meeting. The Directors may have access to independent professional advice, where needed, at the Group's expense.

MANAGEMENT COMMITTEE
The Board delegates management of the business to the Management Committee headed by the Chief Executive Officer, John Dawson. The Committee comprises the Executive Directors and other senior managers and meets monthly.

REPORTING STRUCTURE
COMMITTEES
The Board has established an Audit Committee and a Remuneration Committee, each with written terms of reference. The terms of reference are available on the Group website.

MEETINGS
The Board meets regularly on dates pre-determined each year and has strategy meetings consisting of the Board and the full Management Committee each year, the purpose of which is to discuss progress on the strategy, to review the long-term strategy and develop the strategic framework for the achievement of the Group's targets. During 2008 the Board held eight scheduled meetings and all members of the Board attended all of those meetings. In addition there were a number of unscheduled meetings.

NON-EXECUTIVE DIRECTORS
The role of the non-executive Directors is to:
- review management performance and the monitoring and reporting of such performance;
- challenge constructively and help develop proposals on strategy;
- satisfy themselves as to the financial integrity of the financial information and the quality of the controls; and
- ensure that the systems of risk management are robust and defensible.

They have a role in determining the pay and benefits of the executive directors, to play a key role in the appointment and, if necessary, removal of executive Directors and Board succession.

RISK MANAGEMENT
The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness. This includes having an ongoing process in place for identifying, evaluating and managing significant risks.

The Group's established internal procedures include the following:
- The management group meetings cover in detail most, if not all, of the significant risks to which the Group is exposed, these deliberations are reported to the Board and further discussion considered.
- A table of significant risks has been prepared by the Board, splitting the categories by:
  - Trading - Significantly between Sales and Supply Chain.
  - Developments Projects.
  - Financial - In particular the integrity with which the Group is viewed as a public company and exposure to interest and exchange rates.
  - General - Such as the ability to recruit quality staff and the workload pressures existing on the current team.
- The Group's senior management team meets annually for a strategic review which both executive and non-executive Directors attend.
- The Group prepares an annual budget, developed through a comprehensive strategic and operational process prior to commencement of the financial year. A revised forecast is also prepared each month, including a projection of performance against bank covenants, and is reviewed by the Board and Management Committee.
- The Board and Management Committee monitor the actual monthly performance of the Group against budget and forecasts with any significant variances highlighted and explained.

RELATIONS WITH SHAREHOLDERS
At each meeting, the Board is updated on the meetings and communications with the shareholders and an analysis of the shareholder base is presented. Research notes by the broker and commissioned independent research are circulated to all Board members. Throughout the year the Chief Executive Officer and Finance Director undertake several scheduled meetings and conference calls with the large, institutional shareholders who hold the majority of the shares. Regular feedback is given to the Group following meetings with the shareholders from the financial PR advisors, and from the shareholders via the brokers.

The Group recognises that whilst the majority of the shareholders are large institutions, attention should be paid to the private shareholders and the Investor Relations section of the Group website is regularly updated and amended with the aim being to provide better information to all shareholders, particularly private investors. The website provides a facility to receive email alert notifications of Group news and stock exchange announcements. In addition the Chief Executive Officer and Finance Director sometimes present at conferences attended by many potential and current private shareholders and to Private Client Brokers representing the interests of private investors following which feedback is given to the Group.

At the Annual General Meeting the Chairman issues a statement and the Chief Executive reviews the activities throughout the year. All Directors are available following the meeting to answer questions and for informal discussions. The results of the proxy votes are announced at the meeting, including the abstentions and these are published on the website following the meeting.

Directors' Remuneration

REMUNERATION COMMITTEE
The members of the Remuneration Committee are:
Paul Ranson (Chairman of the Remuneration Committee)
Michael Gatenby
Andrew Smith

The Company Secretary attends the meetings of the Remuneration Committee as secretary to the Remuneration Committee. The Chief Executive Officer of the Company may also be invited to attend certain meetings of the Remuneration Committee.

ROLE OF THE REMUNERATION COMMITTEE
The Remuneration Committee reviews and determines on behalf of the Board and shareholders of the Company the pay, benefits and other terms of service of the executive Directors of the Company and the broad pay strategy with respect to senior Company employees.

BEST PRACTICE
As the Company is AIM-listed it is not legally required to set out its remuneration policy but is doing so on a voluntary basis. To the extent that such principles are relevant to the current circumstances of the Company, the provisions of inter alia the Directors' Remuneration Report Regulations 2002 and the Combined Code are taken into account.

REMUNERATION POLICY
The objective of the Company's remuneration policy is to attract and retain the Directors and senior executives needed to run the Company in a cost-effective manner.

The remuneration policy of the Company has four principal components:
1. **Basic salaries and benefits in kind -** Basic salaries are determined by the Remuneration Committee bearing in mind the salaries paid in AIM-listed and other small market capitalisation healthcare companies. Within that frame of reference, it is intended that pay should be at or near the median level. Benefits in kind include the provision of company cars (or a salary alternative).
2. **Bonuses -** Bonuses are payable to all staff according to the achievement by the Group of certain pre-determined targets including earnings. The level of bonuses payable on achievement of the targets is set at the level perceived correct to provide the necessary incentives for executive Directors and senior managers. There are appropriate adjustments to the bonus payable in the event of over - or under-achievement of the Group against those targets. In addition, bonuses are adjusted for personal performance and the amount of bonus paid will reflect any substantial periods of absence or unavailability of the employee.
3. **Share options scheme -** The Company has in place a share option scheme covering all employees, under which share options are normally granted once a year. The exercise price of the options granted under the scheme is set equal to the market value of the company's shares at the time of grant. The share option scheme is overseen by the Remuneration Committee which shall determine the terms under which eligible individuals may be invited to participate. The scheme is normally an approved scheme but may be unapproved in relation to certain individuals.
4. **Pensions** - There is a defined contribution scheme for all executive Directors and employees. Benefits in kind are not pensionable.

DIRECTORS' REMUNERATION
The aggregate remuneration, excluding pension contributions, paid to the Directors during the period was as follows:

	Salary	Bonuses	Other	Share-based payments*	Year ended 31 Dec 2008 £	Year ended 31 Dec 2007 £
Tony Booley	108,333	16,516	18,120	5,454	**148,423**	127,467
John Dawson	152,667	21,719	11,953	-	**186,339**	168,882
Michael Gatenby	60,517	-	-	-	**60,517**	58,183
Paul Ranson	27,533	-	-	-	**27,533**	26,450
Andrew Smith	27,533	-	-	-	**27,533**	26,632
Mark Tomlinson	113,333	16,143	13,591	5,468	**148,535**	143,436
Richard Wright	111,000	7,381	10,966	5,477	**134,824**	60,533
	600,916	61,759	54,630	16,399	**733,704**	611,583

*Share-based payment is the IFRS2 charge recognised in the period

The Group operates a defined contribution pension scheme. The aggregate contributions payable by the Group (not included in emoluments above) in respect of the period were as follows:

	Year ended 31 Dec 2008 £	Year ended 31 Dec 2007 £
Tony Booley	**12,485**	12,680
John Dawson	**10,000**	20,000
Mark Tomlinson	**11,333**	8,208
Richard Wright	**11,100**	2,720
	44,918	43,608

Directors' Remuneration continued

DIRECTORS' SERVICE CONTRACTS

All executive Directors are employed under service contracts. The services of all executive Directors may be terminated by the provision of a maximum of 12 months' notice by the Company.

DIRECTORS' SHARE OPTIONS

Details of options for the Directors who served during the year are as follows:

	31 Dec 2007 number	Granted number	Exercised number	**31 Dec 2008 number**	Exercise price (pence)	Date from which exercisable	Expiry date
Tony Booley	342,500	–	–	**342,500**	15.50	27/07/07	26/07/14
	46,750	–	–	**46,750**	19.00	03/11/08	02/11/15
	100,000	–	–	**100,000**	18.75	04/05/09	03/05/16
	105,000	–	–	**105,000**	9.25	02/05/10	01/05/17
	–	1,110,000	–	**1,110,00**	8.50	23/04/11	23/04/18
Mark Tomlinson	610,000	–	–	**610,000**	9.25	02/05/10	01/05/17
	–	1,115,000	–	**1,115,000**	8.50	23/04/11	23/04/18
Richard Wright	500,000	–	–	**500,000**	8.25	11/07/10	10/07/17
	–	1,113,000	–	**1,113,000**	8.50	23/04/11	23/04/18

The market price of ordinary shares at 31 December 2008 was 2.6p and the range during the period was from 2.6p to 10.5p.

Other Matters

PRINCIPAL ACTIVITIES
The principal activity of the Group is the development, marketing and distribution of pharmaceutical products. The principal activity of the Company is to act as a holding company.

DIRECTORS
The following table shows the beneficial interests of the Directors (and their spouses and minor children) in the shares of the Company.

	Ordinary shares	
	At end of year number	At start of year or subsequent appointment number
Tony Booley	6,710,723	6,710,723
John Dawson	62,261,402	62,261,402
Michael Gatenby	350,000	130,000
Paul Ranson	48,000	48,000
Andrew Smith	200,000	160,000
Richard Wright	190,768	90,768

Thomas Casdagli, who joined the Board since the year end, has a non-beneficial interest in 15,000,000 shares. The other Directors have no non-beneficial interests in the ordinary shares of the Company.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS
United Kingdom company law requires the Directors 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 and of the profit or loss of the Group for that period. The Directors have elected to prepare financial statements in accordance with International Accounting Standards as adopted by the EU. In preparing those financial statements, the Directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for maintaining proper accounting records, for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the Directors are aware:
- there is no relevant audit information of which the Group's auditors are unaware; and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The Directors are responsible for ensuring that the Directors' Report and other information included in the Annual Report is prepared in accordance with company law in the United Kingdom. They are also responsible for ensuring that the Annual Report includes information required by the AIM Rules.

The maintenance and integrity of the website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the information contained in the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in Annual Reports may differ from legislation in other jurisdictions.

Other Matters continued

SUPPLIER PAYMENT POLICY
The payment policy for the Company and the Group is to set the terms of payment with suppliers when agreeing the terms of the transaction and to comply with those terms. Group and Company trade creditors at the period end amounted to 59 days (2007: 51 days) and 17 days (2007: 42 days) respectively of average supplies for the year, which is consistent with contractually agreed terms.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES
The Group monitors credit risk closely and considers that its current policies of credit checks meets its objectives of managing exposure to credit risk. The Group's other financial risk management policies and objectives are detailed in note 21 of the financial statements.

DISABLED EMPLOYEES
Applications for employment by disabled persons are fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

EMPLOYEE INFORMATION AND CONSULTATION
The Group continues to involve its staff in the future development of the business. Information is provided to employees through the Group website, intranet site and by regular briefing meetings.

The Group operates a Group Personal Pension Plan and a Stakeholder Pension Plan is available to all employees.

GOING CONCERN
After making enquiries, the Directors have formed a judgement that there is reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

POLITICAL AND CHARITABLE DONATIONS
Charitable donations totalling £1,233 were made during the period. There were no political donations made during the period.

AUDITORS
A resolution to re-appoint Grant Thornton UK LLP as auditors for the next year will be proposed at the Annual General Meeting in accordance with section 489 of the Companies Act 2006.

ANNUAL GENERAL MEETING
The 2009 Annual General Meeting of the Company will be held on 21 May 2009, the business of which is set out in the Notice of Meeting.

On behalf of the Board

Richard Wright
Company Secretary
20 March 2009

Report of the Independent Auditors to the members of Alliance Pharma plc

We have audited the Group and parent company financial statements ('the financial statements') of Alliance Pharma plc for the year ended 31 December 2008 which comprise the principal accounting policies, the consolidated income statement, the consolidated and Company balance sheets, the consolidated and Company cash flow statements, the consolidated and Company statements of changes in shareholders' equity and notes 1 to 34. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS
The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Report of the Directors is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Report of the Directors. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION
In our opinion:
- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2008 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2008;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the financial statements.

Grant Thornton UK LLP

Grant Thornton UK LLP
Registered Auditors
Chartered Accountants
Bristol
20 March 2009

Consolidated Income Statement

	Note	Year ended 31 Dec 2008 £000	Year ended 31 Dec 2007 £000
Revenue	3	**21,757**	18,224
Cost of sales		**(10,612)**	(9,291)
Gross profit		**11,145**	8,933
Operating expenses			
Administration and marketing expense		**(4,740)**	(5,333)
Share-based employee remuneration	6	**(36)**	10
		(4,776)	(5,323)
Operating profit before exceptional items		**6,369**	3,610
Exceptional items	9	**-**	(3,576)
Operating profit		**6,369**	34
Finance costs			
Interest paid	5	**(3,088)**	(2,859)
Interest income	5	**21**	17
Other finance costs	5	**(861)**	(372)
Change in fair value of derivative financial instruments	5	**(17)**	(30)
		(3,945)	(3,244)
Profit/(loss) on ordinary activities before taxation	4	**2,424**	(3,210)
Taxation	7	**87**	-
Profit/(loss) for the year attributable to equity shareholders		**2,511**	(3,210)
Earnings per share			
Basic (pence)	8	**1.55**	(1.98)
Diluted (pence)	8	**1.49**	(1.98)

All of the activities of the Group are classed as continuing.
The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated Balance Sheet

	Note	31 Dec 2008 £000	31 Dec 2008 £000	31 Dec 2007 £000	31 Dec 2007 £000
Assets					
Non-current assets					
Intangible assets					
– Product licences	10	**37,237**		36,601	
– Development costs	10	**2,713**		2,559	
Property, plant and equipment	11	**161**		254	
Deferred tax	23	**70**		-	
			40,181		39,414
Current assets					
Inventories	13	**2,265**		1,881	
Trade and other receivables	14	**6,382**		4,439	
Cash and cash equivalents	15	**4**		672	
			8,651		6,992
Total assets			**48,832**		46,406
Equity					
Ordinary share capital	24	**1,621**		1,621	
Share premium account	25	**11,275**		11,275	
Share option reserve	25	**91**		55	
Reverse takeover reserve		**(329)**		(329)	
Other reserve	25	**(994)**		(546)	
Retained earnings	25	**(2,899)**		(5,410)	
Total equity			**8,765**		6,666
Liabilities					
Non-current liabilities					
Long-term financial liabilities	18	**20,487**		21,772	
Convertible debt	18,19	**7,292**		7,251	
Other liabilities	20	**100**		520	
Derivative financial instruments	22	**1,012**		431	
Deferred tax liability	23	**34**		–	
			28,925		29,974
Current liabilities					
Cash and cash equivalents	15	**2,451**		3,062	
Financial liabilities	18	**2,295**		1,716	
Corporation tax		**178**		-	
Trade and other payables	17	**5,849**		4,873	
Derivative financial instruments	22	**369**		115	
			11,142		9,766
Total liabilities			**40,067**		39,740
Total equity and liabilities			**48,832**		46,406

The financial statements were approved by the Board of Directors on 20 March 2009.

John Dawson
Director

Richard Wright
Director

The accompanying accounting policies and notes form an integral part of these financial statements.

Company Balance Sheet

	Note	31 Dec 2008 £000	31 Dec 2008 £000	Restated 31 Dec 2007 £000	Restated 31 Dec 2007 £000
Assets					
Non-current assets					
Investment in subsidiaries	12	**21,345**		20,821	
Deferred tax	23	**70**		–	
			21,415		20,821
Current assets					
Trade and other receivables	14	**14**		24	
Cash and cash equivalents	15	**4**		10	
			18		34
Total assets			**21,433**		20,855
Equity					
Ordinary share capital	24	**1,621**		1,621	
Share premium account	25	**11,275**		11,275	
Share option reserve	25	**91**		55	
Retained earnings	25	**775**		254	
Total equity			**13,762**		13,205
Liabilities					
Non-current liabilities					
Convertible debt	18,19	**7,292**		7,251	
			7,292		7,251
Current liabilities					
Trade and other payables	17	**379**		399	
			379		399
Total liabilities			**7,671**		7,650
Total equity and liabilities			**21,433**		20,855

The financial statements were approved by the Board of Directors on 20 March 2009.

J. Dawson R.W

John Dawson
Director

Richard Wright
Director

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated Statement of Changes in Shareholders' Equity

	Ordinary share capital £000	Share premium account £000	Share option reserve £000	Reverse takeover reserve £000	Other reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2008	1,621	11,275	55	(329)	(546)	(5,410)	6,666
Interest rate swap – cash flow hedge	–	–	–	–	(835)	–	(835)
Deferred tax on interest rate swap	–	–	–	–	387	–	387
Net expense recognised directly in equity	–	–	–	–	(448)	–	(448)
Profit for the year	–	–	–	–	–	2,511	2,511
Total recognised income and expense for the year	–	–	–	–	**(448)**	**2,511**	**2,063**
Employee benefits	–	–	36	–	–	–	36
Balance at 31 December 2008	**1,621**	**11,275**	**91**	**(329)**	**(994)**	**(2,899)**	**8,765**
Balance at 1 January 2007	1,621	11,275	65	(329)	–	(2,200)	10,432
Interest rate swaps – cash flow hedge	–	–	–	–	(546)	–	(546)
Net expense recognised directly in equity	–	–	–	–	(546)	–	(546)
Loss for the year	–	–	–	–	–	(3,210)	(3,210)
Total recognised income and expense for the year	–	–	–	–	**(546)**	**(3,210)**	**(3,756)**
Employee benefits	–	–	(10)	–	–	–	(10)
Balance at 31 December 2007	**1,621**	**11,275**	**55**	**(329)**	**(546)**	**(5,410)**	**6,666**

Company Statement of Changes in Shareholders' Equity

	Ordinary share capital £000	Share premium account £000	Share option reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2008	1,621	11,275	55	254	13,205
Profit for the period	–	–	–	521	521
Total recognised income and expense for the year	–	–	–	521	521
Employee benefits	–	–	36	–	36
Balance at 31 December 2008	**1,621**	**11,275**	**91**	**775**	**13,762**
Balance at 1 January 2007	1,621	11,275	65	(243)	12,718
Profit for the period	–	–	–	497	497
Total recognised income and expense for the year	–	–	–	497	497
Employee benefits	–	–	(10)	–	(10)
Balance at 31 December 2007	**1,621**	**11,275**	**55**	**254**	**13,205**

Consolidated and Company Cash Flow Statements

	Note	Group Year ended 31 Dec 2008 £000	Group Year ended 31 Dec 2007 £000	Company Year ended 31 Dec 2008 £000	Company Year ended 31 Dec 2007 £000
Cash flows from operating activities					
Cash generated from operations	27	**5,211**	4,064	**(366)**	(351)
Tax refund		**441**	–	**–**	–
Cash flows from operating activities		**5,652**	4,064	**(366)**	(351)
Investing activities					
Interest received	5	**21**	106	**–**	–
Payment of deferred consideration		**(420)**	(220)	**–**	–
Development costs capitalised	10	**(98)**	(776)	**–**	–
Purchase of property, plant and equipment	11	**(38)**	(100)	**–**	–
Proceeds from sale of intangible asset		**45**	–	**–**	–
Proceeds from sales of property, plant and equipment		**–**	13	**–**	–
Purchase of other intangible assets	10	**(636)**	(2,156)	**–**	–
Net cash used in investing activities		**(1,126)**	(3,133)	**–**	–
Financing activities					
Interest paid and similar charges	5	**(3,036)**	(2,361)	**(600)**	(600)
Loan issue costs		**–**	(303)	**–**	–
Transfer from subsidiary undertakings		**–**	–	**960**	952
Receipt from borrowings		**400**	1,950	**–**	–
Repayment of borrowings		**(1,947)**	–	**–**	–
Net cash received (used in)/from financing activities		**(4,583)**	(714)	**360**	352
Net movement in cash and cash equivalents		**(57)**	217	**(6)**	1
Cash and cash equivalents at the beginning of the period		**(2,390)**	(2,607)	**10**	9
Cash and cash equivalents at the end of the period	15	**(2,447)**	(2,390)	**4**	10

The accompanying accounting policies and notes form an integral part of these financial statements.

Notes to the financial statements
for year ended 31 December 2008

1. GENERAL INFORMATION
Alliance Pharma plc ('the Company') and its subsidiaries (together 'the Group') develop, market and distribute pharmaceutical products. The Company is a public limited company incorporated and domiciled in England. The address of its registered office is Avonbridge House, Bath Road, Chippenham, Wiltshire, SN15 2BB.

The Company is listed on the AIM stock exchange.

These consolidated financial statements have been approved for issue by the Board of Directors on 20 March 2009.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 BASIS OF PREPARATION
These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention. A summary of the more important Group and Company accounting policies is set out below. The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions, in these statements particularly in relation to determining the useful economic life of assets and in capitalisation and impairment reviews of development expenditure, that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

2.2 CONSOLIDATION
The consolidated balance sheet includes the assets and liabilities of the Company and its subsidiaries which are made up to 31 December 2008. Entities over which the Group has the ability to exercise control are accounted for as subsidiaries. Interests acquired in entities are consolidated from the effective date of acquisition and interests sold are consolidated up to the date of disposal. Balances between Group companies are eliminated; no profit is taken on sales between Group companies. Deferred tax relief on unrealised intra-Group profit is accounted for only to the extent that it is considered recoverable. Goodwill arising on the acquisition of interests in subsidiaries, representing the excess of purchase consideration over the Group's share of the fair values of identifiable assets, liabilities and contingent liabilities acquired, is capitalised as a separate item.

An entity is treated as a joint venture where the Group holds a long-term interest and shares control under a contractual agreement. In the Group accounts, interests in joint ventures are accounted for using the proportionate consolidation method of accounting. The consolidated income statement includes the Group's share of the joint ventures' turnover and includes the Group's share of the operating results, interest, pre-tax results and attributable taxation of such undertakings.

2.3 FOREIGN CURRENCY TRANSACTIONS
Foreign currency transactions by Group companies are booked at the exchange rate ruling on the date of the transaction. Foreign currency monetary assets and liabilities are re-translated into local currency at the rate of exchange ruling at the balance sheet date. Exchange differences are booked to the income statement.

2.4 RESEARCH AND DEVELOPMENT
Research expenditure is charged to the income statement in the period in which it is incurred. Development expenditure is capitalised when it can be reliably measured and the project it is attributable to is separately identifiable, is technically feasible, demonstrates future economic benefit, and will be used or sold by the Group once completed. Development costs not meeting the criteria are expensed as incurred. The capitalised cost is amortised over the period during which the Group is expected to benefit.

2.5 PROPERTY, PLANT AND EQUIPMENT
Computer equipment, fixtures, fittings and equipment, and motor vehicles are stated at the cost of purchase less any provisions for depreciation and impairment. Financing costs are not capitalised. The rates generally applicable are:

Computer equipment	33.3% per annum, straight-line
Fixtures, fittings and equipment	16.7%–25% per annum, straight-line
Motor vehicles	25% per annum, straight-line

Material residual value estimates are updated as required, but at least annually, whether or not the asset is revalued.

2.6 LEASES
Leasing agreements which transfer to the Group substantially all the benefits and risks of ownership are treated as finance leases, as if the asset had been purchased outright. The assets are included within computer equipment, fixtures, fittings and equipment and motor vehicles and the capital element of the leasing commitments are shown as obligations under finance leases. Assets held under finance leases are depreciated on a basis consistent with similar owned assets or the lease term if shorter. The interest element of the lease rental is included in the income statement. All other leases are considered operating leases and the annual rentals are included in the income statement on a straight-line basis over the lease term.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

2.7 GOODWILL

Goodwill representing the excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired, is capitalised and reviewed annually for impairment. Goodwill is carried at cost less accumulated impairment losses.

2.8 INTANGIBLE ASSETS

Intangible assets are stated at cost less provision for impairment. Technical know-how, trademarks and distribution rights acquired or acquired as part of a business combination are deemed to have an indefinite useful life and are tested for impairment annually.

2.9 INVENTORIES

Inventories are included at the lower of cost and net realisable value. Cost is determined on a first-in-first-out basis.

2.10 TAXATION

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from profit reported in the income statement because the former excludes items of income or expense that are either taxable or deductable in other years or that are never taxable or deductable, and it includes tax reliefs that are not included in the income statement. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are provided in full on temporary differences, and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax is provided using the rates of tax that are expected to apply in the period when the liability is settled or the asset is realised, based on rates that have been substantively enacted by the balance sheet date. Deferred tax assets and liabilities are not discounted. The Group is able to control the sharing of profits in the joint venture and as such no deferred tax has been recognised on timing differences.

2.11 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Derivative financial instruments are used to manage exposure to market risk from treasury operations. The principal financial instrument used by the Group is interest rate swaps. The Group does not hold or issue derivative financial instruments for trading or speculative purposes. Derivative financial instruments are recognised in the balance sheet at fair value and then remeasured at subsequent reporting dates. The fair value is calculated by reference to market interest rates and supported by counterparty confirmation.

The Group entered into interest rate swaps in 2007 and 2008 that are designated as cash flow hedges.

The effective portion of changes in the fair value of derivative financial instruments that are designated as cash flow hedges is recognised in equity, while the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Changes in the fair value of derivative financial instruments that are not designated as cash flow hedges are recognised in the income statement as they arise.

2.12 DEBT INSTRUMENTS

Unhedged debt instruments are initially stated at their fair value net of issue costs, and subsequently measured at amortised cost using the effective interest rate method.

2.13 TRADE PAYABLES

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

2.14 FINANCIAL ASSETS – LOANS AND RECEIVABLES

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Groups loans and receivables comprise 'trade and other receivables' and cash and cash equivalents in the balance sheet (note 2.15 and 2.16).

2.15 TRADE RECEIVABLES

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect amounts due according to the original terms of the receivables.

2.16 CASH AND CASH EQUIVALENTS

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments, available with no penalty, with original maturities of three months or less and bank overdrafts.

2.17 SEGMENT REPORTING

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

Notes to the financial statements continued

for year ended 31 December 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

2.18 EMPLOYEE BENEFITS – SHARE-BASED COMPENSATION

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense over the vesting period. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2.19 REVENUE RECOGNITION

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, estimated returns, rebates and discounts and after eliminating sales within the Group. Revenue is recognised when a Group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

2.20 EQUITY

Equity comprises the following:

- 'Share capital' represents the nominal value of equity shares.
- 'Share premium' represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.
- 'Share option reserve' represents equity-settled share-based employee remuneration until such share options are exercised.
- 'Other reserves' represents the fair value of derivative financial instruments at the balance sheet date that are designated as cash flow hedges net of deferred tax.
- 'Retained earnings' represents retained profit.
- 'Reverse takeover reserve' represents the difference between the fair value and nominal value of shares issued on a reverse takeover.

2.21 INVESTMENTS

Investments in subsidiaries included in the Company's balance sheet are stated at cost less any provision for impairment.

2.22 IMPAIRMENT OF NON-FINANCIAL ASSETS

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill, other individual assets or cash-generating units that include goodwill, other intangible assets with an indefinite useful life, and those intangible assets not yet available for use are tested for impairment at least annually.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation. Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

2.23 EXCEPTIONAL ITEMS

Exceptional items are those significant items which are separately disclosed by virtue of their size or incidence to enable a full understanding of the Group's financial performance. Transactions which may give rise to exceptional items include the gain or loss on disposal of a brand, the impairment of intangible assets and one-off costs of restructuring.

2.24 JUDGEMENTS AND ESTIMATES

The key areas that require management to make difficult, subjective or complex judgements and estimates about matters that are inherently uncertain are:

- The treatment of the 60% holding in Unigreg (see note 33).
- The impairment testing of intangible assets (see note 10).
- The useful lives on intangible assets (see note 10).
- The impairment testing of development projects (see note 10).

Management bases its estimates on historical experience and other assumptions that it believes are reasonable.

Actual results could differ from estimates used in employing the critical accounting policies and these could have a material impact on our results.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

2.25 NEW STANDARDS NOT YET APPLIED

A number of new EU adopted standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2008 and have not been applied in preparing these financial statements.

IAS 1 Presentation of Financial Statements (Revised 2007) will result in changes to the presentation of the Group's financial statements for the year ended 31 December 2009 as the format currently adopted for the Statement of Changes in Equity will no longer be permitted. Instead the Group will present a Statement of Comprehensive Income combining the existing income statement with other income and expenses currently presented as part of the Statement of Changes in Equity.

IFRS 8 Operating Segments introduces the 'management approach' to segment reporting and will be effective for the Group's financial statements for the year ended 31 December 2009. This is not expected to result in any change in the Group's business segments.

IAS 23 Borrowing costs generally requires the immediate expensing of borrowing costs. IAS 23 (Revised) will become mandatory for the Group's 31 December 2009 financial statements and states directly attributable borrowing costs must be capitalised. This is not expected to materially impact the Group's financial statements.

2.26 PRIOR YEAR ADJUSTMENT

An adjustment in the Company's financial statements only has been made to reclassify amounts owed by Group undertakings, included within Trade and other receivables, as Investments as this more accurately reflects the nature of the balance. This has no effect on the profit or loss, reserves or earnings per share. The effect on the balance sheet is investments increased by £19,482,000 and Trade and other receivables decreased by £19,482,000.

3. SEGMENTAL REPORTING

PRIMARY REPORTING FORMAT – BUSINESS SEGMENTS

Based on the risks and returns, the Directors consider that the primary reporting format is by business segment. The Directors consider there is only one business segment, being pharmaceuticals. The Group develops, markets and distributes a range of pharmaceutical products. Therefore, the disclosures for the primary segment have already been given in the financial statements.

SECONDARY REPORTING FORMAT – GEOGRAPHICAL SEGMENTS

The sales revenue of the Group originates entirely from the United Kingdom and Ireland. Segment assets and capital expenditure are allocated according to the country of sale. Where the country of sale is unknown they are unallocated. An analysis by main geographical destination is given below:

	Segment revenue		Segment assets		Capital expenditure	
	Year ended 31 Dec 2008 £000	Year ended 31 Dec 2007 £000	**Year ended 31 Dec 2008 £000**	Year ended 31 Dec 2007 £000	**Year ended 31 Dec 2008 £000**	Year ended 31 Dec 2007 £000
United Kingdom	**14,913**	12,418	**28,540**	26,764	**623**	159
Ireland	**4,451**	3,394	**10,902**	10,023	**–**	–
Rest of the world	**2,393**	2,412	**5,980**	6,116	**13**	1,955
Unallocated	**–**	–	**3,410**	3,503	**192**	1,044
	21,757	18,224	**48,832**	46,406	**828**	3,158

4. PROFIT BEFORE TAXATION

Profit before taxation is stated after charging:

	Year ended 31 Dec 2008 £000	Year ended 31 Dec 2007 £000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**8**	8
Fees payable by the Group to the Company's auditor for other services:		
– The audit of the Company's subsidiaries	**29**	29
– Other services pursuant to legislation	**9**	8
– Tax services	**6**	4
Employee benefit expense	**36**	(10)
Depreciation of tangible assets	**131**	138
Operating lease rentals	**118**	118
Profit on disposal of Forceval Protein Powder rights in Cyprus	**45**	–
Loss on foreign exchange transactions	**250**	127

Notes to the financial statements continued
for year ended 31 December 2008

5. FINANCE COSTS

	Year ended 31 Dec 2008 £000	Year ended 31 Dec 2007 £000
Interest payable and similar charges		
On loans and overdrafts	(3,088)	(2,858)
Finance lease interest	-	(1)
	(3,088)	(2,859)
Interest income	21	17
Other finance charges		
Foreign exchange movement on long-term euro-denominated debt	(704)	(218)
Amortised finance issue costs	(157)	(154)
	(861)	(372)
Change in fair value of derivative financial instruments	(17)	(30)
Finance costs – net	(3,945)	(3,244)

6. DIRECTORS AND EMPLOYEES

Employee benefit expenses for the Group during the period were as follows:

	Year ended 31 Dec 2008 £000	Year ended 31 Dec 2007 £000
Wages and salaries	1,838	1,784
Social security costs	241	241
Other pension costs (note 30)	155	153
Share-based employee remuneration (note 26)	36	(10)
	2,270	2,168

The average number of employees of the Group during the period was:

	Year ended 31 Dec 2008	Year ended 31 Dec 2007
Management and administration	31	38

Remuneration in respect of Directors was as follows:

	Year ended 31 Dec 2008 £000	Year ended 31 Dec 2007 £000
Emoluments	717	658
Share-based payments	16	4
Company pension contributions to money purchase schemes	45	47
	778	709

The amounts set out above include remuneration in respect of the highest paid Director as follows:

	Year ended 31 Dec 2008 £000	Year ended 31 Dec 2007 £000
Emoluments for qualifying services	186	169
Company pension contributions to money purchase schemes	10	20
	196	189

During the period contributions were paid to money purchase schemes for four Directors (period ended 31 December 2007: four).

The key management personnel of the Group are the Directors (executive and non-executive) of Alliance Pharma plc.

7. TAXATION

Analysis of charge/(credit) in period.

	Year ended 31 Dec 2008 £000	Year ended 31 Dec 2007 £000
United Kingdom corporation tax at 28% (2007: 30%)		
In respect of current period	**178**	-
Adjustment in respect of prior periods	**(616)**	-
	(438)	-
Deferred tax (see note 23)		
Origination and reversal of temporary differences	**351**	-
Taxation	**(87)**	-

The difference between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	Year ended 31 Dec 2008 £000	Year ended 31 Dec 2007 £000
Profit/(loss) on ordinary activities before tax	**2,424**	(3,210)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom of 28.5% (2007: 30.0%)	**691**	(963)
Effect of:		
Non-deductible expenses	**18**	1,030
Capital allowances in excess of depreciation	**-**	(668)
(Decrease)/increase in losses to carry forward	**-**	601
Opening deferred tax asset not recognised	**(188)**	-
Adjustment in respect of prior periods	**(616)**	-
Other timing differences	**8**	-
Total taxation	**(87)**	-

8. EARNINGS PER SHARE (EPS)

Basic EPS is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. For diluted EPS, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares.

A reconciliation of the weighted average number of ordinary shares used in the measures is given below:

	Year ended 31 Dec 2008	Year ended 31 Dec 2007
For basic EPS calculation	**162,061,774**	162,061,774
Conversion of Convertible Unsecured Loan Stock (CULS)	**35,714,286**	-
For diluted EPS calculation	**197,776,060**	162,061,774

The adjusted basic EPS is intended to demonstrate recurring elements of the results of the Group before exceptional items.
A reconciliation of the earnings used in the different measures is given below:

	Year ended 31 Dec 2008 £000	Year ended 31 Dec 2007 £000
Earnings for basic EPS	**2,511**	(3,210)
Exceptional items	**-**	3,576
Research and development tax credit	**(616)**	-
For adjusted EPS	**1,895**	366
Earnings for basic EPS	**2,511**	(3,210)
Interest saving on conversion of CULS	**600**	-
Tax effect of interest saving on conversion of CULS	**(168)**	-
Earnings for diluted EPS	**2,943**	(3,210)

Notes to the financial statements continued
for year ended 31 December 2008

8. EARNINGS PER SHARE (EPS) CONTINUED
The resulting EPS measures are:

	Year ended 31 Dec 2008 pence	Year ended 31 Dec 2007 pence
Basic EPS	**1.55**	(1.98)
Diluted EPS	**1.49**	(1.98)
Adjusted basic EPS	**1.17**	0.23

9. EXCEPTIONAL ITEMS

	Year ended 31 Dec 2008 £000	Year ended 31 Dec 2007 £000
Posidorm® impairment charge	**–**	3,374
Restructuring costs	**–**	202
	–	3,576

In the absence of confirmed funding to complete the Posidorm® development, development costs that had been capitalised in relation to the project were written off in 2007. The restructuring costs arose out of the strategic review conducted mid-2007.

10. INTANGIBLE ASSETS

The Group	Goodwill on consolidation £000	Other £000	Subtotal of product licences £000	Development costs £000	Total £000
Cost					
At 1 January 2008	1,144	35,457	36,601	6,053	42,654
Additions	–	636	636	154	790
At 31 December 2008	**1,144**	**36,093**	**37,237**	**6,207**	**43,444**
Amortisation and impairment					
At 1 January 2008	–	–	–	3,494	3,494
At 31 December 2008	–	–	–	3,494	3,494
Net book amount					
At 31 December 2008	**1,144**	**36,093**	**37,237**	**2,713**	**39,950**
At 1 January 2008	1,144	35,457	36,601	2,559	39,160

The goodwill on consolidation arose on the acquisition on Dermapharm Ltd, which took place during the year ended 29 February 2004. The product licences (brands) acquired are considered to have indefinite lives, for the reasons below, and are tested for impairment annually.

All brands when purchased are assessed to ensure they meet a set of criteria, including an established and stable sales history. The brands are generally in niche areas where there is limited foreseeable prospect of erosion of sales and they require no promotion to maintain sales. For this reason no amortisation has been charged in the period as all brands are considered to have an indefinite useful life. In determining the useful economic life each acquisition has been reviewed separately and consideration given to the period over which the Group expects to derive economic benefit from the acquisition. The recoverable amount of the brands acquired in each acquisition is determined on a value in use calculation. That calculation uses cash flow projections based on financial forecasts approved by management covering a 15-year period. In each case it is assumed that there will be no growth beyond 2010 and each is discounted at a rate of 10%. A 15-year period is used to reflect the brands' indefinite lives. Even when the value in use calculation is tested with assumptions beyond a reasonable range, the recoverable amounts would not fall below their carrying amounts. Development projects are reviewed as to the likelihood of their completion and valued using a discounted cash flow, using appropriate risk factors, to assess whether the project is impaired.

10. INTANGIBLE ASSETS CONTINUED

No development costs have been expensed to the income statement during the year (year ended 31 December 2007: £3,374,000).

The Group	Goodwill on consolidation £000	Other £000	Subtotal of product licences £000	Development costs £000	Total £000
Cost					
At 1 January 2007	1,129	33,316	34,445	5,137	39,582
Additions	15	2,141	2,156	916	3,072
At 31 December 2007	**1,144**	**35,457**	**36,601**	**6,053**	**42,654**
Amortisation and impairment					
At 1 January 2007	–	–	–	120	120
Impairment charge	–	–	–	3,374	3,374
At 31 December 2007	**–**	**–**	**–**	**3,494**	**3,494**
Net book amount					
At 31 December 2007	**1,144**	**35,457**	**36,601**	**2,559**	**39,160**
At 1 January 2007	1,129	33,316	34,445	5,017	39,462

11. PROPERTY, PLANT AND EQUIPMENT

The Group	Computer equipment £000	Fixtures, fittings and equipment £000	Total £000
Cost			
At 1 January 2008	258	405	663
Additions	36	2	38
Disposals	(30)	(76)	(106)
At 31 December 2008	**264**	**331**	**595**
Depreciation			
At 1 January 2008	144	265	409
Provided in the year	64	67	131
Eliminated on disposals	(30)	(76)	(106)
At 31 December 2008	**178**	**256**	**434**
Net book amount			
At 31 December 2008	**86**	**75**	**161**
At 1 January 2008	114	140	254

The net book amount held under finance leases was £2,000 (year ended 31 December 2007: £3,000).

The Group	Computer equipment £000	Fixtures, fittings and equipment £000	Motor vehicles £000	Total £000
Cost				
At 1 January 2007	180	382	28	590
Additions	78	23	–	101
Disposals	–	–	(28)	(28)
At 31 December 2007	258	405	–	663
Depreciation				
At 1 January 2007	80	196	17	293
Provided in the year	64	69	5	138
Eliminated on disposals	–	–	(22)	(22)
At 31 December 2007	144	265	–	409
Net book amount				
At 31 December 2007	114	140	–	254
At 1 January 2007	100	186	11	297

Notes to the financial statements continued
for year ended 31 December 2008

12. INVESTMENTS

The Company	Investment in subsidiary undertakings restated £000
Cost	
At 1 January 2008	20,821
Additions	524
At 31 December 2008	**21,345**
At 1 January 2007	20,243
Additions	578
At 31 December 2007	**20,821**

The additions in the year relate to an increase in the amount owed by Alliance Pharmaceuticals Limited to the Company.

The subsidiary and associated undertakings where the Group held 20% or more of the equity share capital at 31 December 2008, are shown below:

Company	Country of registration or incorporation	Shares held class	% owned	Nature of business
Alliance Pharmaceuticals Limited	United Kingdom	Ordinary	100	Pharmaceutical sales
Dermapharm Limited	United Kingdom	Ordinary	100	Dormant
Alliance Health Limited	United Kingdom	Ordinary	100	Dormant
Alliance Consumer Health Limited	United Kingdom	Ordinary	100	Dormant
Alliance Generics Limited	United Kingdom	Ordinary	100	Dormant
Alliance Healthcare Limited	United Kingdom	Ordinary	100	Dormant
Caraderm Limited	Northern Ireland	Ordinary	100	Dormant
Unigreg Limited	British Virgin Islands	Ordinary	60	Pharmaceutical sales

All of these undertakings prepare accounts to 31 December and all are registered in England and Wales, except Caraderm Limited which is registered in Northern Ireland and Unigreg Limited which is registered in British Virgin Islands. Alliance Pharmaceuticals Limited is the only investment held directly by the Alliance Pharma plc. All other investments are held by Alliance Pharmaceuticals Limited.

13. INVENTORIES

The Group	**31 Dec 2008 £000**	31 Dec 2007 £000
Finished goods and goods for resale	2,265	1,881

Inventory costs expensed through the income statement during the year were £412,000 (year ended 31 December 2007: £276,000).

14. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	31 Dec 2008 £000	31 Dec 2007 £000	**31 Dec 2008 £000**	31 Dec 2007 £000
Trade receivables	**5,868**	4,102	**–**	–
Other receivables	**258**	107	**10**	24
Prepayments and accrued income	**186**	230	**4**	–
Amounts owed by joint venture	**70**	–	**–**	–
	6,382	4,439	**14**	24

The ageing of trade receivables at 31 December is detailed below:

	31 Dec 2008 £000	31 Dec 2007 £000
Not past due	**3,513**	2,841
Due 30–31 December*	**2,194**	1,010
Past due 3 days to 91 days	**146**	190
Past 91 days	**15**	61
	5,868	4,102

* For the year ended 31 December 2008 £1,901,000 was received by 12 January 2009. For the year ended 31 December 2007 £945,000 was received by 7 January 2008.

14. TRADE AND OTHER RECEIVABLES CONTINUED
Our policy requires customers to pay us in accordance with agreed payment terms. Depending on the geographical location, our settlement terms are generally due within 30 or 60 days from the end of the month of sale and do not bear any effective interest rate. All trade receivables are subject to credit risk exposure. However, the Group does not identify specific concentrations of credit risk with regards to trade and other receivables, as the amounts recognised resemble a large number of receivables from various customers.

15. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	31 Dec 2008 £000	31 Dec 2007 £000	31 Dec 2008 £000	31 Dec 2007 £000
Cash at bank and in hand	4	672	4	10
Bank overdrafts*	(2,451)	(3,062)	–	–
	(2,447)	(2,390)	4	10

* Overdrafts are secured by a fixed and floating charge over the Company's and Group's assets

The Group has a right of offset between cash at bank and in hand and bank overdrafts.

16. MAJOR NON-CASH TRANSACTIONS
Principal non-cash transactions include finance issue costs amortised in the income statement during the year of £157,000 (year ended 31 December 2007: £154,000) and an exchange movement of £250,000 (year ended 31 December 2007: £218,000) (see note 4). Interest rate swaps designated as cash flow hedges resulted in a £835,000 charge (year ended 31 December 2007: £546,000) to equity. Interest rate swaps recognised via the income statement resulted in a charge of £17,000 (year ended December 2007: £30,000).

17. TRADE AND OTHER PAYABLES – CURRENT

	The Group		The Company	
	31 Dec 2008 £000	31 Dec 2007 £000	31 Dec 2008 £000	31 Dec 2007 £000
Trade payables	2,553	2,151	21	51
Other taxes and social security costs	653	352	–	–
Accruals and deferred income	2,223	1,930	358	348
Amount owed to joint venture	–	20	–	–
Other payables	420	420	–	–
	5,849	4,873	379	399

18. FINANCIAL LIABILITIES – BORROWINGS

	The Group		The Company	
Current	31 Dec 2008 £000	31 Dec 2007 £000	31 Dec 2008 £000	31 Dec 2007 £000
Bank loans due within one year or on demand				
Secured*	2,295	1,716	–	–
	2,295	1,716	–	–

	The Group		The Company	
Non-current	31 Dec 2008 £000	31 Dec 2007 £000	31 Dec 2008 £000	31 Dec 2007 £000
Bank loans:				
Secured*	20,485	21,786	–	–
Fair value of derivatives (note 21)	–	(17)	–	–
Net obligations under finance leases	2	3	–	–
	20,487	21,772	–	
Convertible debt (note 19)	7,292	7,251	7,292	7,251
	27,779	29,023	7,292	7,251

* The bank loans are secured by a fixed and floating charge over the Company's and Group's assets

Notes to the financial statements continued
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19. CONVERTIBLE DEBT
The convertible unsecured loan stock is convertible into ordinary shares at any time between the date of issue and 30 November 2013, unconditionally and at the option of the note holder. The conversion rate is 21p per ordinary share. Interest is charged on the loan stock at a fixed rate of 8% per annum and is paid every six months.

The fair values of the liability component and the equity conversion component were determined at issuance of the bond. The equity component was determined as nil and the fair value of the liability component, included in long-term borrowings, was calculated using a market interest rate for an equivalent non-convertible bond.

20. OTHER NON-CURRENT LIABILITIES

	The Group		The Company	
	31 Dec 2008 £000	31 Dec 2007 £000	31 Dec 2008 £000	31 Dec 2007 £000
Deferred consideration for acquisitions	**100**	520	**–**	–
	100	520	**–**	–

Deferred consideration relates to the acquisition of Dermapharm Limited £100,000 (year ended 31 December 2007: £120,000), which took place in the year ended 29 February 2004. In the year ended 31 December 2007 £400,000 related to the acquisition of Deltacortril®, Atarax® and Terracortril® from Pfizer. Included in other payables (note 17) is £20,000 (year ended 31 December 2007: £20,000) relating to the Dermapharm acquisition and £400,000 (year ended 31 December 2007: £400,000) relating to the acquisition of Deltacortril®, Atarax® and Terracortril®.

21. FINANCIAL INSTRUMENTS
The Group uses financial instruments comprising borrowings, some cash and liquid resources, and various items such as trade receivables and trade payables that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations.

The Group also has a bank facility denominated in euros. The purpose of this facility is to manage the currency risk arising from the Group's operations. The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged from the previous year.

INTEREST RATE RISK
The Group finances its operations through a mixture of debt and equity.

The Group uses interest rate swaps to reduce the risk arising from changes in interest rates. These swaps are remeasured to fair value at each period end.

The interest rate exposure of the financial liabilities of the Group at the period end was:

	Fixed £000	Floating £000	Total £000
At 31 December 2008			
Bank overdraft	–	2,451	2,451
Bank loans – sterling denominated	–	20,501	20,501
Convertible loan stock	7,500	–	7,500
Interest rate hedges	15,000	(15,000)	–
Sterling subtotal	**22,500**	**7,952**	**30,452**
Bank loans – euro denominated	–	2,578	2,578
Euro subtotal	**–**	**2,578**	**2,578**
Total financial liabilities	**22,500**	**10,530**	**33,030**
Unamortised issue costs	(426)	(80)	(506)
Net book value of financial liabilities	**22,074**	**10,450**	**32,524**

21. FINANCIAL INSTRUMENTS CONTINUED

	Fixed £000	Floating £000	Total £000
At 31 December 2007			
Bank overdraft	–	3,062	3,062
Bank loans – sterling denominated	–	21,401	21,401
Convertible loan stock	7,500	–	7,500
Interest rate hedges	19,775	(19,775)	–
Sterling subtotal	27,275	4,688	31,963
Bank loans – euro denominated	–	2,519	2,519
Euro subtotal	–	2,519	2,519
Total financial liabilities	27,275	7,207	34,482
Unamortised issue costs	(580)	(87)	(667)
Net book value of financial liabilities	26,695	7,120	33,815

	Fixed rate financial liabilities	
	Weighted average fixed rate %	Weighted average period for which rate is fixed
At 31 December 2008		
Sterling	6.51	4.07 years
At 31 December 2007		
Sterling	6.42	4.10 years

The sterling and euro floating rate borrowings bear interest at rates based on LIBOR and EURIBOR respectively.

The Group balance sheet also includes financial assets in the form of cash at bank and in hand totalling £4,000 (31 December 2007: £672,000) which are exposed to floating interest rates based on LIBOR and EURIBOR.

A 0.5% increase in LIBOR and EURIBOR would reduce pre-tax profits by approximately £56,000 in 2009 and result in the fair value of the cash flow hedge liability recognised in equity reducing by approximately £190,000. A 0.5% decrease would have the opposite effect.

CURRENCY RISK

Approximately 20% of the Group's sales are to overseas customers in the EU. These sales are invoiced in euros. Certain expenses of the Group are also in euros. Overall the Group generates a net surplus of euros from trading and has more euro trade debtors than euro trade creditors. The Group policy is to minimise currency exposures on working capital balances and on future cash flows through the use of a euro bank facility.

All other Group sales and all but a small proportion of other Group expenses are denominated in sterling.

A 5% weakening of sterling against the euro would result in a £152,000 increase in predicted pre-tax profits, while a 5% strengthening of sterling would result in a £136,000 decrease in pre-tax profits.

LIQUIDITY RISK

The Group seeks to manage financial risk, to ensure sufficient liquidity is available to meet the identifiable needs of the Group and to invest cash assets safely and profitably. The Group's long-term funding is currently provided by a combination of convertible unsecured loan stock which is not due for repayment until 2013 and bank loans with a repayment schedule of £2.4m to £2.6m per annum and the balance in 2012. The Group's policy is to re-finance the debt well in advance of the term loan expiry. Short-term flexibility is achieved through the use of the bank overdraft facilities.

The maturity profile of the Group's bank loans (capital only) at the year end is as follows:

	At 31 Dec 2008 £000	At 31 Dec 2007 £000
Due within:		
One year	**2,410**	1,844
More than one year, not more than two years	**2,600**	2,144
More than two years, not more than three years	**2,620**	2,234
More than three years, not more than four years	**15,448**	2,354
More than four years, not more than five years	**–**	15,344
	23,078	23,920

Notes to the financial statements continued
for year ended 31 December 2008

21. FINANCIAL INSTRUMENTS CONTINUED
The maturity profile of the Group's financial gross liabilities (capital and interest) at the year end is as follows:

31 December 2008	In one year, or less £000	In more than one year, but not more than two £000	In more than two years, but not more than five £000	In more than five years £000	Total £000
Finance leases	–	1	1	–	2
Trade and other payables	5,849	20	40	40	5,949
Corporation tax	178	–	–	–	178
Overdraft	2,451	–	–	–	2,451
Bank loans	3,646	3,454	19,172	–	26,272
Convertible loan stock	600	600	1,202	8,049	10,451
	12,724	4,075	20,415	8,089	45,303

31 December 2007	Fair value of derivatives £000	In one year, or less £000	In more than one year, but not more than two £000	In more than two years, but not more than five £000	In more than five years £000	Total £000
Finance leases	–	1	1	1	–	3
Trade and other payables	–	4,873	420	40	60	5,393
Overdraft	–	3,062	–	–	–	3,062
Bank loans	(17)	3,972	4,099	24,945	–	32,999
Convertible loan stock	–	600	600	1,200	8,650	11,050
	(17)	12,508	5,120	26,186	8,710	52,507

The maturity profile of the Company's financial gross liabilities (capital and interest) at the year end is as follows:

	31 December 2008		31 December 2007	
	Trade payables and other £000	**Bank borrowings and other loans £000**	Trade payables and other £000	Bank borrowings and other loans £000
In one year, or less	**379**	**600**	399	600
In more than one year, but not more than two	**–**	**600**	–	600
In more than two years, but not more than five	**–**	**1,202**	–	1,200
In more than five years	**–**	**8,049**	–	8,650
	379	**10,451**	399	11,050

The Group had £553,000 (31 December 2007: £1,100,000) undrawn committed borrowing facilities available at 31 December 2008.
The Group has in placed an agreed overdraft facility of £3m, which will be due for annual renewal on 31 March 2010.

Classification of the Group's financial instruments is set out below:

As at 31 December 2008	Loans and receivables £000	Non financial assets £000	Total £000
Financial assets			
Cash	4	–	4
Trade and other receivables	6,196	186	6,382
	6,200	186	6,386

21. FINANCIAL INSTRUMENTS CONTINUED

As at 31 December 2008	Held for trading £000	Other financial liabilities £000	Liabilities not within scope of IAS39 £000	Total £000
Financial liabilities				
Cash and cash equivalents	–	2,451	–	2,451
Long-term financial liabilities	–	20,485	2	20,487
Convertible debt	–	7,292	–	7,292
Other liabilities	–	100	–	100
Financial liabilities	–	2,295	–	2,295
Trade and other payables	–	5,196	653	5,849
Corporation tax	–	–	178	178
Derivative financial instruments – non-current	1,012	–	–	1,012
Derivative financial instruments – current	369	–	–	369
	1,381	37,819	833	40,033

As at 31 December 2007	Loans and receivables £000	Non-financial assets £000	Total £000
Financial assets			
Cash	672	–	672
Trade and other receivables	4,209	230	4,439
	4,881	230	5,111

As at 31 December 2007	Held for trading £000	Other financial liabilities £000	Liabilities not within scope of IAS39 £000	Total £000
Financial liabilities				
Cash and cash equivalents	–	3,062	–	3,062
Long-term financial liabilities	–	21,786	3	21,789
Fair value of derivatives		(17)	–	(17)
Convertible debt	–	7,251	–	7,251
Other liabilities	–	520	–	520
Financial liabilities	–	1,716	–	1,716
Trade and other payables	–	4,521	352	4,873
Derivative financial instruments – non-current	431	–	–	431
Derivative financial instruments – current	115	–	–	115
	546	38,839	355	39,740

Classification of the Company's financial instruments is set out below:

As at 31 December 2008	Loans and receivables £000	Non-financial assets £000	Total £000
Financial assets			
Cash	4	–	4
Trade and other receivables	–	14	14
	4	14	18

As at 31 December 2008	Other financial liabilities £000	Total £000
Financial liabilities		
Convertible debt	7,292	7,292
Trade and other payables	379	379
	7,671	7,671

Notes to the financial statements continued

for year ended 31 December 2008

21. FINANCIAL INSTRUMENTS CONTINUED

As at 31 December 2007	Loans and receivables £000	Non-financial assets £000	Total £000
Financial assets			
Cash	10	–	10
Trade and other receivables	–	24	24
	10	24	34

As at 31 December 2007	Other financial liabilities £000	Total £000
Financial liabilities		
Convertible debt	7,251	7,251
Trade and other payables	399	399
	7,650	7,650

22. DERIVATIVE FINANCIAL INSTRUMENTS

	31 Dec 2008 Liabilities £000	31 Dec 2007 Liabilities £000
Interest rate swap – cash flow hedge	**1,381**	546
	1,381	546
Current portion	**369**	115
Non-current portion	**1,012**	431

One interest rate swap operates until 28 September 2012 on a nominal amount reducing in stages from £13m to £9m and a second interest rate swap operates until 11 January 2012 on a nominal amount of £2m. The cash flow hedges were tested for effectiveness at the year end and were found to be highly effective. The ineffective element was immaterial. The hedge and interest on the bank debt are settled on a quarterly basis on the same date and measured against the same benchmark, namely three month sterling LIBOR. The amount recognised through the income statement in respect of interest rate swaps during the year was a charge of £32,168 (31 December 2007: £66,460 credit).

23. DEFERRED TAX ASSET/(PROVISION)

The Group	31 Dec 2008 £000	31 Dec 2007 £000
Accelerated capital allowances	**12**	1
Accelerated allowances on intangible assets	**(3,089)**	(2,818)
Interest rate hedge	**387**	–
Tax losses available	**2,726**	3,576
Deferred tax asset un-provided	**–**	759
Deferred tax asset	**70**	–
Deferred tax provision	**(34)**	–

Reconciliation of deferred tax movements:

The Group	31 Dec 2008 £000	31 Dec 2007 £000
Deferred tax charge in the income statement (note 7)	**(351)**	–
Deferred tax on interest rate swap credited to equity	**387**	–
Deferred tax asset at end of year	**70**	–
Deferred tax (liability) at end of year	**(34)**	–

23. DEFERRED TAX ASSET/(PROVISION) CONTINUED

The Company	31 Dec 2008 £000	31 Dec 2007 £000
Tax losses available	70	210
Deferred tax asset	70	–
Deferred tax asset un-provided	–	210

Deferred tax has been calculated at the prevailing rate of 28% (2007: 28%).

24. SHARE CAPITAL

	Authorised number of shares	Authorised £000	Allotted, called and fully paid number of shares	Allotted, called and fully paid £000
At 31 December 2008 – ordinary shares of 1p each	400,000,000	4,000	162,061,774	1,621
At 31 December 2007 – ordinary shares of 1p each	400,000,000	4,000	162,061,774	1,621

POTENTIAL ISSUES OF ORDINARY SHARES

Under the Group's share option scheme for employees and Directors options have been granted to subscribe for shares in the Company at prices ranging from 8.25p to 19p. Options are exercisable three years after date of grant. Options outstanding are as follows:

Year of grant	Exercise price pence	Exercise from	31 Dec 2008 number	31 Dec 2007 number
2004	15.50	2007	**360,000**	598,750
2005	19.00	2008	**109,183**	149,840
2006	18.75	2009	**280,850**	388,100
2006	13.50	2009	**200,000**	200,000
2007	8.25 and 9.25	2010	**1,550,150**	1,675,150
2008	8.50 and 9.00	2011	**5,016,850**	–
			7,517,033	3,011,840

See note 19 for details of the Convertible Unsecured Loan Stock.

In the year ended 29 February 2004, Numis Securities Limited were granted an option to subscribe for 1,384,924 ordinary shares at an exercise price of 16p. This option lapsed during the year.

In the year ended 29 February 2004, Navigator Corporate Finance Limited were granted an option to subscribe for 500,000 ordinary shares at an exercise price of 20p as part of its remuneration as a provider of consultancy services to the Group. This option lapsed during the year.

Notes to the financial statements continued
for year ended 31 December 2008

25. SHARE PREMIUM ACCOUNT AND RESERVES

	The Group and the Company		The Group		The Company
	Share premium account £000	Share options reserve £000	Other reserve £000	Profit and loss £000	Profit and loss account £000
At 1 January 2008	11,275	55	(546)	(5,410)	254
Value of employee service (note 6)	-	36	–	-	-
Net movement on interest rate swaps	-	-	(835)	-	-
Deferred tax on interest rate swaps	–	–	387	–	–
Retained profit for the year	–	–	-	2,511	521
At 31 December 2008	**11,275**	**91**	**(994)**	**(2,899)**	**775**
At 1 January 2007	11,275	65	–	(2,200)	(243)
Value of employee service (note 6)	-	(10)	–	–	–
Premium on shares issued	-	-	(546)	–	–
Retained profit for the year	–	-	-	(3,210)	497
At 31 December 2007	11,275	55	(546)	(5,410)	254

The balance on the share premium account may not be legally distributed under section 264 of the Companies Act 1985.

The profit for the year dealt with in the financial statements of the parent company was £521,000 (2007: £497,000). As permitted by section 230 of the Companies Act 1985, no separate income statement is presented in respect of the parent company.

26. SHARE-BASED PAYMENTS

Under the Group's share option scheme for employees and Directors options to subscribe for shares in the Company are granted normally once each year. Options are granted with a fixed exercise price equal to the market price of the shares under option at the date of grant. The contractual life of an option is 10 years from date of grant. Options granted become exercisable on the third anniversary of the date of grant. Exercise of an option is normally subject to continued employment. All share-based employee remuneration is settled in equity. Options are valued using the Black-Scholes option-pricing model. There are no performance conditions attached to the options. The assumptions used in the calculation are as follows:

Grant date	Share price at issue	Exercise price	Number of options granted	Number of options remaining at 31 Dec 2008	Expected volatility	Risk free rate
27/07/04	16.50p	15.50p	1,242,810	360,000	27.1%	4.13%
31/08/05	19.00p	19.00p	424,516	62,433	22.8%	4.13%
03/11/05	18.75p	19.00p	82,057	46,750	22.8%	4.13%
04/05/06	18.75p	18.75p	901,190	280,850	14.9%	4.33%
19/12/06	13.50p	13.50p	200,000	200,000	14.9%	4.33%
02/05/07	9.25p	9.25p	1,402,425	1,050,150	20.4%	4.62%
11/07/07	8.25p	8.25p	500,000	500,000	20.4%	4.62%
23/04/08	8.50p	8.50p	5,419,950	4,816,850	18.6%	4.90%
06/05/08	9.00p	9.00p	200,000	200,000	18.6%	4.90%

In each case, it is assumed the majority of options will be exercised at the earliest opportunity and that on average they are exercised after four years. The expected volatility is based on historical volatility from 23 December 2003. The risk free rate of return is based on UK government bonds of a term consistent with the assumed option life.

Share options and weighted average exercise price are as follows for the reporting periods presented:

	Number	2008 Weighted average exercise price pence	Number	2007 Weighted average exercise price pence
Outstanding at start of year	3,011,840	**12.32**	2,296,250	16.88
Granted	5,619,950	**8.52**	1,902,425	8.99
Forfeited	(1,114,757)	**11.45**	(1,186,835)	15.97
Outstanding at end of year	7,517,033	**9.61**	3,011,840	12.32
Exercisable at end of year	469,183	**16.31**	598,750	15.50

27. CASH GENERATED FROM OPERATIONS

	The Group		The Company	
	Year ended 31 Dec 2008 £000	Year ended 31 Dec 2007 £000	**Year ended 31 Dec 2008 £000**	Year ended 31 Dec 2007 £000
Result for the period before tax	**2,424**	(3,210)	**451**	497
Interest paid	**3,088**	2,859	**600**	600
Interest income	**(21)**	(17)	**(1,538)**	(1,572)
Other finance costs	**861**	372	**41**	38
Change in fair value of derivative financial instruments	**17**	30	**-**	-
Depreciation of property, plant and equipment	**131**	138	**-**	-
Change in inventories	**(384)**	971	**-**	-
Profit on disposal of intangible assets	**(45)**	-	**-**	-
Profit on disposal of fixed assets	**-**	(8)		
Change in trade and other receivables	**(1,768)**	785	**64**	77
Change in trade and other payables	**872**	(1,220)	**(20)**	19
Write-off intangible assets	**-**	3,374	**-**	-
Share options charges	**36**	(10)	**36**	(10)
Cash flows from operating activities	**5,211**	4,064	**(366)**	(351)

28. CAPITAL COMMITMENTS
Neither the Group nor Company had any capital commitments at 31 December 2008 or at 31 December 2007.

29. CONTINGENT LIABILITIES
The Group and Company had no contingent liabilities at 31 December 2008 or at 31 December 2007.

30. PENSIONS
The Group operates a defined contribution Group personal pension scheme for the benefit of certain Directors and employees.

The Group	**Year ended 31 Dec 2008 £000**	Year ended 31 Dec 2007 £000
Contributions payable by the Group for the year	**155**	153

The Group also operates a stakeholder pension plan available to all employees.

31. LEASING COMMITMENTS
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	31 Dec 2008 Land and buildings £000	31 Dec 2007 Land and buildings £000
No later than one year	**118**	118
Later than one year and no later than five years	**69**	187
	187	305

32. RELATED PARTY TRANSACTIONS
The Group paid for services of £82,000 (year ended 31 December 2007: £99,000) from Fasken Martineau, a firm of which P Ranson is a partner. At 31 December 2008 there was a balance of £6,360 (At 31 December 2007: £2,000) outstanding in respect of purchases from Fasken Martineau.

During the year the Company received funds of £960,000 (year ended 31 December 2007: received funds of £952,000) from its subsidiary Alliance Pharmaceuticals Limited. Net payments of £54,000 (year ended 31 December 2007: £37,000) were made by Alliance Pharmaceuticals Limited on behalf of Alliance Pharma plc. Interest of £1,538,000 (year ended 31 December 2007: £1,572,000) was charged to Alliance Pharmaceuticals Limited on the total outstanding debt. The amount owed by Alliance Pharmaceuticals Limited at the year end is £20,006,000 (31 December 2007: £19,482,000).

During the year the Group made payments on behalf of Unigreg of £34,000 (year ended 31 December 2007: £85,000), interest receivable from Unigreg was £109,000 (Year ended 31 December 2007: £88,000).

Notes to the financial statements continued
for year ended 31 December 2008

33. JOINT VENTURE

Name	Principal activity	Country of incorporation	% owned
Unigreg Ltd	Distribution of pharmaceutical products	British Virgin Islands	60

The Group considered the existence of substantive participating rights held by the minority shareholder which provide that shareholder with a veto right over the significant financial and operating policies of Unigreg Ltd and determined that, as a result of these rights, the Group does not have control over the financial and operating policies of Unigreg Ltd, despite the Group's 60% ownership interest.

The Company is integrated with proportionate consolidation. The following amounts are included in the balance sheet and the income statement of the Group, being the Group's share of those items.

Inter-company transactions are also eliminated proportionally.

	31 Dec 2008 £000	31 Dec 2007 £000
Intangible fixed assets	**1,950**	1,950
Current assets	**412**	477
Non-current liabilities	**1,463**	1,463
Current liabilities	**257**	208
Net assets	**642**	756

	Year ended 31 Dec 2008 £000	16 March to 31 Dec 2007 £000
Income	**1,410**	950
Cost of sales	**768**	512
Administration and marketing expense	**73**	80
Interest paid	**109**	88
Profit on ordinary activities before taxation	**460**	270

34. ULTIMATE CONTROLLING PARTY
There is no single ultimate controlling party.

Shareholder Information

SHAREHOLDER ENQUIRIES

The Company's share register is maintained on our behalf by Capita Registrars, who are responsible for updating the register, including details of changes to shareholders' addresses and purchases and sales of the Company's shares. If you have any questions about your shareholding in the Company or need to notify any changes to your personal details you should write to Capita Registrars, Northern House, Woodsome Park, Fenay Bridge, Huddersfield, West Yorkshire HD8 0LA or telephone 0871 664 0300 (calls cost 10p per minute plus network extras).

Financial Calendar

Annual General Meeting	21 May 2009
Interim results announcement	9 September 2009
Year end	31 December 2009
Preliminary announcement	March 2010

Five Year Summary

	UK GAAP Year ended 28 Feb 2005 £m	IFRS 10 months ended 31 Dec 2005 £m	IFRS Year ended 31 Dec 2006 £m	IFRS Year ended 31 Dec 2007 £m	**IFRS Year ended 31 Dec 2008 £m**
Revenue	11.8	12.3	17.3	18.2	**21.8**
Operating profit before exceptional items	2.4	2.0	2.6	3.6	**6.4**
Exceptional operating items	(0.1)	0.2	–	(3.6)	**-**
Operating profit after exceptional items	2.3	2.2	2.6	-	**6.4**
Profit before tax before exceptional items	0.5	0.5	0.5	0.4	**2.4**
Profit/(loss) before tax after exceptional items	0.4	0.7	0.5	(3.2)	**2.4**
Intangible assets	28.1	29.7	39.5	39.2	**40.0**
Tangible assets	0.3	0.3	0.3	0.3	**0.2**
Current assets	5.9	5.8	8.3	7.0	**8.7**
Current liabilities	5.9	6.1	11.0	9.8	**11.1**
Equity	6.8	7.5	10.4	6.7	**8.8**
Average shares in issue (millions)	123.8	147.4	156.7	162.1	**162.1**
Shares in issue at period end (millions)	147.4	147.4	162.1	162.1	**162.1**
Earnings per share – basic (p)	0.33	0.45	0.32	(1.98)	**1.55**
Earnings per share – adjusted basic (p)	0.51	0.30	0.32	0.23	**1.17**

Shareholding Analysis

Below is an analysis of the share register by size of holding:

Size of shareholding	Proportion of shareholders	Number of shares held	Proportion of shares
1–5,000	30.2%	233,680	0.1%
5,001–10,000	16.4%	505,797	0.3%
10,001–50,000	32.1%	3,008,912	1.8%
50,001–100,000	5.0%	1,730,978	1.1%
100,001–500,000	8.0%	6,049,869	3.7%
500,001–1,000,000	3.2%	9,170,217	5.7%
1,000,001–5,000,000	3.2%	28,616,168	17.7%
5,000,001–10,000,000	0.8%	24,440,617	15.1%
10,000,001–50,000,000	1.1%	88,305,556	54.5%
	100.0%	162,061,774	100.0%

Advisors

AUDITORS
Grant Thornton UK LLP
Hartwell House
55-61 Victoria Street
Bristol
BS1 6FT

BANKERS
Bank of Scotland
Corporate Banking
Beauclerc House
3 Queens Road
Reading
RG1 4AR

CORPORATE ADVISORS
Numis Securities Ltd
10 Paternoster Square
London
EC4M 7LT

FINANCIAL PR
Buchanan Communications
45 Moorfields
London
EC2Y 9AE

REGISTRARS
Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 3TU

SOLICITORS
Fasken Martineau LLP
17 Hanover Square
London
W1S 1HU

REGISTERED OFFICE
Avonbridge House
Bath Road
Chippenham
Wiltshire
SN15 2BB

COMPANY NUMBER
4241478

Designed and produced by **Emperor Design Consultants Ltd**
Telephone **+44 (0)20 7729 9090 www.emperordesign.co.uk**

Alliance Pharma plc
Avonbridge House
Bath Road
Chippenham
Wiltshire SN15 2BB
United Kingdom

T: +44 (0)1249 466966
F: +44 (0)1249 466977
E: ir@alliancepharma.co.uk

www.alliancepharma.co.uk