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## Proven business model

Proven record of growth



**ALLIANCE PHARMA plc**  
Annual Report and Accounts for the year ended 31 December 2010

Stock code APH

**Medicines  
with a track  
record of  
sustained  
demand**

## **Alliance Pharma plc is an AIM listed speciality pharmaceutical company.**

Alliance sells a range of over 50 acquired and licensed products across a range of therapeutic categories. For the majority of the products the demand is prescription driven. The Group commenced trading in 1998 and has since grown to an annual turnover of £50m

Alliance is based in the UK at Chippenham, Wiltshire

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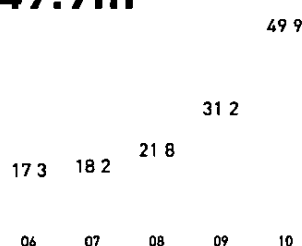
\* Unaudited information

# Highlights.

- » Substantial increase in sales, profitability and cash flow
- » Adjusted basic EPS up 43% to 5.07p (2009 3.55p)
- » Full year dividend up 90% to 0.57p per share (2009 0.30p)
- » Cambridge Laboratories acquisition in February 2010 generating £11.7m of sales
- » New bank facilities provide £20m headroom to fund acquisitions
- » Dermatology and Oncology portfolios sales growth of 18% and 16% respectively
- » Conditional acquisition of Anbesol and Ashton & Parsons in 2011

## Sales

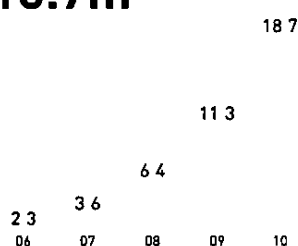
**£49.9m**



**+60%**

## Operating Profit\*

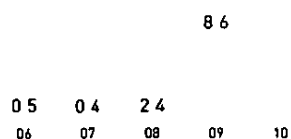
**£18.7m**



**+66%**

## Profit before Tax\*

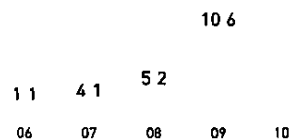
**£16.4m**



**+91%**

## Cash generated from Operations

**£18.1m**



**+70%**

\* Before exceptional items

# Our Business Model.

## Strategy

The strategy for growth is to build the product portfolio by a combination of acquiring and licensing established products that are largely prescription based

Within the product portfolios, we then segregate the brands into those that can benefit economically from promotional investment and those which are allocated to general commercial support and management

Products accepted for acquisition into our portfolios have been assessed to help ensure future sustainability of sales. The products have typically been on the market for 30-40 years and therefore we have many years of trading history to support our decision to acquire

The products are generally in niche areas which are typically too small to attract significant competition and therefore promotional costs are minimised. As the sales are mainly prescription driven, they tend not to be affected by the impact of the wider economic climate on consumer demand

Alliance outsources those activities that are labour and capital intensive, such as manufacturing, warehousing and distribution. As a result the business is able to operate on a relatively low headcount. The model has high operational leverage as the infrastructure can absorb additional products with minimal increase in overheads, thus enhancing profitability

Acquisitions of products are typically financed by a combination of bank debt and equity in a fashion that optimises earnings per share whilst maintaining acceptable levels of gearing. Surplus cash generated after providing for debt servicing and the operational needs of the business is then available for dividend payments

## Acquire

We have proven ability, having completed 19 deals in 13 years. Our current Business Development team has been involved in the last 9 deals. The project teams used for due diligence and integration cover all core competencies and have a wide range of industry experience

## Plan

Detailed integration plans are created during the due diligence process ensuring a smooth transition into our operational systems once the deal has been signed

Our internal organisational structure is designed to allow us to quickly incorporate new products with minimal disruption

## Maximise

Contract manufacturing arrangements are implemented to minimise production costs. Brand extensions, selective promotion and market growth strategies are used to develop the profitability and value of the acquired assets

# The Acquisition Process.

The acquisition process commences with the search for opportunities. Our Business Development team is continually monitoring the market to identify suitable projects. Potential targets are reviewed against our selection criteria, with most not proceeding to the next stage of due diligence. For those that do, a project team

comprising all relevant functions of the business is formed to complete the due diligence process. Our Business Development team is skilled at overcoming obstacles to everyone's satisfaction such that deals remain attractive for Alliance and the vendor alike.

## Identify

- Medicines, typically prescription driven, that have stood the test of time
- Niche brands with limited competition
- Brands with history of sustainable sales

## Negotiate

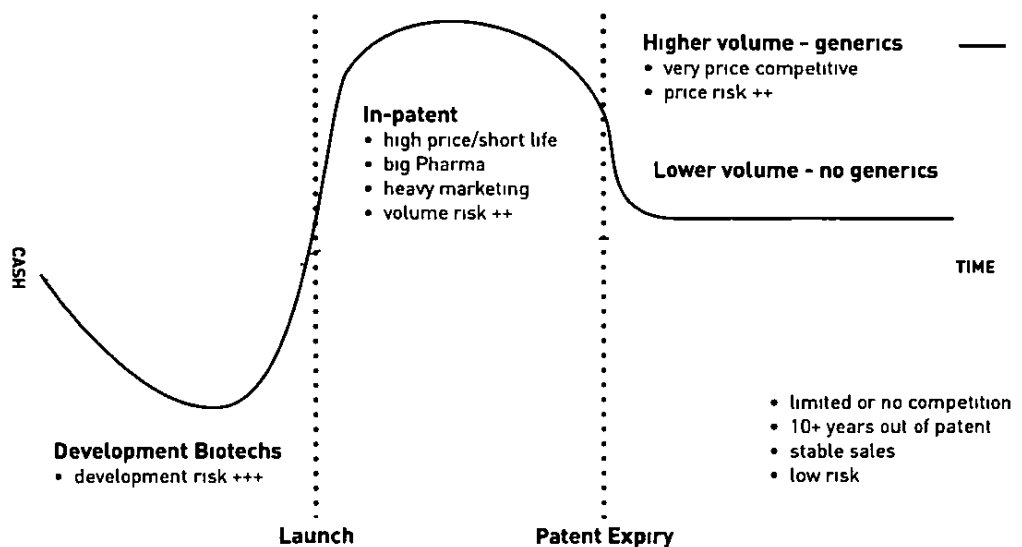
- Legal processes
- Financing
- Circumvention of obstacles

## Integrate

- Transfer manufacturing to one of Alliance's contract manufacturers
- Incorporate into Alliance's existing brand portfolios
- Offer to existing customer base

## Product Selection

**Product Life-cycle**  
Alliance products are usually at least 10 years post patent, low volume with stable sales history and limited or no competition



# Integrating the Acquisitions.

Alliance's acquisition success has been built on successfully integrating acquisitions into its business structure with minimum disruption to our existing business

Our **Success** is built on



**Knowledge** – of the supply chain, regulatory environment, customers and markets



**Experience** – over many years that has given us the edge



**Teamwork** – for fast and efficient cross-functional working



**Skills** – that are up-to-date and being constantly improved



**Procedures** – that are robust, efficient and reviewed regularly

Our **acquisition success** has resulted in



**increased sales** – over the past 5 years, sales growth attributable to acquisitions has averaged 19% p a



**improved product diversity** – to spread risk



**enhanced earnings** – to fuel growth and reward shareholders

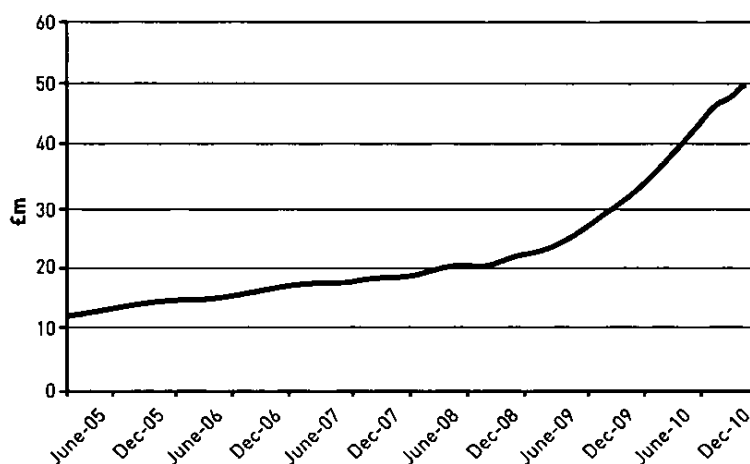


**a stronger infrastructure** – able to power the development of the business

# Delivering Results.

## Sales Growth

### Sales Moving Annual Total

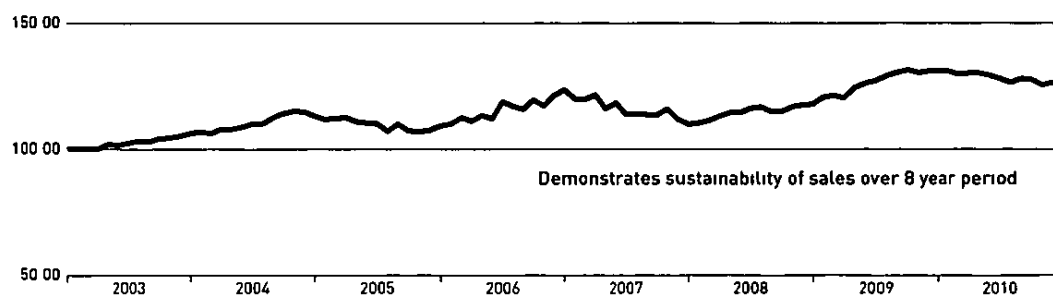


5 year compound annual growth rate to 2010:

- >> 13% Organic
- >> 19% Acquisitions
- >> 32% Combined

The majority of our products were originally selected for their established demand and cash flows. They have managed an average annual growth rate\* of 3% without needing any sales support. We continue to actively manage these products and look for any opportunities we can exploit.

### Like-for-like sales of non-promoted\* products, indexed to 100 at January 2003



Demonstrates sustainability of sales over 8 year period

This chart shows the underlying sales of Alliance's non-promoted products (excluding Deltacortril) on a like-for-like basis, demonstrating how stable the sales are over time.

Just under a quarter of our sales are generated from our dermatology and oncology portfolios which are subject to selective promotional investment and supported by their own field forces. They are achieving like-for-like sales growth of 18% and 16% respectively.

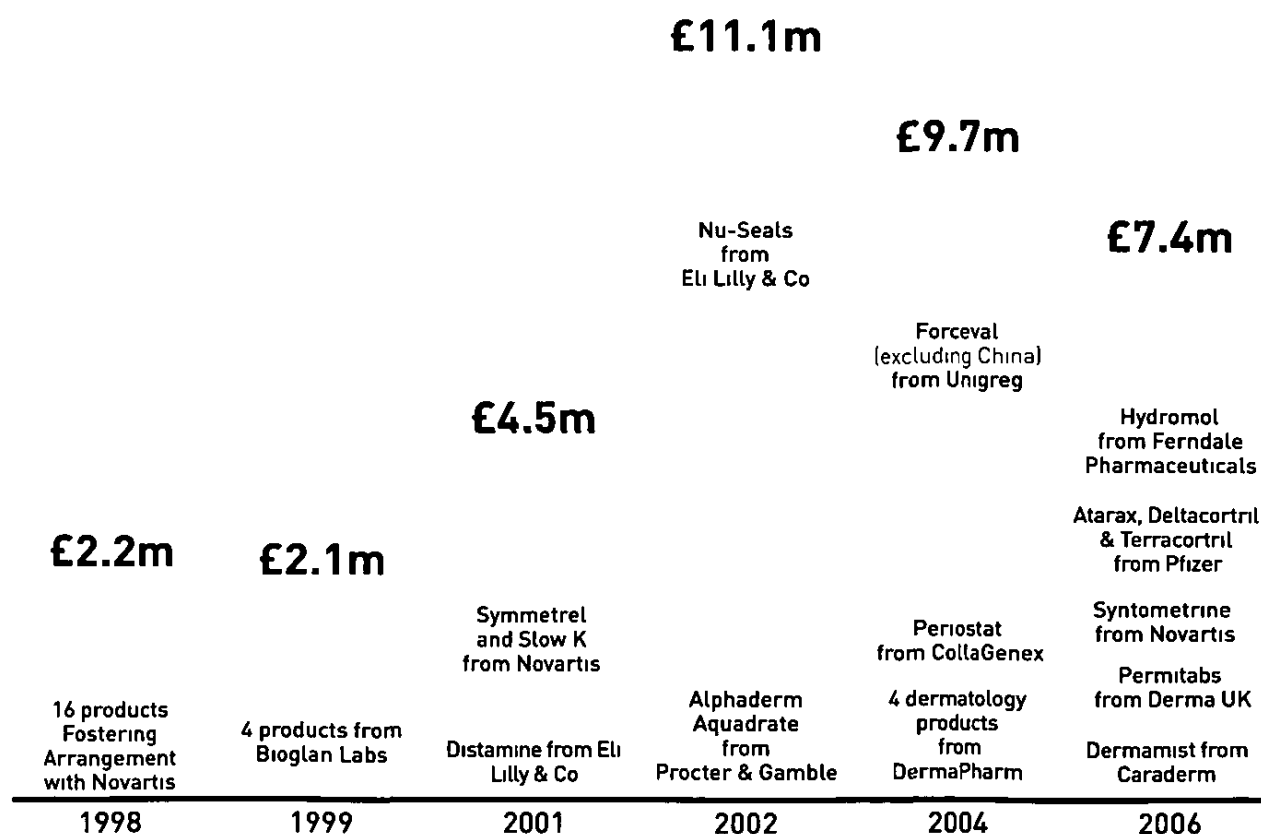
\* Excludes Deltacortril

## Growth Timeline.

**19** deals  
in 13 years

Over **50**  
Products

**£62m**  
Invested



Alliance has a strong track record of successful acquisitions and has considerable expertise in selecting acquisition targets, negotiating the acquisitions and integrating products

Potential future deal capacity

Investment Value  
**£25m**

Business Summary

**£20m**

Report of the Directors

**£16.4m**

18 products from Cambridge Laboratories

**£15m**

Financial Statements

**£7.5m**

**£10m**

Pavacol-D from William Ransom & Son

Buccastem and Timodine from Reckitt Benckiser

**£5m**

**£1.95m**

**£0.6m**

Forceval China from Unigreg

Anbesol and Ashton & Parson from Reckitt Benckiser

**£0m**

Supplementary Information

2007

2008

2009

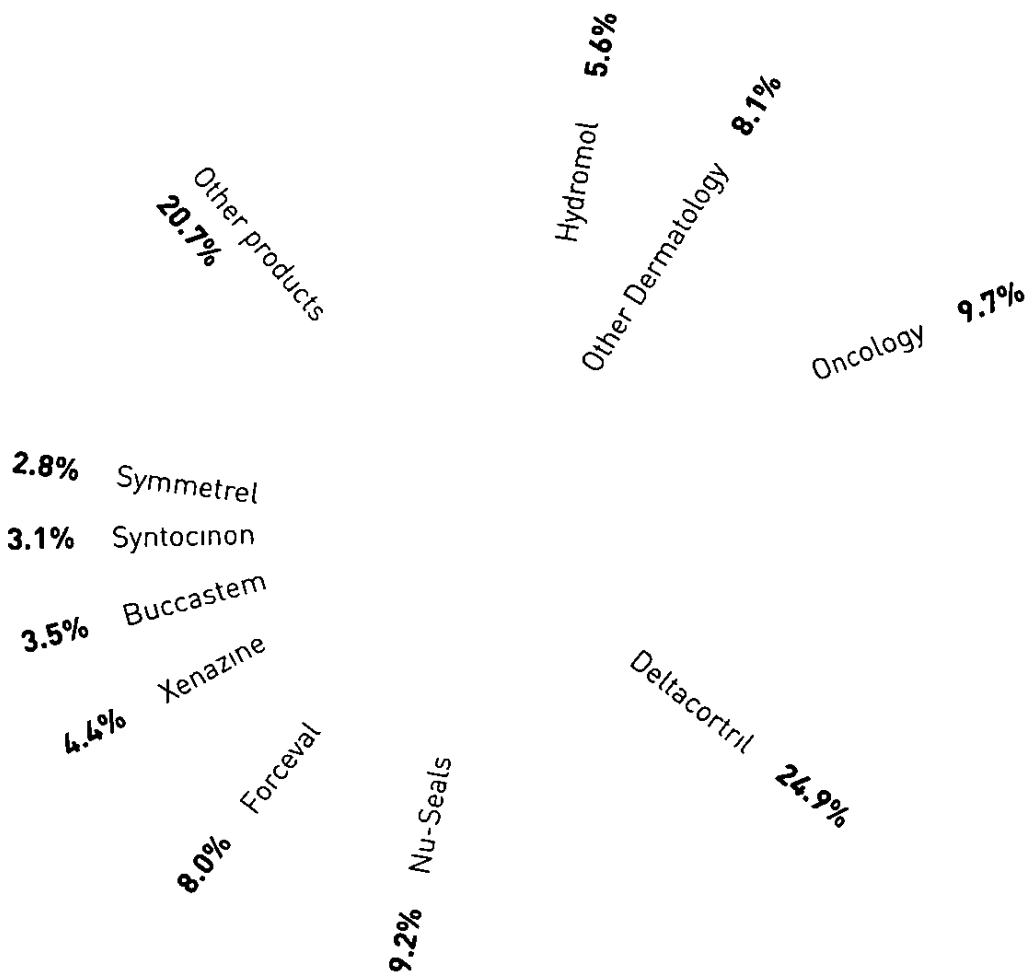
2010

2011 onwards

## Our Products.

Following the Cambridge Laboratories acquisition Alliance now has over 50 products in its portfolio, spread across a range of therapeutic areas.

### Pro forma 2010 sales by product



## Financial Spotlight.

### Dermatology

The Hydromol range grew by 28% to £2.9m (2009: £2.2m) supported by a small field force and the expansion of the range.

The remainder of the portfolio grew by 9%, on a like-for-like basis. Sales for 2010 were £4.2m (2009: £3.2m).

The full year effect of Timodine was to add £0.7m (total sales: £1.1m).

### Products in the portfolio

Acnival	Naseptin
Alphaderm	Occlusal
Aquadrate	Pentrax
Atarax	Permitabs
Dermamist	Timodine
Hydromol	
Meted	

### Oncology

The Oncology portfolio was acquired with Cambridge Laboratories. Promotion continued at a similar level to that under Cambridge's ownership and delivered sales growth of 16%. On a proforma basis, sales in 2010 were £4.9m. ImmuCyst, which is indicated for non-muscle-invasive bladder cancer, accounted for £3.6m.

## Clinical Spotlight.

### Established products

#### Deltacortril

Deltacortril belongs to a group of medicines called steroids. Their full name is corticosteroids. Deltacortril can be used to treat various illnesses involving inflammation in the body such as rheumatoid arthritis.

#### Nu-Seals

Nu-Seals are aspirin tablets which have a special coating to prevent irritation to the stomach. At standard dose it is used to relieve pain and swelling, whereas low doses are used to prevent recurrence of heart attacks or strokes.

#### Forceval

Forceval Capsules, which are available on prescription in the UK, contain 24 essential vitamins and minerals, each of which plays a vital role in the maintenance of many of the body's processes. In China, Forceval is used by pregnant women to reduce the risk of birth defects.

#### Xenazine

Xenazine contains a substance called tetrabenazine, which is used in the treatment of diseases which cause jerky, irregular, uncontrollable movements such as those associated with Huntington's disease.

#### Buccastem

Buccastem is used to treat nausea (feeling sick) and vomiting (being sick) from whatever cause, and in the treatment of migraine and dizziness.

#### Syntocinon

Syntocinon is a synthetic form of the hormone oxytocin. It is used to start or help contractions during childbirth, to prevent and control bleeding after delivery and in the management of a miscarriage.

#### Symmetrel

Symmetrel is used to treat Parkinson's disease by improving muscle control and reducing stiffness, shakiness and shuffling. It can also be used to treat shingles.

### Other products in the portfolio

Actidose Aqua	Deseril	Lysovir	Periostat	Thwart
Anapolon	Dicobalt Edetate	Menadiol	Rogitine	Thyrogard
Antidotum Thalli-Heyl	Distamine	Metopirone	Sinthrome	Uniflu
Biorphen	Edrophonium	Neostigmine	Slow-K	Vitamin E
Broflex	Hygroton	Nitoman	Synacthen	
Cafergot	Isocarboxazid	Pavacol-D	Syntometrine	
Calcium Sandoz	Isoniazid	Pentagastrin	Testosterone	

## Questions and Answers.

with John Dawson, Chief Executive Officer

**Q. How are you managing competitor risk within your product portfolio?**

The majority of Alliance's products are prescription products that have been on the market for a considerable number of years and are low volume with limited or no competition

Where there are competitor products, low volumes and prescriber habit make it difficult for the competition to gain market share cost effectively

Brands chosen for promotion are usually in an expanding market such as Dermatology or Oncology or where the market is underdeveloped and our products have a unique selling proposition such as ease of use, price or reduced side effects

**Q. Is your trading subject to any significant interest or exchange rate risk?**

At year end we had net bank debt of £17m. During the year we put in place an interest rate swap that fixed the interest rate at current rates on approximately 75% of this debt for 2 years

The majority of our sales are invoiced in sterling, while approximately 10% are in euros. A small number of our suppliers invoice in euros and our euro income broadly matches our expenditure, minimising exposure to exchange rate fluctuations

**Q. How does Alliance Pharma plc differ to other pharmaceutical companies?**

Alliance's business model is built on acquiring mainly prescription driven products with low volume, stable sales history that have been out of patent for a number of years, and which have little or no competition. This differs from Biotech companies which are high risk, being dependent on the development of medicines and successful completion of clinical trials. Big Pharma companies concentrate on in-patent products which have short life spans, high volumes, high prices and are supported by significant marketing spend. Generic companies concentrate on the off-patent products which have high volume but can be subject to fierce competition

**Q. How is price regulation likely to affect Alliance Pharma over the next few years?**

85% of our sales are based in the UK. Sales of branded products in the UK are subject to the Pharmaceutical Price Regulation Scheme (PPRS), which came into force at the start of 2009 and runs for five years. The scheme introduced modest price reductions in 2009 and the start of 2010 but allows for small price increases in 2011 to 2013. The coalition government has confirmed it does not intend to renegotiate the scheme, providing us with relative certainty over pricing until 2014.

**Q. 2010 was a good year for acquisitions for Alliance. Will there continue to be suitable products/companies available for acquisition?**

Our Business Development team are continuously monitoring the market and assessing opportunities which arise on a regular basis. Acquisition opportunities arise for a number of reasons, such as, rationalisation of product portfolios, changes in strategic direction and realisation of asset values. Our strict acquisition criteria mean many projects do not proceed to detailed due diligence. However, we do expect there will continue to be suitable brands/companies that do meet our acquisition criteria. We are well placed with £20m of funding already agreed with our bank to take advantage of these.

**Q. How do you manage your supply chain to minimise risk?**

We are continually looking at ways to strengthen our supply chain and over the last few years have put in place dual sourcing of certain key finished products, selected active pharmaceutical ingredients and some excipients used in manufacturing the products. We ensure there are good lines of communication with our suppliers and customers. So we are aware of any changes in supply or demand and can react accordingly. For key products we or our distributors carry additional buffer stock to mitigate the risk of temporary disruption.

# Business Review.

## Organic growth and acquisitions fuel excellent results

Strong performances from our leading products, plus the benefit of our largest-ever acquisition, resulted in another record year for Alliance in 2010. This has enabled us to increase the dividend significantly, and to adopt a progressive dividend policy going forward.

We look to the future with confidence. Our strong financial position enables us to continue actively seeking further acquisition opportunities to build on the growth we have achieved over the past few years. The acquisition of Anbesol and Ashton & Parsons that we are announcing alongside these results is a good example of the earnings-enhancing opportunities that we continue to target.

## Financial and trading performance

Clearly 2010 was an excellent year. Sales grew by some 60% to £49.9m, profits doubled, and cash generation was very strong.

Of the £18.6m increase in sales, our February acquisition of Cambridge Laboratories accounted for £11.7m — in line with our expectations.

A further £5.0m of growth came from Deltacortril/enteric coated prednisolone as annual sales rose to £13.5m. However, as we cautioned last year, this product faces a second generic competitor — which launched on the market in November 2010.

In our promoted portfolio, our dermatology range (excluding the impact of Timodine) grew at 18%, adding £0.9m to sales. Hydromol grew by a particularly encouraging 28% following greater promotional investment. The oncology range acquired with Cambridge Laboratories now accounts for 10% of our business and it delivered good growth under our ownership, with sales up 16% similar to the pre-acquisition growth rate.

Buccastem and Timodine, acquired from Reckitt Benckiser in August 2009, more than fulfilled their promise in their first full year. At the time of acquisition the combined sales of these products were running at around £2.6m per annum, but in the first full year in Alliance they achieved £2.9m of sales.

Forceval, which sells mainly in the UK and China, delivered overall growth of some 13%, bringing total sales to £4.2m in 2010.

Sales of Nu-Seals, our enteric-coated low-dose aspirin which sells mainly in the Irish Republic, were down £1.0m, partly due to the adverse effect of exchange rates. The 2010 performance also suffered from a high comparative figure in 2009, when our market share was lifted by a competitor's inventory problems, which have since been resolved.

Profit before tax and exceptional items was £16.4m — a 91% increase on the previous year. After exceptional items the figure was £12.9m, more than double the previous year's £5.7m.

**Proven  
business  
model,  
proven  
record of  
growth**

“Strong performances from our leading products, plus the benefit of our largest-ever acquisition, resulted in another record year for Alliance in 2010.”

There were three exceptional items (of which two related to the acquisition of Cambridge Laboratories)

- £1.3m provision for onerous contracts mainly relating to the leases for the offices in Newcastle and Dublin — both offices have now been closed
- £0.4m charge covering redundancies for staff from the Newcastle and Dublin offices who did not transfer to our office in Chippenham and
- £1.8m charge linked to the successful renegotiation of our bank facilities in November. This covered the cost of terminating the existing interest rate swaps and covered loan issue expenses

The gross margin rate for the year was 60.9% up from 58.0% in 2009. This was driven by a shift in the sales mix towards higher margin products.

Selling, general and administration (SG&A) expenses fell slightly as a percentage of sales from 21.9% in 2009 to 21.8% in 2010. SG&A expenses increased in absolute terms due to the increase in promotional effort behind the dermatology portfolio and the Cambridge Laboratories acquisition, which brought us an oncology sales force and a modest increase in staff headcount while increasing the overall size of the business by about a third. The Cambridge Laboratories business had a similar mix of established products and promoted products to that of Alliance and so following the acquisition the proportion of products subject to promotion within Alliance is largely unchanged at just under a quarter of our sales.

We consider most of our acquired brands to have indefinite useful lives, so we do not amortise the intangible assets recognised from their acquisition. However, some of the Cambridge Laboratories products are subject to distribution agreements that are due for renewal every five years. We have therefore decided to amortise them over the remaining life of the agreements, resulting in a charge of £0.8m for the year. Nonetheless, we do expect to renew the agreements as they expire and to maintain these brands as long-term elements in our portfolio.

We have continued to reduce net debt and our interest burden significantly. From the year's free cash flow of some £12.3m (2009 £7.4m) we were able to invest £7.0m net cash in the Cambridge Laboratories acquisition and pay £0.7m in dividends. This still allowed us to reduce bank debt by £4.7m, leaving net bank debt of £17.0m at the year end, equivalent to just 0.9 times EBITDA.

## Product Spotlight

### Nu-Seals

- » Nu-Seals are aspirin tablets which have a special coating to prevent irritation to the stomach. At standard dose it is used to relieve pain and swelling whereas low doses are used to prevent recurrence of heart attacks or strokes.
- » Alliance acquired Nu-Seals in 2002 from Eli Lilly & Co for £9.0m. The product was subject to promotional activity between 2002 and 2005. Coupled with a growing market this has built sales of the brand from £2.0m to £4.8m in 2010.

A further substantial reduction in interest charges will result from the refinancing agreed with our bank in November 2010. This replaced our existing bank facilities with enlarged facilities of up to £44m, and cut our effective interest rate from about 9% to about 4%. As well as reducing costs, the deal extends our debt maturity profile and puts us in an even stronger position to fund acquisitions.

# Business Review.

continued

With both net debt and interest costs reduced our financing costs (excluding the refinancing charge) fell from £2.7m to £2.3m in 2010.

For the first time we have seen a reduction in the convertible loan stock prompted by the increases in the share price during 2010. Just over a third of the outstanding stock was converted during the year bringing the total down from £7.5m to £4.9m. This figure is not part of the bank debt mentioned above. The conversions further reduce our overall interest costs as the stock pays a fixed coupon of 8%.

## Dividend

As our profits have significantly increased and our cash generation has supported a good rate of debt repayment the Board now intends to adopt a more progressive dividend policy subject to profit growth, investment requirements and the other needs of the business. Reflecting its confidence in the business, the Board therefore proposes to increase the final dividend to 0.40p per ordinary share (2009: 0.23p) which would make a total for the year of 0.57p per ordinary share (2009: 0.30p), representing a 90% increase on the previous year.

At this level the dividend would be covered 8.9 times by post-tax earnings excluding exceptional items (2009: 11.8).

## Strategy

We continue to pursue the strategy we adopted in 2007 in which the focus shifted solely onto trading activities away from a mixture of trading and development. We aim to acquire or license established products with stable sales in niche areas, with the majority requiring little or no promotional support. While there is active commercial management of a number of our products it is only the dermatology and oncology portfolios — accounting for about 23% of sales — which are supported by their own field forces. If we are able to bring in additional products that can be promoted by our existing field forces then there is the potential to gain additional efficiencies. We would also consider having field forces in other areas where the likely sales growth would justify it.

We are very actively seeking further acquisitions of products and businesses. We can now draw on over £20m of facilities to fund the right deal or deals and are in a position to contemplate targets somewhat larger than the Cambridge Laboratories acquisition, which was our largest deal so far.

## Team

In February 2010 we were pleased to welcome Peter Butterfield, formerly UK Commercial Manager of Cambridge Laboratories, to the Board. Peter now leads our promoted portfolios of dermatology and oncology. In addition to the oncology field sales team from Cambridge Laboratories we have also retained David Hope, who heads up the oncology business. These appointments ensured that we maintained the critical continuity of skills and knowledge in the acquired business.

We are pleased to welcome Sarah Robinson as Company Secretary who has joined us in March 2011. Sarah has previously held a number of company secretarial roles including several years at The Financial Times Limited.

Across the Company we have invested significantly in developing our structure and processes to keep pace with the growth of the business and prepare it for the future. This has involved considerable work on team development and staff training to strengthen our departments and enhance our capabilities.

## Charity

We continue to donate around £20,000 worth of products a year to International Health Partners, a charity which distributes medicines to doctors in the world's neediest areas. In addition to this regular commitment we made a further donation in 2010 following the earthquake in Haiti.

“As our profits have significantly increased and our cash generation has supported a good rate of debt repayment, the Board now intends to adopt a more progressive dividend policy subject to profit growth, investment requirements and other needs of the business.”

### Outlook

After the great strides Alliance has made in the past few years it would be prudent to sound a note of caution over our ability to sustain this exceptional rate of progress in the short term. Over the coming year our sales growth before the impact of further acquisitions will be affected by three factors

- Deltacortril now has two generic competitors, though the impact so far on our sales since the launch of the second competitor in November 2010 has not been quite as significant as we expected
- One of the products acquired with Cambridge Laboratories has sales of £5-6m over a cycle which peaks every 2½ years — and 2010 was a peak year
- The Irish government has been seeking savings on its medicines bill and the industry has agreed to provide certain savings. Alliance's contribution to these savings (principally in respect of Nu-Seals) is a one-off £0.6m for 2011. It is unclear at this stage what will happen in 2012 and beyond

We are also in discussions with Novartis over an agreement under which we distribute nine of its brands. These brands generate around £0.5m per annum gross margin for Alliance. Novartis have served notice to end the agreement in December 2012 although the agreement provides for Alliance to receive some compensation

The dermatology and oncology portfolios continue to grow well and we are working on opportunities in other parts of the portfolio. In addition we continue to look for potential acquisitions of products or businesses. We have completed 19 deals in the past 13 years and are better resourced than we have ever been to make one or more large, value-enhancing acquisitions

We see a continuing flow of potential opportunities, and we are confident of our ability to strike good deals on the right terms. However we have no intention of rushing into acquisitions for its own sake as ever we recognise the primary importance of taking the long view and judging the sustainability of products and brands against stringent criteria

# Financial Review.

## Summary

2010 was another successful year for Alliance

The year started with the acquisition of the trade and assets of Cambridge Laboratories in February the largest acquisition in Alliance's history funded by bank debt and an oversubscribed share placing of £7.5m. Net bank debt reduced from £21.7m to £17.0m despite cash funding of £7.0m for the Cambridge Laboratories acquisition.

Turnover was up 60% and pre-exceptional operating profit was up 66% from £11.3m to £18.7m.

## Revenue

Alliance sales grew by £18.6m or 60% in 2010 to £49.9m.

The Cambridge Laboratories products acquired in February 2010 contributed £11.7m sales in 2010. This included the oncology portfolio, which receives promotional support and continues to grow strongly achieving 16% growth on 2009. Deltacortril/enteric coated prednisolone sales grew from £8.5m in 2009 to £13.5m in 2010. The full year effect of the acquisition of Buccastem and Timodine acquired in August 2009 was additional sales of £2.0m. The dermatology franchise (excluding Timodine) grew by 18% with Hydromol growing at 28%.

## Profit and other Key Performance Indicators

Gross profit increased to £30.4m (2009: £18.1m). Gross margins improved from 58.0% to 60.9% with much of this improvement being driven by changes in product mix. We have an active programme of looking for cost of goods reductions, which should help to offset any impact from rising commodity prices.

Operating costs (excluding amortisation of intangibles and exceptional items) were £10.9m (2009: £6.9m) which as a percentage of sales has fallen slightly from 21.9% to 21.8%. We have strengthened our infrastructure to assist in supporting the four Business Units (Established Products, Dermatology, Oncology and International). The Cambridge acquisition included a number of distribution agreements which are subject to renewal every five years. These are amortised over the remaining life of the agreements giving rise to a charge of £0.8m in 2010 (2009: £nil).

The integration of the Cambridge business gave rise to exceptional costs of £1.7m, £0.4m relating to redundancy costs and a £1.3m provision for the future costs of leases on properties in Dublin and Newcastle. Both offices were closed shortly after the acquisition.

**Richard Wright,**  
Finance Director

“2010 was another successful year for Alliance. Turnover was up 60% and pre-exceptional operating profit was up 66%.”

### Finance costs and funding

In November 2010 the Group negotiated new banking facilities with Lloyds TSB Corporate Markets at an effective rate of around 4% per annum to replace its old facilities. We are pleased with the confidence the bank has demonstrated in our business model by agreeing new facilities which comprised an £18.0m term loan repayable over four years (£17.0m outstanding at year end), a £20.0m four year revolving credit facility (RCF) and a £6.0m working capital facility. £2.0m was drawn on the RCF initially and remained outstanding at the year end but has since been repaid leaving the full £20.0m RCF undrawn and available to fund acquisitions.

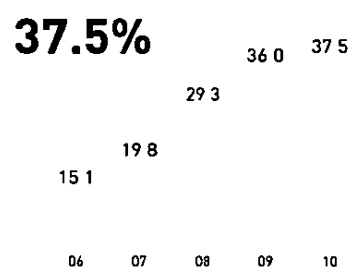
At the same time as the refinancing the existing interest rate swaps were terminated. Together with the cost of writing off loan issue costs this resulted in a £1.8m exceptional charge. In line with our hedging strategy a new two year interest rate swap has been put in place to hedge approximately 75% of net bank debt at current market rates which are substantially lower than the terminated hedges.

The overall impact of these changes is a reduction of more than 5% per annum in the effective interest rate applied to the Group's bank debt.

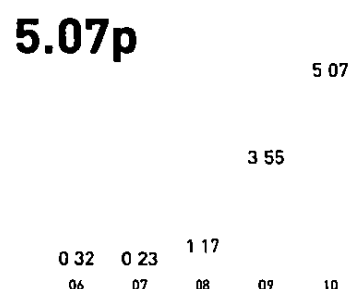
The main financial covenants applying to the new facilities are that leverage (the ratio of net bank debt to EBITDA) should not exceed 2.5 times, interest cover (the ratio of EBITDA to finance charges) should not be less than 3.0 times and operating cash flows must exceed debt service cash flows. The maximum leverage reduces to 2.0 times from 2012.

Net bank debt at the year end was £17.0m (2009: £21.7m) and the net bank debt to EBITDA ratio has improved from 1.9 times at December 2009 to just 0.9 times at December 2010, demonstrating the strength of the business and additional borrowing capacity that could be used to fund acquisitions.

### Operating Profit\* as % of sales



### Adjusted Basic EPS



**+43%**

\*Before exceptional items

# Financial Review.

continued

During the year £2.6m nominal value of Convertible Unsecured Loan Stock (CULS) converted resulting in £4.9m of CULS remaining. The CULS carries a fixed 8% coupon and can be converted at any time until November 2013 at 21p per share.

Notional interest costs of £0.3m were charged that related to the unwinding of the discounted value of deferred consideration and onerous contracts.

## Earnings per share (EPS) and Dividend

Adjusted basic EPS improved 43% from 3.55p in 2009 to 5.07p in 2010, while basic EPS improved 67% to 3.96p (2009: 2.37p).

During 2010 the number of shares in issue increased from 193.3m to 236.1m. 28.8m shares were issued as a result of the placing to part fund the Cambridge Laboratories acquisition. 12.4m shares were issued on the conversion of £2.6m nominal of the convertible loan stock and the balance of 1.6m related to the exercise of employee share options. Subsequent to the year end a further 0.4m shares have been issued, mainly on the conversion of loan stock. If there were no further changes to the share capital, the weighted average number of shares in issue in 2011 would be 236.5m.

As a result of the strong earnings growth and the strong cash generation an interim dividend of 0.17p was paid on 14 January 2011 and the Board is recommending a final dividend of 0.40p, which would make a total dividend for the year of 0.57p. The final dividend will be paid, subject to shareholder approval, on 14 July 2011 to shareholders on the register at 17 June 2011.

## Cash flow

Cash flow from operations increased from £10.6m to £17.9m reflecting the strong underlying performance of the Group. Net bank debt has fallen from £21.7m to £17.0m at the year end despite £7.0m cash funding for the Cambridge Laboratories acquisition.

Deferred contingent consideration of £2.1m remains outstanding in relation to the Cambridge acquisition. Of this, £1.1m becomes payable when the distribution rights are extended beyond 31 March 2012, and an amount of between £0.5m and £1.0m is payable during 2011 with the amount dependent on the sales of ImmuCyst during 2010 and 2011.

The Group has fully utilised brought forward tax losses during 2010 and has now started paying more substantial amounts of tax, with payments in 2010 totalling £1.3m. However the Group continues to benefit from tax relief on most of the intangible assets.

## Assets and working capital

Additions to intangibles in the period were £16.2m, which arose from the Cambridge Laboratories acquisition. The net book value of intangible assets stands at £60.3m at December 2010 (December 2009: £44.9m). Tangible assets increased by a net £0.8m, the majority of the additions related to the refurbishment and expansion of offices at Avonbridge House following the commencement of a new 10-year lease. This investment has provided additional space to cater for the increase in headcount following the Cambridge Laboratories acquisition and to cater for potential future growth. There was also some investment in IT systems.

Working capital balances have grown with the size of the business, though inventory and trade receivables continue to be carefully managed and controlled. Inventory on hand at December 2010 represented 2.8 months of stock usage (2009: 2.7 months).

The Group net assets stood at £36.1m at December 2010, £19.5m higher than at December 2009.

## Managing Capital

Our objective in managing the business capital structure is to ensure that Alliance has the financial capacity liquidity and flexibility to support the existing business and to fund acquisition opportunities as they arise

The business is profitable and cash generative. The bank covenants require that the business is managed to ensure that it is sufficiently cash generative to meet debt servicing needs and dividend payments

Smaller acquisitions are typically financed purely with bank debt while larger acquisitions typically involve a combination of bank debt and additional equity. The mixture of debt and equity is varied taking into account the desire to maximise the shareholder returns while keeping gearing at comfortable levels i.e. net bank debt below around two times EBITDA

## Risk Management

The Group uses interest rate swaps to reduce the risk arising from changes in interest rates and the Convertible Unsecured Loan Stock pays a fixed coupon. Around 75% of the net bank debt is currently subject to fixed interest rates

The Group's main transactional currencies are Sterling and Euros with the majority of income and expenditure in Sterling. The Euro-denominated income matches the Euro-denominated expenditure quite closely and so the Group has limited exposure to exchange rate movements

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## **Board of Directors.**

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Directors who held office at the date of this report are set out below. All were Directors throughout 2010 except Peter Butterfield who was appointed to the Board on 22 February 2010.

### **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 LLP).

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### **John Dawson** Chief Executive Officer

John founded Alliance in 1996. He gained multi-disciplinary experience in the pharmaceutical industry over thirty years. John held various senior roles at Sandoz (now Novartis AG) as Director of Finance and Administration and Deputy Managing Director. John has a BSc (Pharmacy) and an MSc (Finance) from the London Business School.

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### **Richard Wright** Finance Director

Richard joined the Board of Alliance in 2007. He is a Chartered Accountant with over 20 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 LLP before joining Somerfield plc. More recently he held senior finance positions at FirstGroup plc and Parragon Publishing.

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### **Tony Booley** Executive Director

Tony joined Alliance in 1998. He has had around 30 years of experience in the pharmaceutical and healthcare industries with positions at Leo Pharma, Glaxo Wellcome (now GlaxoSmithKline "GSK") and Getinge Industrier AB. His senior management experience includes positions in the UK and internationally. Tony graduated in Physiology, has an MBA from Warwick and is a Chartered Marketer.

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**Peter Butterfield**  
Executive Director

Peter was with Cambridge Laboratories from 2004, most recently as UK Commercial Manager until its acquisition by Alliance in February 2010 when he joined the Board of Alliance. He is a Board Member of the Association of the British Pharmaceutical Industry (ABPI) and is currently Chairman of the ABPI Small Companies Forum. Prior to joining Cambridge Laboratories, Peter spent six years at SmithKline Beecham (now GSK). He holds an honours degree in Pharmacology from the University of Edinburgh.

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**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 LLP where he qualified as a Chartered Accountant. Thomas graduated in Molecular and Cellular Biochemistry from the University of Oxford in 1998.

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**Paul Ranson**  
Non-Executive Director

Paul joined Alliance as a Non-Executive Director in 2003. He 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 LLP and specialises exclusively in the commercial and regulatory aspects of life sciences.

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**+44%**

**Andrew Smith**  
Non-Executive Director

Andrew joined the Board of Alliance in 2006. He has held various senior positions in the pharmaceutical industry in the UK and USA having been Managing Director and Senior Vice-President of SmithKline Beecham Pharmaceuticals (now GSK), Chief Executive of Cerebrus plc until its sale and president international medical marketing services with Parexel International. Andrew is a founder of Navitas BioPharma Consulting. He graduated in Natural Sciences from the University of Cambridge.

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# Corporate Governance.

## Introduction

Alliance Pharma plc is an AIM listed company and the Board is committed to achieving good standards of corporate governance integrity and business ethics

## 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
- 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 Teams

The Board delegates management of the business to three management teams: the Corporate Performance Team, the Corporate Development Team and the Corporate Organisation Team. These management teams comprise the Executive Directors and other Senior Managers and meet monthly.

## Reporting Structure

### Committees

The Board has 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 pre-determined dates and has a strategy meeting each year consisting of the Board and other Senior Managers, 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 2010 the Board held ten scheduled meetings and all members of the Board attended all of those meetings. In addition there were a number of ad-hoc 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
- Satisfy themselves as to the robustness of the controls
- 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 Team 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
  - Financial — In particular the integrity with which the Group is viewed as a public company and exposure to liquidity and 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 Managers meet 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 the Corporate Performance Team
- The Board and Corporate Performance Team 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 meet 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's website is regularly updated and amended with the aim being to provide good 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 regularly present at conferences attended by many potential and current private shareholders and meet with Private Client Fund Managers representing the interests of private investors following which feedback is given to the Group.

At the Annual General Meeting the Chairman issues a statement on current trading. 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.

## 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 staff according to the achievement by the Group of certain pre-determined earnings targets. The level of bonuses payable on achievement of the targets is set at the level perceived appropriate 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 HMRC 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. Only basic salaries are pensionable, except in the case of Tony Booley whose bonus is also pensionable.

## Directors' Remuneration

The aggregate remuneration excluding pension contributions, payable to the Directors during the period was as follows

					Year ended 31 December 2010	Year ended 31 December 2009
	Salary	Bonuses	Other	Share-based payments <sup>1</sup>	£	£
Tony Booley	129 910	54 369	9 452	8 073	201,804	207 300
Peter Butterfield <sup>2</sup>	108 945	52,495	420	35,063	196,923	-
Thomas Casdagli	-	-	-	-	-	-
John Dawson	187,898	64,274	1,531	-	253,703	265 191
Michael Gatenby	66 512	-	-	-	66,512	63 343
Paul Ranson	30 272	-	-	-	30,272	28 830
Andrew Smith	30,272	-	-	-	30,272	28 830
Mark Tomlinson <sup>3</sup>	-	-	-	-	-	74 544
Richard Wright	138,277	52,080	838	8,635	199,830	203,302
	692 086	223,218	12,241	51,771	979,316	871 340

<sup>1</sup> Share based payment is the IFRS 2 charge recognised in the period

<sup>2</sup> Appointed 22 February 2010

<sup>3</sup> A Director until 17 July 2009

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

	Year ended 31 December 2010	Year ended 31 December 2009
	£	£
Tony Booley	19,103	18 400
Peter Butterfield <sup>1</sup>	12,029	-
John Dawson	10,000	10,000
Mark Tomlinson <sup>2</sup>	-	6 325
Richard Wright	12,622	11,677
	53,754	46 402

<sup>1</sup> Appointed 22 February 2010

<sup>2</sup> A Director until 17 July 2009

## 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 December 2009 Number	Granted Number	Exercised Number	Lapsed In year	31 December 2010 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	-	-	-	1,110,000	8.5	23/04/11	22/04/18
	110,000	-	-	-	110,000	7.75	13/04/12	12/04/19
	-	116,500	-	-	116,500	34.25	29/04/13	28/04/20
Peter Butterfield	-	1,000,000	-	-	1,000,000	33.25	26/03/13	25/03/20
	-	115,000	-	-	115,000	34.25	29/04/13	28/04/20
Richard Wright	500,000	-	(363,624)	-	136,376	8.25	11/07/10	10/07/17
	1,113,000	-	-	-	1,113,000	8.5	23/04/11	22/04/18
	113,000	-	-	-	113,000	7.75	13/04/12	12/04/19
	-	118,650	-	-	118,650	34.25	29/04/13	28/04/20

The market price of ordinary shares at 31 December 2010 was 30.75 pence and the range during the period was from 26.25 pence to 38.0 pence.

# Other Matters.

## Principal activities

The principal activity of the Group is the acquisition 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.

	Beneficial interest Number	Ordinary shares		At start of year or subsequent appointment Number
		Non-beneficial interest Number	At end of year Number	
Tony Booley	6,810,723	-	6,810,723	6,810,723
Peter Butterfield	-	-	-	-
Thomas Casdagli	18,803	19,281,197	19,300,000	19,300,000
John Dawson	42,261,402	20,000,000	62,261,402	62,261,402
Michael Gatenby	350,000	-	350,000	350,000
Paul Ranson	48,000	-	48,000	48,000
Andrew Smith	200,000	-	200,000	200,000
Richard Wright	190,768	-	190,768	190,768

## Directors' Responsibilities Statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs). Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Company and Group for that period. In preparing these financial statements the Directors are required to

- select suitable accounting policies and then apply them consistently
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as each of the directors is aware:

- there is no relevant audit information of which the Company's auditor is 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 auditor is aware of that information.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Other Matters.

## Principal risks and uncertainties

The Group's principal risks and uncertainties are outlined below

### Sales volumes being affected by a change in demand

Changes in demand for pharmaceuticals products could be caused by a number of factors such as changes in the competitive environment. Key criteria when Alliance selects products to add to its portfolio are that the products are in niche areas with the majority requiring little or no promotional support, and that the products have many years of steady sales history before acquisition.

### Sales volumes being affected by supply chain constraints

Issues within the supply chain can interrupt supply leading to insufficient stock being available to meet demand. Over the last few years Alliance has taken a number of measures to strengthen its supply chain. These include strengthening the supply chain team within the business, dual sourcing of some key products and of some key ingredients, holding larger buffer stocks of selected products and improved communication with suppliers.

### Sales pricing being reduced by regulatory action

The Pharmaceutical Price Regulation Scheme (PPRS) is the UK Government's tool for controlling pricing for the NHS. Alliance is a member of the ABPI and other industry bodies which are consulted by the Government on changes to PPRS. The latest scheme commenced in 2009 and runs for five years, giving relative certainty for the next few years.

### Cost price inflation affecting gross margins

Increases in the cost of goods could erode gross margins. In a number of cases Alliance has arrangements with suppliers which either fix prices or limit price increases over the next few years. At the expiry of such arrangements, prices are tested against prevailing rates in the market. Alliance also looks for improvements in production techniques to reduce the cost of manufacturing.

Other risks and uncertainties are explained in the Business Review and Financial Review.

## 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 53 days (2009: 31 days) and 7 days (2009: 2 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 22 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 which is available to all employees.

## Going concern

As explained in the Financial Review, the current rate of cash generation by the Group comfortably exceeds the capital and debt servicing needs of the business (though there cannot, of course, be absolute certainty that the rate of cash generation will be maintained). The Board remains confident that all the bank covenants will continue to be met. The Group has a £6m Working Capital Facility which is largely undrawn and which the Board believes should comfortably satisfy the Group's working capital needs for at least the next 12 months.

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 £50,659 (2009: £25,397) were made during the year. There were no political donations made during the period.

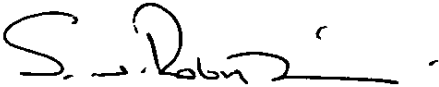
**Auditor**

A resolution to re-appoint Grant Thornton UK LLP as auditor 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 2011 Annual General Meeting of the Company will be held on 26 May 2011, the business of which is set out in the Notice of Meeting.

On behalf of the Board



**Sarah Robinson**  
Company Secretary  
22 March 2011

# Independent Auditor's Report to the Members of Alliance Pharma plc.

We have audited the financial statements of Alliance Pharma plc for the year ended 31 December 2010 which comprise the consolidated income statement the consolidated statement of comprehensive income, the consolidated balance sheet the Company balance sheet consolidated and Company statement of changes in equity the consolidated and Company cash flow statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent Company financial statements as applied in accordance with the provisions of the Companies Act 2006

This report is made solely to the Company's members as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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

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

## Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm)

## Opinion on financial statements

In our opinion

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2010 and of the Group's profit for the year then ended,
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006 and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006

## Opinion on other matter prescribed by the Companies Act 2006

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

## Matters on which we are required to report by exception

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

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



J Geraint Davies

Senior Statutory Auditor

for and on behalf of Grant Thornton UK LLP

Statutory Auditor, Chartered Accountants

Bristol

22 March 2011

# Consolidated Income Statement.

	Note	Year ended 31 December 2010 £000s	Year ended 31 December 2009 £000s
Revenue	3	49,881	31,237
Cost of sales		(19,483)	(13,127)
<b>Gross profit</b>		<b>30,398</b>	<b>18,110</b>
<b>Operating expenses</b>			
Administration and marketing expense		(10,769)	(6,828)
Amortisation of intangible assets		(812)	-
Share-based employee remuneration	6	(128)	(25)
		(11,709)	(6,853)
<b>Operating profit before exceptional items</b>		<b>18,689</b>	<b>11,257</b>
Exceptional items	10	(1,715)	(2,829)
<b>Operating profit</b>		<b>16,974</b>	<b>8,428</b>
<b>Finance costs</b>			
Interest paid	5	(2,410)	(2,834)
Interest income	5	7	2
Other finance costs	5	75	144
Exceptional finance costs	5 10	(1,774)	-
		(4,102)	(2,688)
<b>Profit on ordinary activities before taxation</b>	4	<b>12,872</b>	<b>5,740</b>
Taxation	7	(3,918)	(1,633)
<b>Profit for the year attributable to equity shareholders</b>		<b>8,954</b>	<b>4,107</b>
<b>Earnings per share</b>			
Basic (pence)	9	3 96	2 37
Diluted (pence)	9	3 64	2 14

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

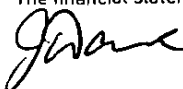
# Consolidated Statement of Comprehensive Income.

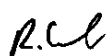
	Year to 31 December 2010 £000s	Year to 31 December 2009 £000s
Profit for the period	8,954	4,107
Interest rate swaps — cash flow hedge	1,323	30
Deferred tax on interest rate swap	(371)	(8)
<b>Total comprehensive income for the period</b>	<b>9,906</b>	<b>4,129</b>

# Consolidated Balance Sheet.

	Note	31 December 2010 £000s	31 December 2010 £000s	31 December 2009 £000s	31 December 2009 £000s	1 January 2009 £000s	1 January 2009 £000s
<b>Assets</b>							
<b>Non-current assets</b>							
Intangible assets	11	60,287		44,935		39,950	
Property plant and equipment	12	888		132		161	
Deferred tax	24	-		-		70	
			61,175		45,067		40,181
<b>Current assets</b>							
Inventories	14	4,544		2,972		2,265	
Trade and other receivables	15	9,690		7,657		6,382	
Cash and cash equivalents	16	1,989		1,104		4	
			16,223		11,733		8,651
<b>Total assets</b>			<b>77,398</b>		<b>56,800</b>		<b>48,832</b>
<b>Equity</b>							
Ordinary share capital	26	2,361		1,933		1,621	
Share premium account	26	24,331		14,674		11,275	
Share option reserve	26	244		116		91	
Reverse takeover reserve	26	(329)		(329)		(329)	
Other reserve	26	(20)		(972)		(994)	
Retained earnings	26	9,494		1,208		(2,899)	
<b>Total equity</b>			<b>36,081</b>		<b>16,630</b>		<b>8,765</b>
<b>Liabilities</b>							
<b>Non-current liabilities</b>							
Long term financial liabilities	19	15,000		19,009		20,487	
Convertible debt	19/20	4,822		7,333		7,292	
Other liabilities	21	60		80		100	
Derivative financial instruments	23	13		851		1,012	
Deferred tax liability	24	3,803		1,450		34	
Provisions for other liabilities and charges	25	641		-		-	
			24,339		28,723		28,925
<b>Current liabilities</b>							
Cash and cash equivalents	16	-		683		2,451	
Financial liabilities	19	4,001		3,114		2,295	
Corporation tax		721		77		178	
Trade and other payables	18	11,869		7,073		5,849	
Derivative financial instruments	23	15		500		369	
Provisions for other liabilities and charges	25	372		-		-	
			16,978		11,447		11,142
<b>Total liabilities</b>			<b>41,317</b>		<b>40,170</b>		<b>40,067</b>
<b>Total equity and liabilities</b>			<b>77,398</b>		<b>56,800</b>		<b>48,832</b>

The financial statements were approved by the Board of Directors on 22 March 2011

 John Dawson  
Director



Richard Wright  
Director

The accompanying accounting policies and notes form an integral part of these financial statements  
Company number 4241478

# Company Balance Sheet.

	Note	31 December 2010 £ 000s	31 December 2010 £ 000s	31 December 2009 £ 000s	31 December 2009 £ 000s	1 January 2009 £ 000s	1 January 2009 £ 000s
<b>Assets</b>							
<b>Non-current assets</b>							
Investment in subsidiaries	13	32,260		25,538		21,345	
Deferred tax	24	-		-		70	
			32,260		25,538		21,415
<b>Current assets</b>							
Trade and other receivables	15	7,086		2,028		14	
Cash and cash equivalents	16	25		25		4	
			7,111		2,053		18
<b>Total assets</b>			<b>39,371</b>		<b>27,591</b>		<b>21,433</b>
<b>Equity</b>							
Ordinary share capital	26	2,361		1,933		1,621	
Share premium account		24,331		14,674		11,275	
Share option reserve		244		116		91	
Retained earnings		7,202		3,068		775	
<b>Total equity</b>			<b>34,138</b>		<b>19,791</b>		<b>13,762</b>
<b>Liabilities</b>							
<b>Non-current liabilities</b>							
Convertible debt	19 20	4,822		7,333		7,292	
			4,822		7,333		7,292
<b>Current liabilities</b>							
Corporation tax		95		94			
Trade and other payables	18	316		373		379	
			411		467		379
<b>Total liabilities</b>			<b>5,233</b>		<b>7,800</b>		<b>7,671</b>
<b>Total equity and liabilities</b>			<b>39,371</b>		<b>27,591</b>		<b>21,433</b>

The financial statements were approved by the Board of Directors on 22 March 2011



John Dawson  
Director



Richard Wright  
Director

The accompanying accounting policies and notes form an integral part of these financial statements  
Company number 4241478

# Consolidated Statement of Changes in Equity.

	Ordinary share capital £000s	Share premium account £000s	Share option reserve £ 000s	Reverse takeover reserve £000s	Other reserve £000s	Retained earnings £000s	Total equity £000s
Balance 1 January 2009	1 621	11 275	91	(329)	(994)	(2,899)	8 765
Issue of shares	312	3,399	-	-	-	-	3 711
Employee benefits	-	-	25	-	-	-	25
Transactions with owners	312	3 399	25	-	-	-	3,736
Profit for the period	-	-	-	-	-	4 107	4, 107
<b>Other comprehensive income</b>							
Interest rate swaps — cash flow hedge	-	-	-	-	30	-	30
Deferred tax on interest rate swap	-	-	-	-	(8)	-	(8)
<b>Total comprehensive income for the period</b>	-	-	-	-	22	4 107	4 129
Balance 31 December 2009	1,933	14,674	116	(329)	(972)	1,208	16 630
Balance 1 January 2010	1 933	14 674	116	(329)	(972)	1,208	16 630
Issue of shares	428	9 657	-	-	-	-	10 085
Dividend paid	-	-	-	-	-	(668)	(668)
Employee benefits	-	-	128	-	-	-	128
Transactions with owners	428	9 657	128	-	-	(668)	9 545
Profit for the period	-	-	-	-	-	8 954	8 954
<b>Other comprehensive income</b>							
Interest rate swaps — cash flow hedge	-	-	-	-	1 323	-	1 323
Deferred tax on interest rate swap	-	-	-	-	(371)	-	(371)
<b>Total comprehensive income for the period</b>	-	-	-	-	952	8 954	9,906
Balance 31 December 2010	2,361	24,331	244	(329)	(20)	9,494	36,081

The balance on the share premium account may not be legally distributed under section 831 of the Companies Act 2006

## Company Statement of Changes in Equity.

	Ordinary share capital £000s	Share premium account £000s	Share option reserve £000s	Retained earnings £000s	Total equity £000s
Balance 1 January 2009	1 621	11,275	91	775	13,762
Issue of shares	312	3 399	-	-	3 711
Employee benefits	-	-	25	-	25
Transactions with owners	312	3,399	25	-	3 736
Profit for the period	-	-	-	2,293	2,293
<b>Balance 31 December 2009</b>	<b>1 933</b>	<b>14 674</b>	<b>116</b>	<b>3 068</b>	<b>19,791</b>
Balance 1 January 2010	1,933	14,674	116	3 068	19 791
Issue of shares	428	9,657	-	-	10 085
Dividend paid	-	-	-	(668)	(668)
Employee benefits	-	-	128	-	128
Transactions with owners	428	9 657	128	(668)	9 545
Profit for the period	-	-	-	4 802	4 802
<b>Balance 31 December 2010</b>	<b>2,361</b>	<b>24,331</b>	<b>244</b>	<b>7,202</b>	<b>34,138</b>

The balance on the share premium account may not be legally distributed under section 831 of the Companies Act 2006

The profit for the year dealt with in the financial statements of the parent Company was £4,802,000 (2009 £2,293 000) As permitted by section 408 of the Companies Act 2006 no separate income statement is presented in respect of the parent Company

# Consolidated and Company Cash Flow Statements.

	Note	Group		Company	
		Year ended 31 December 2010 £000s	Year ended 31 December 2009 £000s	Year ended 31 December 2010 £000s	Year ended 31 December 2009 £000s
<b>Cash flows from operating activities</b>					
Cash generated from operations	28	18,104	10 648	(7,763)	(3 460)
Tax paid		(1,290)	(259)	-	-
<b>Cash flows from operating activities</b>		<b>16,814</b>	<b>10 389</b>	<b>(7,763)</b>	<b>(3 460)</b>
<b>Investing activities</b>					
Interest received		7	2	975	-
Payment of deferred consideration		(20)	(20)	-	-
Development costs capitalised	11	-	(116)	-	-
Purchase of property plant and equipment	12	(934)	(95)	-	-
Purchase of other intangible assets	11	(14,264)	(7 698)	-	-
<b>Net cash used in investing activities</b>		<b>(15,211)</b>	<b>(7 927)</b>	<b>975</b>	<b>-</b>
<b>Financing activities</b>					
Interest paid and similar charges		(1,919)	(2,695)	(455)	(600)
Termination of interest rate swaps		(1,145)	-	-	-
Proceeds from issue of shares		7,290	3 711	7,290	3,711
Loan issue costs		(480)	(60)	-	-
Proceeds from exercise of share options		196	-	196	-
Dividend paid		(668)	-	(668)	-
Transfer from subsidiary undertakings		-	-	425	370
Receipt from borrowings		24,000	2 000	-	-
Repayment of borrowings		(27,278)	(2 532)	-	-
<b>Net cash received from/(used in) financing activities</b>		<b>(4)</b>	<b>424</b>	<b>6,788</b>	<b>3 481</b>
<b>Net movement in cash and cash equivalents</b>		<b>1,599</b>	<b>2 886</b>	<b>-</b>	<b>21</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>421</b>	<b>(2 447)</b>	<b>25</b>	<b>4</b>
Exchange losses on cash and cash equivalents		(31)	(18)	-	-
<b>Cash and cash equivalents at the end of the period</b>	16	<b>1,989</b>	<b>421</b>	<b>25</b>	<b>25</b>

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

# Notes to the Financial Statements.

for the year ended 31 December 2010

## 1 General information

Alliance Pharma plc (the Company) and its subsidiaries (together the Group) acquire, 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 22 March 2011.

## 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 as adopted by the EU and with those parts of the Companies Act 2006 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 are 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 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 2010. 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. 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 Recent accounting developments

IFRS 3 Business Combinations (Revised 2008) has been adopted during the year. The revised IFRS 3 Business Combinations was issued in 2008 and is effective for business combinations occurring in annual periods beginning on or after 1 July 2009. One key change brought in by IFRS 3 (Revised 2008) is that directly attributable transaction costs are required to be expensed as incurred in the consolidated accounts. Previously these were capitalised as part of the cost of the business combination and were therefore included in goodwill.

### 2.4 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 retranslated into local currency at the rate of exchange ruling at the balance sheet date. Exchange differences are booked to the income statement.

### 2.5 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. Summary of significant accounting policies (continued)

### 2.6 Property, plant and equipment

Computer equipment, fixtures, fittings and equipment 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	20%–33.3% per annum, straight line

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

### 2.7 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 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.

### 2.8 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.

### 2.9 Intangible assets

Intangible assets are stated at cost less provision for amortisation and impairment. Technical know-how and trade marks are deemed to have an indefinite useful life and are tested for impairment annually. Distribution licences are amortised over the current life of the licence on a straight line basis and are tested for impairment annually. If the licence period can be extended, the useful life of the intangible asset shall include the renewal period only if there is evidence to support renewal by the entity without disproportionate cost.

### 2.10 Inventories

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

### 2.11 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 deductible in other years or that are never taxable or deductible, 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 temporary differences.

# Notes to the Financial Statements.

for the year ended 31 December 2010

## 2 Summary of significant accounting policies (continued)

### 2.12 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 interest rate swaps 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 other comprehensive income, 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.

### 2.13 Debt instruments

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.

Convertible Unsecured Loan Stock issued by the Company is regarded as compound financial instruments. Compound financial instruments are split and recorded respectively within each of its two components: equity and liability. 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.

### 2.14 Trade payables

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

### 2.15 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 Group's loans and receivables comprise trade and other receivables and cash and cash equivalents in the balance sheet (notes 2.16 and 2.17).

### 2.16 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.

### 2.17 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, bank overdrafts and working capital facilities.

### 2.18 Working capital facility

The terms of this arrangement are judged to be such that the risk and reward of ownership of the trade receivables do not pass to the finance provider. As such the receivables are not de-recognised on drawdown of funds against this facility. This facility is recognised as a liability for the amount drawn.

## 2 Summary of significant accounting policies (continued)

### 2.19 Segment reporting

An operating segment is defined as a component of the entity

- i) that engages in business activities from which it may earn revenues and incur expenses,
- ii) whose operating results are regularly reviewed by the entity's chief operating decision maker (CODM) to make decisions about the resources to be allocated to the segment and assess its performance and
- iii) for which discrete financial information is available

The Corporate Performance Team has been identified as the CODM

### 2.20 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.

### 2.21 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods 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.

### 2.22 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

### 2.23 Investments

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

# Notes to the Financial Statements.

for the year ended 31 December 2010

## 2 Summary of significant accounting policies (continued)

### 2.24 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.

### 2.25 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, costs of debt restructuring and onerous contract and redundancy costs associated with acquisitions (see note 10).

### 2.26 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 34)
- The impairment testing of intangible assets (see note 11)
- The useful lives on intangible assets (see note 11)
- The identification of reportable operating segments (see note 3)

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.

### 2.27 Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of a past event, for which it is probable that a transfer of economic benefits will be required to settle the obligation and where a reliable estimate can be made of the amount of the obligation.

Where material, the provisions have been discounted to their present value.

### 2.28 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 2010 and have not been applied in preparing these financial statements. They include the following and are not currently expected to result in any change in the Group's related party disclosures:

- IAS 24 (Revised 2009) is effective for periods beginning on or after 1 January 2011 and provides a revised definition of related party
- Amendment to IAS 32 Classification of Rights Issues (effective 1 February 2010)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective 1 July 2010)
- Prepayments of a Minimum Funding Requirement - Amendments to IFRIC 14 (effective 1 January 2011)
- Improvements to IFRS issued May 2010 (some changes effective 1 July 2010, others effective 1 January 2011)

The Group continually reviews amendments to the standards made under the IASB's annual improvements project.

### 3. Segmental reporting

#### Operating segments

Our management information system produces reports for the Corporate Performance Team grouping financial performance under the following business areas

- Dermatology
- Oncology
- Established Products
- International

All business areas are responsible for developing marketing and distributing a range of pharmaceutical products. As permitted by IFRS 8 since these business areas are deemed to have similar economic characteristics and are similar if not the same, in all of the following

- business areas derive their revenue from the supply of pharmaceutical products,
- the production and distribution process is the same across all business areas
- business areas supply to similar customers i.e. the NHS or pharmaceutical distributors
- all business areas are subject to a similar regulatory environment

the business areas have been aggregated into a single reportable operating segment namely pharmaceuticals. Each month the CODM is presented with financial information prepared in accordance with IFRS as adopted in the EU and the accounting policies set out in note 2 to these financial statements. As such the financial information provided to the CODM regarding the operating segment has already been disclosed in the financial statements.

#### Geographical information

The following revenue information is based on the geographical location of the customer

	Year ended 31 December 2010 £000s	Year ended 31 December 2009 £000s
United Kingdom	42,279	23,222
Ireland	4,914	5,613
China	1,874	1,442
Rest of the world	814	960
	<b>49,881</b>	<b>31,237</b>

All non-current assets are located within the United Kingdom

#### Major customers

During the year there were 3 (year ended 31 December 2009: 3) customers who separately comprised 10% or more of revenue

	Year ended 31 December 2010 £000s
Major customer 1	9,195
Major customer 2	7,784
Major customer 3	4,914
	<b>21,893</b>

# Notes to the Financial Statements.

for the year ended 31 December 2010

## 3. Segmental reporting (continued)

	Year ended 31 December 2009 £000s
Major customer 1	5,613
Major customer 2	5,129
Major customer 3	4,600
	15,342

## 4. Profit before taxation

Profit before taxation is stated after charging

	Year ended 31 December 2010 £000s	Year ended 31 December 2009 £000s
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	32	29
— Other services pursuant to legislation	8	8
— Consultancy	28	-
Amortisation of intangible assets	812	-
Employee benefit expense	128	25
Depreciation of plant, property and equipment	178	124
Operating lease rentals	115	120
Impairment of intangible assets	-	2,829
(Gain)/loss on foreign exchange transactions	(45)	10

## 5 Finance costs

	Year ended 31 December 2010 £000s	Year ended 31 December 2009 £000s
Interest payable and similar charges		
On loans and overdrafts	(1,918)	(2,695)
Amortised finance issue costs	(207)	(139)
Notional interest	(285)	-
	(2,410)	(2,834)
Interest income	7	2
Other finance charges		
Foreign exchange movement on long-term euro denominated debt	75	144
	75	144
Exceptional finance costs		
Termination of interest rate swaps and loan issue costs	(1,774)	-
	(1,774)	-
Finance costs — net	(4,102)	(2,688)

## 6 Directors and employees

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

	Year ended 31 December 2010 £000s	Year ended 31 December 2009 £000s
Wages and salaries	3,265	2,471
Social security costs	431	299
Other pension costs (note 31)	201	142
Share-based employee remuneration (note 27)	128	25
	<b>4,025</b>	<b>2,937</b>

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

	Year ended 31 December 2010	Year ended 31 December 2009
Management and administration	48	34

Remuneration in respect of Directors was as follows

	Year ended 31 December 2010 £000s	Year ended 31 December 2009 £000s
Emoluments	928	849
Social security costs	114	80
Share-based payments	52	23
Company pension contributions to money purchase schemes	54	46
	<b>1,148</b>	<b>998</b>

Gain on share options recognised by Directors during the year was £269,000 (2009 £nil)

For additional disclosures please refer to Directors Remuneration section of the Directors Report

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

	Year ended 31 December 2010 £000s	Year ended 31 December 2009 £000s
Emoluments for qualifying services	254	265
Social security costs	32	33
Company pension contributions to money purchase schemes	10	10
	<b>296</b>	<b>308</b>

During the period contributions were paid to money purchase schemes for four Directors (year ended 31 December 2009 four)

# Notes to the Financial Statements.

for the year ended 31 December 2010

## 6. Directors and employees (continued)

Key management of the Group are the Directors and members of the Corporate Performance Team. Remuneration in respect of the Directors and Corporate Performance Team was as follows:

	Year ended 31 December 2010 £000s	Year ended 31 December 2009 £000s
Emoluments	1,670	1,076
Social security costs	204	138
Share-based payments	95	31
Company pension contributions to money purchase schemes	106	67
	<b>2,075</b>	<b>1,312</b>

Average number of members of the Corporate Performance Team for the year ended 31 December 2010 was thirteen (year ended 31 December 2009: ten).

## 7 Taxation

Analysis of charge in period

	Year ended 31 December 2010 £000s	Year ended 31 December 2009 £000s
United Kingdom corporation tax at 28% (2009: 28%) In respect of current period	1,936	155
	<b>1,936</b>	<b>155</b>
Deferred tax (see note 24) Origination and reversal of temporary differences	1,982	1,478
Taxation	<b>3,918</b>	<b>1,633</b>

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 December 2010 £000s	Year ended 31 December 2009 £000s
Profit on ordinary activities before tax	12,873	5,740
Profit on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom of 28% (2009: 28%)	3,604	1,607
Effect of		
Non deductible expenses	126	50
Adjustment in respect of prior periods	215	-
Other differences	[27]	[24]
Total taxation	<b>3,918</b>	<b>1,633</b>

## 7. Taxation (continued)

A number of changes to the UK Corporation tax system were announced in the June 2010 Budget Statement. The Finance (No. 2) Act 2010 is expected to include legislation to reduce the main rate of corporation tax from 28% to 27% from 1 April 2011. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 24% by 1 April 2014. The first 1% reduction was substantively enacted at the balance sheet date and has been included above. The further 3% phased reduction has not been substantively enacted at the balance sheet date and therefore not included in these financial statements.

The proposed reductions of the main rate of corporation tax by 1% per year to 24% by 1 April 2014 are expected to be enacted separately each year. The overall effect of the further changes from 27% to 24%, if these applied to the deferred tax balance at 31 December 2010, would be to decrease the deferred tax liability by £423,000 (being £141,000 recognised each year until 2014).

## 8 Dividends

	Year ended 31 December 2010		Year ended 31 December 2009	
	Pence/share	£000s	Pence/share	£000s
Amounts recognised as distributions to owners in the year				
Interim dividend for the prior financial year	0 07	135	-	-
Final dividend for the prior financial year	0 23	533	-	-
		668		-
Interim dividend for the current financial year	0 17	401	0 07	135

The proposed final dividend for the current financial year was approved by the Board of Directors on 22 March 2011 and is subject to the approval of shareholders at the Annual General Meeting. The proposed dividend has not been included as a liability as at 31 December 2010 in accordance with IAS 10 Events After the Balance Sheet Date. The interim dividend for the current financial year was paid on 11 January 2011. Subject to shareholder approval, the final dividend will be paid on 14 July 2011 to shareholders who are on the register of members on 17 June 2011.

## 9. 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 December 2010	Year ended 31 December 2009
For basic EPS calculation	226,115,099	173,177,417
Employee share options	4,502,951	3,021,741
Conversion of Convertible Unsecured Loan Stock (CULS)	23,339,310	35,714,286
For diluted EPS calculation	253,957,360	211,913,444

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## 9. Earnings per share (EPS) (continued)

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 December 2010 £000s	Year ended 31 December 2009 £000s
Earnings for basic EPS	8,954	4,107
Exceptional items	3,489	2,829
Tax effect of exceptional items	(977)	(792)
For adjusted EPS	11,466	6,144
Earnings for basic EPS	8,954	4,107
Interest saving on conversion of CULS	392	600
Tax effect of interest saving on conversion of CULS	(110)	(168)
Earnings for diluted EPS	9,236	4,539
Earnings for adjusted EPS	11,466	6,144
Interest saving on conversion of CULS	392	600
Tax effect of interest saving on conversion of CULS	(110)	(168)
Earnings for diluted adjusted EPS	11,748	6,576

The resulting EPS measures are

	Year ended 31 December 2010 Pence	Year ended 31 December 2009 Pence
Basic EPS	3.96	2.37
Diluted EPS	3.64	2.14
Adjusted basic EPS	5.07	3.55
Adjusted diluted EPS	4.63	3.10

## 10. Exceptional items

	Year ended 31 December 2010 £000s	Year ended 31 December 2009 £000s
Onerous contracts	1,266	-
Redundancy costs	449	-
Isprelor impairment charge	-	2,829
	1,715	2,829
Termination of interest rate swaps and loan issue costs	1,774	-
	3,489	2,829

Leases and associated costs for offices in Newcastle and Dublin acquired as part of the Cambridge Laboratories acquisition, have subsequently been treated as onerous contracts. In the year ended 31 December 2010 an amount of £1.3m, discounted at a rate of 10%, representing payments due until the end of each contract has been recognised. The Dublin property lease will run until 2011 and the Newcastle property lease will run until 2015. An amount of £0.4m has also been recognised in relation to redundancy costs associated with the acquisition.

During the year the Group restructured its debt extinguishing its current loans and swaps and replacing them with new. In accordance with IAS 39 the extinguishment method of accounting was used, as opposed to the substantial modification method as the new terms of the debt restructure were deemed to be substantially different from the old. As a result £1.8m was recognised in the income statement being consideration paid for the termination of the swaps and release of unamortised finance costs in relation to the previous loans in existence. As required by IAS39 as the new borrowings were with the same lender, these expenses were recognised through the income statement.

In the year ended 31 December 2009 capitalised development costs in respect of Isprelor were written off as the Group did not intend to pursue pan-European registration without third party funding and no such funding had been agreed.

## 11. Intangible assets

The Group	Goodwill on consolidation £ 000s	Purchased Goodwill £ 000s	Technical know-how, trade marks and distribution rights £ 000s	Total £ 000s
<b>Cost</b>				
At 1 January 2010	1,144	-	43,791	44,935
Additions	-	600	15,564	16,164
<b>At 31 December 2010</b>	<b>1,144</b>	<b>600</b>	<b>59,355</b>	<b>61,099</b>
<b>Amortisation and impairment</b>				
At 1 January 2010	-	-	-	-
Amortisation for the year	-	-	812	812
<b>At 31 December 2010</b>	<b>-</b>	<b>-</b>	<b>812</b>	<b>812</b>
<b>Net book amount</b>				
<b>At 31 December 2010</b>	<b>1,144</b>	<b>600</b>	<b>58,543</b>	<b>60,287</b>
At 1 January 2010	1,144	-	43,791	44,935

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## 11 Intangible assets (continued)

### Cambridge Laboratories acquisition

On 22 February 2010 the Group completed the purchase of the trade and certain assets of Cambridge Laboratories (Ireland) Limited and Cambridge Laboratories Limited (the "Vendors"). The acquisition was in line with the Group's strategy of acquiring established niche brands with stable sales. Included in the acquisition were 18 prescription products across a range of therapeutic areas including

- ImmuCyst an immunotherapy for non-muscle-invasive bladder cancer
- Gelclair an oral gel for the management of oral mucositis caused by chemotherapy and radiotherapy
- procarbazine a treatment of Hodgkin's Lymphoma as part of chemotherapy treatment
- Xenazine used in the treatment of chorea associated with Huntington's Disease, and other indications and
- a liquid formulation of Vitamin E, the only one licensed in the UK

The total consideration for the acquisition was between £14.3m and £16.4m. The consideration for the acquisition comprised a base consideration of £14.3m with an initial payment of £10.2m on 22 February 2010, a further cash payment of £1.9m in March 2010 and £1.1m each in June and October 2010.

Further deferred consideration of between £1.6m and £2.1m was contingent on the licence for ImmuCyst being extended beyond 31 March 2012, with the actual amount payable dependent on the sales of ImmuCyst during 2010 and 2011.

The fair values of the assets acquired are as follows:

	£m
Technical know-how, trade marks and distribution rights	15.6
Goodwill	0.6
<b>Fair value of net assets acquired</b>	<b>16.2</b>
Cash paid	14.3
Cash payable (£2.1m discounted to fair value)	1.9
<b>Total consideration</b>	<b>16.2</b>

The goodwill that arose on acquisition reflects Alliance's entry into the oncology market with an established brand name and sales force.

All other expenses incurred in the acquisition of Cambridge Laboratories were recognised as exceptional items (note 10).

Acquired trademarks and distribution rights when purchased are assessed to ensure they meet a set of criteria including an established and stable sales history. The products are generally in niche areas where there is limited foreseeable prospect of erosion of sales and they require little or no promotion to maintain sales.

For this reason no amortisation has been charged in the period on acquired trademarks as all these products are considered to have an indefinite useful life.

In determining the useful economic life of distribution rights each acquisition has been reviewed separately and consideration given to the period over which the Group expects to derive economic benefit, as such acquired distribution rights are amortised over the life of the licence on a straight line basis.

The recoverable amount of the products 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 the lower of useful economic life and a 15 year period. In each case it is assumed that there will be no growth beyond 2011 and each acquisition is discounted at a rate of 10%, which approximates to the Group's weighted average cost of capital. The CODM considers 15 years to be a sufficient period to represent the indefinite useful economic lives of the products. 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.

## 11. Intangible assets (continued)

Development costs of Enil have been expensed to the income statement during the year (year ended 31 December 2009 £2 829 000)

The goodwill on consolidation arose on the acquisition of Dermapharm Ltd, which took place during the year ended 29 February 2004

All intangible assets are reviewed for impairment annually

The Group	Goodwill on consolidation £ 000s	Technical know-how trade marks and distribution rights £ 000s	Development costs £ 000s	Total £ 000s
<b>Cost</b>				
At 1 January 2009	1,144	36 093	6,207	43 444
Additions	-	7 698	116	7 814
At 31 December 2009	1 144	43,791	6 323	51,258
<b>Amortisation and impairment</b>				
At 1 January 2009	-	-	3,494	3 494
Impairment for the year	-	-	2,829	2 829
At 31 December 2009	-	-	6,323	6 323
<b>Net book amount</b>				
At 31 December 2009	1 144	43 791	-	44 935
At 1 January 2009	1,144	36 093	2 713	39,950

The Group	Goodwill on consolidation £ 000s	Technical know-how, trade marks and distribution rights £ 000s	Development costs £ 000s	Total £ 000s
<b>Cost</b>				
At 1 January 2008	1,144	35,457	6 053	42,654
Additions	-	636	154	790
At 31 December 2008	1 144	36 093	6,207	43 444
<b>Amortisation and impairment</b>				
At 1 January 2008	-	-	3,494	3 494
At 31 December 2008	-	-	3 494	3,494
<b>Net book amount</b>				
At 31 December 2008	1 144	36,093	2 713	39,950
At 1 January 2008	1,144	35 457	2 559	39 160

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## 12 Property, plant and equipment

The Group	Computer equipment £000s	Fixtures, fittings and equipment £000s	Total £000s
<b>Cost</b>			
At 1 January 2010	176	116	292
Additions	127	807	934
Disposals	(79)	(33)	(112)
<b>At 31 December 2010</b>	<b>224</b>	<b>890</b>	<b>1,114</b>
<b>Depreciation</b>			
At 1 January 2010	96	64	160
Provided in the year	67	111	178
Eliminated on disposals	(79)	(33)	(112)
<b>At 31 December 2010</b>	<b>84</b>	<b>142</b>	<b>226</b>
<b>Net book amount</b>			
<b>At 31 December 2010</b>	<b>140</b>	<b>748</b>	<b>888</b>
At 1 January 2010	80	52	132

The net book amount held under finance leases was £1 000 (year ended 31 December 2009 £1 000 year ended 1 January 2009 £3 000)

The Group	Computer equipment £000s	Fixtures fittings and equipment £000s	Total £000s
<b>Cost</b>			
At 1 January 2009	264	331	595
Additions	63	32	95
Disposals	(151)	(247)	(398)
<b>At 31 December 2009</b>	<b>176</b>	<b>116</b>	<b>292</b>
<b>Depreciation</b>			
At 1 January 2009	178	256	434
Provided in the year	69	55	124
Eliminated on disposals	(151)	(247)	(398)
<b>At 31 December 2009</b>	<b>96</b>	<b>64</b>	<b>160</b>
<b>Net book amount</b>			
<b>At 31 December 2009</b>	<b>80</b>	<b>52</b>	<b>132</b>
At 1 January 2009	86	75	161

## 12. Property, plant and equipment (continued)

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

## 13 Investments

The Company	Investment in subsidiary undertakings €000s
<b>Cost</b>	
At 1 January 2010	25,538
Additions	6,722
<b>At 31 December 2010</b>	<b>32,260</b>
At 1 January 2009	21,345
Additions	4,193
<b>At 31 December 2009</b>	<b>25,538</b>
At 1 January 2008	20,821
Additions	524
<b>At 31 December 2008</b>	<b>21,345</b>

The additions in the year relate to the increased investments that the Company has made in its subsidiary through the raising of finance to support the acquisition of new product licenses

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## 13. Investments (continued)

The subsidiary and associated undertakings where the Group held 20% or more of the equity share capital at 31 December 2010 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 Alliance Pharma plc. All other investments are held by Alliance Pharmaceuticals Limited.

## 14 Inventories

	31 December 2010	31 December 2009	1 January 2009
The Group	£000s	£000s	£000s
Finished goods and materials	4,544	2,972	2,265

Inventory costs expensed through the income statement during the year were £16,521,000 (year ended 31 December 2009: £10,955,000; year ended 1 January 2009: £9,232,000).

## 15 Trade and other receivables

	The Group			The Company		
	31 December 2010	31 December 2009	1 January 2009	31 December 2010	31 December 2009	1 January 2009
	£000s	£000s	£000s	£000s	£000s	£000s
Trade receivables	9,139	7,226	5,868	-	-	-
Other receivables	55	41	258	7,080	2,023	10
Prepayments and accrued income	439	276	186	6	5	4
Amounts owed by joint venture	57	114	70	-	-	-
	9,690	7,657	6,382	7,086	2,028	14

## 15 Trade and other receivables (continued)

The ageing of trade receivables at 31 December is detailed below

	31 December 2010 £000s	31 December 2009 £000s	1 January 2009 £000s
Not past due	5,073	4,394	3,513
Due 30-31 December*	3,952	2,376	2,194
Past due 3 days to 91 days	26	327	146
Past 91 days	88	129	15
	<b>9,139</b>	<b>7,226</b>	<b>5,868</b>

\* For the year ended 31 December 2010 £3,381,000 was received by the 11 January 2011. For the year ended 31 December 2009 £1,798,000 was received by the 15 January 2010. For the year ended 31 December 2008 £1,901,000 was received by 12 January 2009.

Trade and other receivables are stated net of estimated allowances for doubtful debts. As at 31 December 2010, trade and other receivables of £32,000 (for the year ended 31 December 2009: £nil) were past due and impaired.

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.

Trade receivables subject to the working capital facility are recognised in the balance sheet until they are settled by the customer. Amounts outstanding from qualifying customers are held as security against the working capital facility.

## 16. Cash and cash equivalents

	The Group			The Company		
	31 December 2010 £000s	31 December 2009 £000s	1 January 2009 £000s	31 December 2010 £000s	31 December 2009 £000s	1 January 2009 £000s
	Cash at bank and in hand	1,989	1,104	4	25	25
Working capital facility	-	(683)	-	-	-	-
Bank overdrafts (a)	-	-	(2,451)	-	-	-
	<b>1,989</b>	<b>421</b>	<b>(2,447)</b>	<b>25</b>	<b>25</b>	<b>4</b>

(a) Overdrafts were secured by a fixed and floating charge over the Company's and Group's assets.

## 17 Major non-cash transactions

Principal non-cash transactions include finance issue costs amortised in the income statement during the year of £207,000 (year ended 31 December 2009: £139,000) and an exchange movement of £75,000 (year ended 31 December 2009: £10,000) (see note 4). Interest rate swaps designated as cash flow hedges resulted in a £26,000 charge (year ended 31 December 2009: £30,000 gain) to other comprehensive income. As a consequence of the onerous contracts recognised in the year, a notional interest charge, representing the unwinding of the discounted value of the onerous contract provision, of £85,000 (year ended 31 December 2009: £nil) was recognised in the income statement. A notional interest charge of £200,000 (year ended 31 December 2009: £nil) was recognised representing the unwinding of the discount on the deferred consideration in relation to the Cambridge acquisition. Amortisation of intangible assets resulted in a charge of £812,000 (year ended 31 December 2009: £nil) being recognised in the income statement. Prepaid loan issue costs of £248,000 (year ended 31 December 2009: £nil) were recognised on termination of the respective loans.

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## 18 Trade and other payables — current

	The Group			The Company		
	31 December	31 December	1 January	31 December	31 December	1 January
	2010	2009	2009	2010	2009	2009
	£000s	£000s	£000s	£000s	£000s	£000s
Trade payables	3,799	1,690	2,553	7	2	21
Other taxes and social security costs	1,109	1,180	653	-	-	-
Accruals and deferred income	4,841	4,045	2,223	309	371	358
Other payables	2,120	158	420	-	-	-
	<b>11,869</b>	<b>7,073</b>	<b>5,849</b>	<b>316</b>	<b>373</b>	<b>379</b>

## 19 Financial liabilities — borrowings

	The Group			The Company		
	31 December	31 December	1 January	31 December	31 December	1 January
	2010	2009	2009	2010	2009	2009
Current	£000s	£000s	£000s	£000s	£000s	£000s
Bank loans due within one year or on demand						
Secured (a)	4,000	3,114	2,295	-	-	-
Net obligations under finance leases	1	-	-	-	-	-
	<b>4,001</b>	<b>3,114</b>	<b>2,295</b>	<b>-</b>	<b>-</b>	<b>-</b>

	The Group			The Company		
	31 December	31 December	1 January	31 December	31 December	1 January
	2010	2009	2009	2010	2009	2009
Non-Current	£000s	£000s	£000s	£000s	£000s	£000s
Bank loans						
Secured (a)	15,000	19,008	20,485	-	-	-
Net obligations under finance leases	-	1	2	-	-	-
	<b>15,000</b>	<b>19,009</b>	<b>20,487</b>	<b>-</b>	<b>-</b>	<b>-</b>
Convertible debt (note 20)	4,822	7,333	7,292	4,822	7,333	7,292
	<b>19,822</b>	<b>26,342</b>	<b>27,779</b>	<b>4,822</b>	<b>7,333</b>	<b>7,292</b>

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

As at 25 November 2010 outstanding loans of £22.2m were repaid and a new enlarged facility was agreed with Lloyds Bank Corporate Markets comprising an £18m term loan repayable over four years and a £20m four year revolving credit facility of which £2m was drawn at 31 December 2010

## 20 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.

During the year the Company received conversion notices in respect of £2,598,745 nominal value of the Company's 8% Convertible Unsecured Loan Stock. Accordingly the Company has allotted 12,374,960 ordinary shares of 1p each in the Company.

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.

## 21 Other non-current liabilities

	The Group			The Company		
	31 December	31 December	1 January	31 December	31 December	1 January
	2010	2009	2009	2010	2009	2009
	£000s	£000s	£000s	£000s	£000s	£000s
Deferred consideration for acquisitions	60	80	100	-	-	-
	60	80	100	-	-	-

Deferred consideration of £60,000 (year ended 31 December 2009 £80,000, year ended 1 January 2009 £100,000) relates to the acquisition of Dermapharm Limited which took place in the year ended 29 February 2004

## 22 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 re-measured to fair value at each period end by Lloyds Bank Corporate Markets. The valuations are indicative values based on mid-market levels as at the close of business on the balance sheet date.

The Group has in place interest rate swaps with a nominal value of £16m (year ended 31 December 2009 £16m, year ended 1 January 2009 £15m) to convert the floating interest rate charge to a fixed rate interest charge.

# Notes to the Financial Statements.

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## 22 Financial instruments (continued)

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

	Fixed £000s	Floating £000s	Total £000s
<b>At 31 December 2010</b>			
Bank loans — sterling denominated	-	19 000	19 000
Convertible loan stock	4 901	-	4 901
Interest rate hedges	16,000	(16 000)	-
<b>Sterling subtotal</b>	<b>20,901</b>	<b>3,000</b>	<b>23,901</b>
Bank loans — euro denominated	-	-	-
<b>Euro subtotal</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total financial liabilities</b>	<b>20,901</b>	<b>3,000</b>	<b>23,901</b>
Unamortised issue costs	(79)	-	(79)
<b>Net book value of financial liabilities</b>	<b>20,822</b>	<b>3,000</b>	<b>23,822</b>
<b>At 31 December 2009</b>			
Working capital facility	-	683	683
Bank loans — sterling denominated	-	20 634	20,634
Convertible loan stock	7 500	-	7 500
Interest rate hedges	16 000	(16 000)	-
<b>Sterling subtotal</b>	<b>23 500</b>	<b>5 317</b>	<b>28,817</b>
Bank loans — euro denominated	-	1,750	1 750
<b>Euro subtotal</b>	<b>-</b>	<b>1 750</b>	<b>1 750</b>
<b>Total financial liabilities</b>	<b>23 500</b>	<b>7 067</b>	<b>30,567</b>
Unamortised issue costs	(332)	(96)	(428)
<b>Net book value of financial liabilities</b>	<b>23 168</b>	<b>6,971</b>	<b>30 139</b>
<b>At 1 January 2009</b>			
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)	-
<b>Sterling subtotal</b>	<b>22,500</b>	<b>7 952</b>	<b>30,452</b>
Bank loans — euro denominated	-	2,578	2 578
<b>Euro subtotal</b>	<b>-</b>	<b>2,578</b>	<b>2 578</b>
<b>Total financial liabilities</b>	<b>22,500</b>	<b>10 530</b>	<b>33,030</b>
Unamortised issue costs	(426)	(80)	(506)
<b>Net book value of financial liabilities</b>	<b>22,074</b>	<b>10,450</b>	<b>32 524</b>

## 22 Financial instruments (continued)

	Fixed rate financial liabilities	
	Weighted average fixed rate %	Weighted average period for which rate is fixed
<b>At 31 December 2010</b>		
Sterling	2.78	2.14 years
<b>At 31 December 2009</b>		
Sterling	6.23	3.04 years
<b>At 1 January 2009</b>		
Sterling	6.51	4.07 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 £1,989,000 (31 December 2009: £1,104,000; 1 January 2009: £4,000) 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 £21,000 in 2011 and result in the fair value of the cash flow hedge liability recognised as other comprehensive income reducing by approximately £93,000. A 0.5% decrease would have the opposite effect.

### Currency risk

Approximately 10% 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. The level of euro expenses broadly matches the level of euro income.

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 £120,000 increase in predicted pre-tax profits, while a 5% strengthening of sterling would result in a £108,000 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 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 £1.0m per quarter rising to £1.25m per quarter from December 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 working capital facility.

### Fair value measurement

Effective from 1 January 2009, the Company adopted the amendments to IFRS7 for financial instruments that are measured in the Company balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2) and
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3)

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## 22 Financial instruments (continued)

The following table presents the Company's financial assets and liabilities that are measured at fair value at 31 December 2010

Liabilities	Level 1 €000s	Level 2 €000s	Level 3 €000s	Total €000s
Derivative financial instruments				
Interest rate swaps	-	28	-	28
	-	28	-	28

The following table presents the Company's financial assets and liabilities that are measured at fair value at 31 December 2009

Liabilities	Level 1 €000s	Level 2 €000s	Level 3 €000s	Total €000s
Derivative financial instruments				
Interest rate swaps	-	1,351	-	1 351
	-	1 351	-	1 351

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

	At 31 December 2010 €000s	At 31 December 2009 €000s	At 1 January 2009 €000s
Due within			
One year	4,000	3 222	2 410
More than one year, not more than two years	4,250	3,242	2 600
More than two years, not more than three years	5,000	15,920	2 620
More than three years, not more than four years	5,750	-	15 448
	19,000	22,384	23 078

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

	31 December 2010				Total
	In one year, or less	In more than one year, but not more than two	In more than two years, but not more than five	In more than five years	
Finance leases	1	-	-	-	1
Trade and other payables	11,869	20	40	-	11,929
Corporation tax	722	-	-	-	722
Working capital facility	-	-	-	-	-
Bank loans	4,740	4,858	11,291	-	20,889
Derivative financial instruments	15	13	-	-	28
Convertible loan stock	392	393	5,162	-	5,947
Onerous contracts	372	195	398	219	1,184
	18,111	5,479	16,891	219	40,700

22 Financial instruments (continued)

	31 December 2009				Total
	In one year or less	In more than one year but not more than two	In more than two years but not more than five	In more than five years	
Finance leases	-	1	-	-	1
Trade and other payables	7 073	20	40	20	7 153
Corporation tax	77	-	-	-	77
Working capital facility	683	-	-	-	683
Bank loans	4 038	3 942	16,507	-	24 487
Derivative financial instruments	500	500	351	-	1,351
Convertible loan stock	600	600	8 651	-	9,851
	12,971	5 063	25 549	20	43 603

	1 January 2009				Total
	In one year, or less	In more than one year but not more than two	In more than two years but not more than five	In more than five years	
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
Derivative financial instruments	369	369	643	-	1 381
Convertible loan stock	600	600	1 202	8 049	10,451
	13,093	4 444	21 058	8 089	46,684

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

	31 December 2010		31 December 2009		1 January 2009	
	Trade payables and other £000s	Bank borrowings and other loans £000s	Trade payables and other £000s	Bank borrowings and other loans £000s	Trade payables and other £000s	Bank borrowings and other loans £000s
In one year or less	410	392	467	600	379	600
In more than one year, but not more than two	-	393	-	600	-	600
In more than two years but not more than five	-	5,162	-	8,651	-	1,202
In more than five years	-	-	-	-	-	8 049
	410	5,947	467	9 851	379	10,451

The Group had £3 432,000 (31 December 2009: £2,499 000, 1 January 2009: £553 000) undrawn committed borrowing facilities available at 31 December 2010

# Notes to the Financial Statements.

for the year ended 31 December 2010

## 22. Financial instruments (continued)

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

As at 31 December 2010	Loans and receivables £000s	Non financial assets £000s	Total £000s
<b>Financial assets</b>			
Cash	1,989	-	1,989
Trade and other receivables	9,251	439	9,690
	11,240	439	11,679

As at 31 December 2010	Held for trading £000s	Other financial liabilities £000s	Liabilities not within scope of IAS39 £000s	Total £000s
<b>Financial liabilities</b>				
Long term financial liabilities	-	15,000	-	15,000
Convertible debt	-	4,822	-	4,822
Other liabilities	-	60	-	60
Financial liabilities	-	4,001	-	4,001
Trade and other payables	-	10,760	1,109	11,869
Corporation tax	-	722	-	722
Onerous contracts — non current	-	641	-	641
Onerous contracts — current	-	372	-	372
Derivative financial instruments — non current	13	-	-	13
Derivative financial instruments — current	15	-	-	15
	28	36,378	1,109	37,515

As at 31 December 2009	Loans and receivables £000s	Non financial assets £000s	Total £000s
<b>Financial assets</b>			
Cash	1,104	-	1,104
Trade and other receivables	7,381	276	7,657
	8,485	276	8,761

22 Financial instruments (continued)

As at 31 December 2009	Held for trading £000s	Other financial liabilities £000s	Liabilities not within scope of IAS39 £000s	Total £000s
<b>Financial liabilities</b>				
Cash and cash equivalents	-	683	-	683
Long term financial liabilities	-	19,008	1	19 009
Convertible debt	-	7,333	-	7 333
Other liabilities	-	80	-	80
Financial liabilities	-	3 114	-	3 114
Trade and other payables	-	5,893	1 180	7,073
Corporation tax	-	77	-	77
Derivative financial instruments — non current	851	-	-	851
Derivative financial instruments — current	500	-	-	500
	1,351	36 188	1,181	38 720

As at 1 January 2009	Loans and receivables £000s	Non financial assets £000s	Total £000s
<b>Financial assets</b>			
Cash	4	-	4
Trade and other receivables	6 196	186	6 382
	6 200	186	6 386

As at 1 January 2009	Held for trading £000s	Other financial liabilities £000s	Liabilities not within scope of IAS39 £000s	Total £000s
<b>Financial liabilities</b>				
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	37 997	655	40,033

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## 22 Financial instruments (continued)

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

As at 31 December 2010	Loans and receivables £000s	Non financial assets £000s	Total £000s
<b>Financial assets</b>			
Cash	25	-	25
Trade and other receivables	-	7,086	7,086
	<b>25</b>	<b>7,086</b>	<b>7,111</b>

As at 31 December 2010	Other financial liabilities £000s	Total £000s
<b>Financial liabilities</b>		
Convertible debt	4,822	4,822
Trade and other payables	316	316
Corporation tax	94	94
	<b>5,232</b>	<b>5,232</b>

As at 31 December 2009	Loans and receivables £000s	Non financial assets £000s	Total £000s
<b>Financial assets</b>			
Cash	25	-	25
Trade and other receivables	2,000	28	2,028
	<b>2,025</b>	<b>28</b>	<b>2,053</b>

As at 31 December 2009	Other financial liabilities £000s	Total £000s
<b>Financial liabilities</b>		
Convertible debt	7,333	7,333
Trade and other payables	373	373
Corporation tax	94	94
	<b>7,800</b>	<b>7,800</b>

As at 1 January 2009	Loans and receivables £000s	Non financial assets £000s	Total £000s
<b>Financial assets</b>			
Cash	4	-	4
Trade and other receivables	-	14	14
	<b>4</b>	<b>14</b>	<b>18</b>

## 22 Financial instruments (continued)

As at 1 January 2009	Other financial liabilities £000s	Total £000s
<b>Financial liabilities</b>		
Convertible debt	7,292	7,292
Trade and other payables	379	379
	7,671	7,671

## 23 Derivative financial instruments

	31 December 2010 Liabilities £000s	31 December 2009 Liabilities £000s	1 January 2009 Liabilities £000s
Interest rate swap — cash flow hedge	28	1,351	1,381
	28	1,351	1,381
Current portion	15	500	369
Non current portion	13	851	1,012

During the year interest rate swaps with a nominal value of £16m were terminated resulting in a charge of £1.1m being recognised as exceptional finance costs within the income statement. The new swap operates until 26 November 2012.

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 3 month sterling LIBOR. The amount recognised through the income statement in respect of interest rate swaps during the year was a charge of £589,451 (year ended 31 December 2009: £644,676 charge).

## 24 Deferred tax asset/(provision)

The Group	31 December 2010 £000s	31 December 2009 £000s	1 January 2009 £000s
Accelerated capital allowances	(86)	10	12
Accelerated allowances on intangible assets	(3,725)	(3,292)	(3,089)
Interest rate hedge	8	378	387
Tax losses available	-	1,454	2,726
Deferred tax asset un-provided	-	-	-
Deferred tax asset	-	-	70
Deferred tax provision	(3,803)	(1,450)	(34)

# Notes to the Financial Statements.

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## 24. Deferred tax asset/(provision) (continued)

Reconciliation of deferred tax movements

The Group	31 December	Recognised in other	Recognised	31 December
	2009	comprehensive	in the income	2010
	£000s	income	statement	£000s
		£000s	£000s	
Non-current assets				
Intangible assets	(3 292)	-	(433)	(3,725)
Property plant and equipment	10	-	(96)	(86)
Non-current liabilities				
Derivative financial instruments	239	(235)	-	4
Current liabilities				
Derivative financial instruments	140	(136)	-	4
Unused tax losses	1 453	-	(1 453)	-
	(1 450)	(371)	(1 982)	(3,803)
Recognised as				
Deferred tax asset	-			-
Deferred tax liability	(1 450)			(3,803)

Deferred tax has been calculated at the prevailing rate of 27% (2008 and 2009 28%)

A number of changes to the UK Corporation tax system were announced in the June 2010 Budget Statement. The Finance (No. 2) Act 2010 is expected to include legislation to reduce the main rate of corporation tax from 28% to 27% from 1 April 2011. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 24% by 1 April 2014. The first 1% reduction was substantively enacted at the balance sheet date and has been included above. The further 3% phased reduction has not been substantively enacted at the balance sheet date and therefore not included in these financial statements.

The proposed reductions of the main rate of corporation tax by 1% per year to 24% by 1 April 2014 are expected to be enacted separately each year. The overall effect of the further changes from 27% to 24% if these applied to the deferred tax balance at 31 December 2010 would be to decrease the deferred tax liability by £423 000 (being £141,000 recognised each year until 2014).

24 Deferred tax asset/(provision) (continued)

The Group	1 January 2009 £000s	Recognised in other comprehensive income £000s	Recognised in the income statement £000s	31 December 2009 £000s
<b>Non-current assets</b>				
Intangible assets	(3,089)	-	(203)	(3,292)
Property plant and equipment	12	-	(2)	10
<b>Non-current liabilities</b>				
Derivative financial instruments	284	(45)	-	239
<b>Current liabilities</b>				
Derivative financial instruments	103	37	-	140
Unused tax losses	2,726	-	(1,273)	1,453
	36	(8)	(1,478)	(1,450)
<b>Recognised as</b>				
Deferred tax asset	70			-
Deferred tax liability	(34)			(1,450)

The Company	31 December 2009 £000s	Recognised in other comprehensive income £000s	Recognised in the income statement £000s	31 December 2010 £000s
Unused tax losses	-	-	-	-
	-	-	-	-
<b>Recognised as</b>				
Deferred tax asset	-			-

The Company	1 January 2009 £000s	Recognised in other comprehensive income £000s	Recognised in the income statement £000s	31 December 2009 £000s
Unused tax losses	70	-	(70)	-
	-	-	(70)	-
<b>Recognised as</b>				
Deferred tax asset	70			-

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## 25 Provisions for other liabilities and charges

	31 December 2010 £000s
As at 1 January 2009 and 1 January 2010	–
Amount provided for in year	1,268
Amount utilised in year	(340)
Unwinding of discount	85
<b>As at 31 December 2010</b>	<b>1,013</b>

Leases and associated costs for offices in Newcastle and Dublin, acquired as part of the Cambridge Laboratories acquisition have subsequently been treated as onerous contracts. As at 31 December 2010 an amount of £1.013m, discounted at a rate of 10%, representing payments due until the end of each contract has been recognised. The Dublin property lease will run until 2011 and the Newcastle property lease will run until 2015.

The balances are analysed as follows

	31 December 2010 £000s
Current	372
Non-current	641

## 26 Share capital

	Authorised No of shares	Authorised £000s
<b>At 31 December 2010 — ordinary shares of 1p each</b>	<b>400,000,000</b>	<b>4,000</b>
At 31 December 2009 — ordinary shares of 1p each	400,000,000	4,000
At 1 January 2009 — ordinary shares of 1p each	400,000,000	4,000

	Allotted called and fully paid No of shares	Allotted called and fully paid £000s
At 1 January 2009 — ordinary shares of 1p each	162,061,773	1,621
Issued during the year	31,257,625	312
At 31 December 2009 — ordinary shares of 1p each	193,319,398	1,933
Issued during the year	42,786,020	428
<b>At 31 December 2010 — ordinary shares of 1p each</b>	<b>236,105,418</b>	<b>2,361</b>

On 22 February 2010 28,846,154 ordinary shares were issued in a placing to part-fund the acquisition of the trade and certain assets of Cambridge Laboratories (Ireland) Limited and Cambridge Laboratories Limited.

Between 1 January 2010 and 31 December 2010 1,564,906 shares were issued on the exercise of employee share options (2009: nil).

During the year, the Company received conversion notices in respect of £2,598,745 nominal value of the Company's 8% Convertible Unsecured Loan Stock (2009: £nil). Accordingly the Company has allotted 12,374,960 ordinary shares of 1p each in the Company (2009: nil).

## 26 Share capital (continued)

### 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 7.75p to 34.25p. Options are exercisable three years after date of grant. Options outstanding are as follows:

Year of grant	Exercise price Pence	Exercise from	31 December 2010 Number	31 December 2009 Number	1 January 2009 Number
2004	15.50	2007	-	342,500	360,000
2005	19.00	2008	9,000	90,558	109,183
2006	18.75	2009	74,750	259,350	280,850
2006	13.50	2009	-	200,000	200,000
2007	8.25 and 9.25	2010	231,126	890,650	1,550,150
2008	8.5 and 9.00	2011	3,276,400	3,372,275	5,016,850
2009	7.75, 18.5 and 21.5	2012	2,481,210	2,781,210	-
2010	33.25 and 34.25	2013	2,668,639	-	-
			<b>8,741,125</b>	<b>7,936,543</b>	<b>7,517,033</b>

See note 20 for details of the Convertible Unsecured Loan Stock.

## 27 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 December 2010	Expected volatility	Risk free rate
27/07/04	16.50p	15.50p	1,242,810	-	27.1%	4.13%
31/08/05	19.00p	19.00p	424,516	9,000	22.8%	4.13%
03/11/05	18.75p	19.00p	82,057	-	22.8%	4.13%
04/05/06	18.75p	18.75p	901,190	74,750	14.9%	4.30%
19/12/06	13.50p	13.50p	200,000	-	14.9%	4.30%
02/05/07	9.25p	9.25p	1,402,425	94,750	20.4%	4.62%
11/07/07	8.25p	8.25p	500,000	136,376	20.4%	4.62%
23/04/08	8.50p	8.50p	5,419,950	3,076,400	18.6%	4.90%
06/05/08	9.00p	9.00p	200,000	200,000	18.6%	4.90%
14/04/09	7.75p	7.75p	2,307,860	2,181,210	25.5%	4.08%
18/09/09	18.50p	18.50p	300,000	-	39.2%	3.98%
07/12/09	21.5p	21.5p	300,000	300,000	39.1%	3.98%
26/03/10	33.25p	33.25p	1,300,000	1,300,000	43.5%	3.90%
29/04/10	34.25p	34.25p	1,502,778	1,368,639	45.7%	3.90%

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## 27. Share based payments (continued)

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 4 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

	2010		2009		2008	
	Number	Weighted average exercise price Pence	Number	Weighted average exercise price Pence	Number	Weighted average exercise price Pence
Outstanding at start of year	7,936,543	10.08	7,517,033	9.61	3,011,840	12.32
Granted	2,802,778	33.79	2,907,860	10.28	5,619,950	8.52
Exercised	(1,564,906)	12.48	(57,625)	17.84	-	-
Forfeited	(433,290)	22.54	(2,430,725)	8.66	(1,114,757)	11.45
Outstanding at end of year	8,741,125	16.59	7,936,543	10.08	7,517,033	9.61
Exercisable at end of year	314,876	11.35	892,408	16.35	469,183	16.31

## 28. Cash generated from operations

	Group		Company	
	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2010	Year ended 31 December 2009
	£000s	£000s	£000s	£000s
Result for the period before tax	12,872	5,740	4,802	2,457
Dividends received	-	-	(5,000)	(2,000)
Interest paid	1,919	2,695	455	600
Interest income	(7)	(2)	(975)	(1,534)
Other finance costs	2,190	(5)	87	41
Depreciation of property, plant and equipment	178	124	-	-
Amortisation of intangibles	812	-	-	-
Change in inventories	(1,571)	(707)	-	-
Change in investments	-	-	(2,147)	(3,029)
Change in trade and other receivables	(2,040)	(1,275)	(5,056)	(14)
Change in trade and other payables	3,623	1,224	(57)	(6)
Write off intangible assets	-	2,829	-	-
Share options charges	128	25	128	25
Cash flows from operating activities	18,104	10,648	(7,763)	(3,460)

## 29. Capital commitments

Neither the Group nor Company had any capital commitments at 31 December 2010 or at 31 December 2009.

## 30. Contingent liabilities

Neither the Group nor Company had any contingent liabilities at 31 December 2010 or at 31 December 2009.

### 31. Pensions

The Group operates a defined contribution Group personal pension scheme for the benefit of certain directors and employees

	31 December 2010 £000s	31 December 2009 £000s
<b>The Group</b>		
Contributions payable by the Group for the year	201	142

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

### 32 Leasing commitments

The future aggregate minimum lease payments under non-cancellable operating leases are as follows

	31 December 2010 Land and buildings £000s	31 December 2009 Land and buildings £000s	1 January 2009 Land and buildings £000s
No later than one year	432	69	118
Later than one year and no later than five years	985	-	69
Later than five years	729	-	-
	<b>2,146</b>	<b>69</b>	<b>187</b>

### 33 Related party transactions

The Group paid £325,000 (year ended 31 December 2009 £487,000) for services from Fasken Martineau LLP a firm of which P Ranson is a partner. At 31 December 2010 there was a balance of £16,762 (31 December 2009 £1,952) outstanding in respect of services from Fasken Martineau LLP.

During the year the Company received funds of £425,000 (year ended 31 December 2009 £370,000) from its subsidiary Alliance Pharmaceuticals Limited. Net payments of £1,327,000 (year ended 31 December 2009 £440,000) were made by Alliance Pharmaceuticals Limited on behalf of Alliance Pharma plc. Interest of £974,000 (year ended 31 December 2009 £1,534,000) was charged to Alliance Pharmaceuticals Limited on the total outstanding debt. The amount owed by Alliance Pharmaceuticals Limited at the year end is £34,921,000 (31 December 2009 £21,199,000).

During the year the Group made payments on behalf of Unigreg of £57,000 (year ended 31 December 2009 £65,000). Interest receivable from Unigreg was £48,000 (year ended 31 December 2009 £50,000).

Lynette Booley, wife of Director Tony Booley, was paid £34,000 (31 December 2009 £31,000) for promotional services and goods. £4,000 was outstanding at 31 December 2010 (year ended 31 December 2009 £3,000).

# Notes to the Financial Statements.

for the year ended 31 December 2010

## 34 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 December 2010 £000s	31 December 2009 £000s	1 January 2009 £000s
Intangible fixed assets	1,950	1,950	1,950
Current assets	836	1,032	412
Current liabilities	600	229	257
Net assets	2,187	981	642

	Year ended 31 December 2010 £000s	Year ended 31 December 2009 £000s	Year ended 1 January 2009 £000s
Income	1,874	1,442	1,410
Cost of sales	1,033	775	768
Administration and marketing expense	276	78	73
Interest paid	-	50	109
Profit on ordinary activities before taxation	565	539	460

### 35 Ultimate controlling party

There is no single ultimate controlling party

### 36 Post balance sheet events

In March 2011 Alliance Pharmaceuticals Limited conditionally agreed to buy the UK and Irish rights to the brands Anbesol and Ashton & Parsons from a subsidiary of Reckitt Benckiser Group plc ("Reckitt Benckiser") for £2.55m cash consideration. Alliance intends to fund the acquisition by drawing a loan from the £20m Revolving Credit Facility ("RCF") that was put in place in November 2010 to fund acquisitions. The RCF is not currently utilised.

Anbesol is used to treat mouth ulcers, teething pains and denture irritation. Ashton & Parsons is used in infants for the symptomatic relief of pain and stomach upset caused by teething.

As part of the acquisition by Reckitt Benckiser of SSL International plc, Reckitt Benckiser plc has given commitments to the European Commission to divest Anbesol and Ashton & Parsons. The sale of the brands by Reckitt Benckiser to Alliance is conditional on the approval of the European Commission.

For the twelve months ended 31 December 2010 Anbesol and Ashton & Parsons sales were £1.3m and £0.8m respectively. Sales of Ashton & Parsons in the past few months have been somewhat lower than historically as a result of certain production issues which Alliance will be seeking to resolve. The gross margin rates of Anbesol and Ashton & Parsons are in line with other products in Alliance's existing portfolio.

Based on the contribution from Anbesol alone, the proposed acquisition is expected to be earnings enhancing in the current financial year.

## Supplementary 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, lines are open 8.30am to 5.30pm Monday to Friday).

### Financial Calendar

Annual General Meeting	26 May 2011
Ex-dividend	17 June 2011
Dividend payment	14 July 2011
Interim results announcement	7 September 2011
Year End	31 December 2011
Preliminary announcement	March 2012

\* Unaudited information

## Five Year Summary

	Year ended 31 December 2006 £m	Year ended 31 December 2007 £m	Year ended 31 December 2008 £m	Year ended 31 December 2009 £m	Year ended 31 December 2010 £m
Revenue	17.3	18.2	21.8	31.2	49.9
Operating profit before exceptional items	2.6	3.6	6.4	11.2	18.7
Exceptional operating items	-	(3.6)	-	(2.8)	(1.7)
Operating profit after exceptional items	2.6	-	6.4	8.4	17.0
Exceptional finance items	-	-	-	-	(1.8)
Profit before tax before exceptional items	0.5	0.4	2.4	8.5	16.4
Profit/(loss) before tax after exceptional items	0.5	(3.2)	2.4	5.7	12.9
Intangible assets	39.5	39.2	40.0	44.9	60.3
Tangible assets	0.3	0.3	0.2	0.1	0.9
Current assets	8.3	7.0	8.7	11.7	16.2
Current liabilities	11.0	9.8	11.1	11.4	17.0
Equity	10.4	6.7	8.8	16.6	36.1
Average shares in issue (millions)	156.7	162.1	162.1	173.2	226.1
Shares in issue at period end (millions)	162.1	162.1	162.1	193.3	236.1
Earnings per share — basic (p)	0.32	(1.98)	1.55	2.37	3.96
Earnings per share — adjusted basic (p)	0.32	0.23	1.17	3.55	5.07

## Shareholding Analysis

Below is an analysis of the share register by size of holding as at 21 March 2011

Size of shareholding	Proportion of shareholders	Number of shares held	Proportion of shares
1-5 000	28.74%	388 633	0.16%
5 001-10 000	18.27%	888,329	0.38%
10,001-50,000	31.56%	4 303 487	1.82%
50 001-100 000	4.98%	2,448 027	1.03%
100 001-500,000	8.14%	11 027 911	4.66%
500 001-1 000 000	1.50%	6,662,665	2.82%
1,000,001-5,000 000	4.98%	60 273 652	25.47%
5 000 001-10 000 000	0.83%	35 282,720	14.91%
10,000,001-50 000,000	1.00%	115 339 492	48.75%
	100.00%	236 614,916	100.00%

As at 21 March 2011 the Company has 603 registered shareholders

# Advisors.

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## COMPANY NUMBER

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### 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.

The Report of the Directors in this Annual Report 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.

### Trademarks

The following are registered trademarks of Alliance Pharmaceuticals Limited (a subsidiary of Alliance Pharma plc) and are protected in a number of countries:

ALLIANCE, ALLIANCE and Logo, ALLIANCE GENERICS, Acnival™, Alphaderm™, Aqudrate™, Atarax™, Biorphen™, Broflex™, Buccastem™, Deltacortril™, Dermamist™, Distamine™, Forceval™, Hydromol™, Isprelor™, Lysovir™, Meted™, Naseptin™, Nu-Seals™, Occlusal™, Pavacol-D™, Pentrax™, Perostat™, Permitabs™, Pragmatar™, Terracortril™, Thwart™, Thyrogard™, Timodine™ and Uniflu™.

The following are all used under licence by Alliance Pharmaceuticals Limited:

Xenazine™ is a registered trademark of Biovail Laboratories International (Barbados).

Symmetrel™ is a registered trademark of Endo Pharmaceuticals Inc.

Gelclair™ is a registered trademark of Helsinn Healthcare S.A.

Cafergot™, Calcium-Sandoz™, Hygroton™, Metopirone™, Rogitine™, Slow-K™, Synacthen™, Syntocinon™ and Syntometrine™ are registered trademarks of Novartis AG.

Actidose Aqua™ is a registered trademark of Paddock Laboratories Inc.

Nitoman™ is a registered trademark of Roche Products Limited.

ImmuCyst™ is a registered trademark of Sanofi Pasteur Limited.

Anbesol™ and Ashton & Parsons™ are registered trademarks of LRC Products Limited, a subsidiary of Reckitt Benckiser Group plc.

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