ALLIANCE

Breathing life into medicines

ALLIANCE PHARMA plc Annual Report and Accounts for the year ended 31 December 2012

2012 Annual Report

EXPIRES: 31.12.13

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*Unaudited information.

Alliance Pharma plc is an AIM listed speciality pharmaceutical company

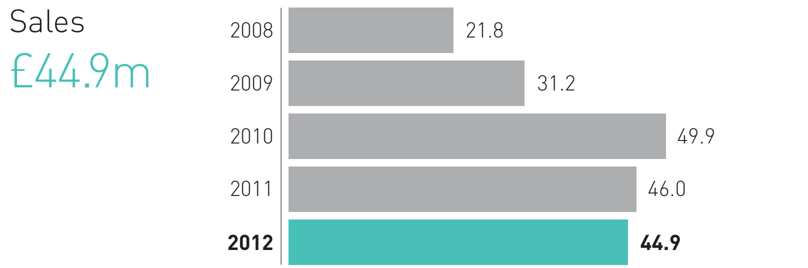
Alliance has a strong track record of acquiring the rights to established niche products and owns or licences the rights to more than 60 pharmaceutical products and continues to explore opportunities to expand the range. The group commenced trading in 1998 and has since grown to an annual turnover of £45m.

Alliance has its headquarters in the UK at Chippenham, Wiltshire.

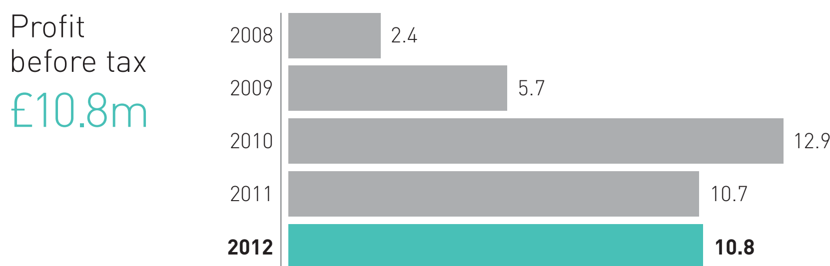
Highlights

Key Numbers

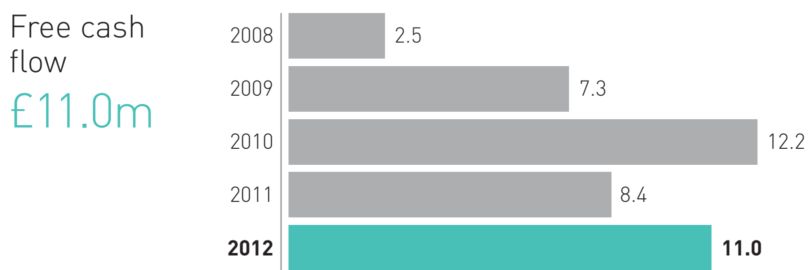
Sales
£44.9m



Profit before tax
£10.8m

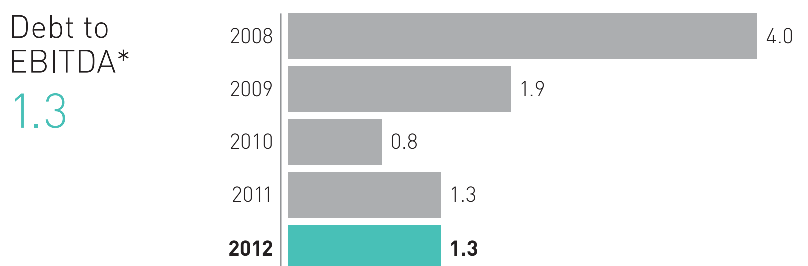


Free cash flow
£11.0m



Dividend
0.825p

Debt to EBITDA*
1.3



2012 Key Facts

- Two acquisitions with combined annual profit of £3.2m
- Underlying sales growth of 13%**
- Hydromol sales growth of 29% to £4.7m
- Operating profit 27% of sales
- Further £10m of financing agreed to fund acquisitions
- Full year dividend up 10% to 0.825p per share (2011: 0.75p per share)
- Free cash flow of £11.0m up 31%

FURTHER £10M OF FINANCING AGREED TO FUND ACQUISITIONS

*EBITDA based on bank covenants definition.
**Excluding Deltacortril and ImmuCyst.

02 Our Products

Promoted Portfolio

Alliance promotes products in two areas of specialisation, Dermatology and Secondary Care. Selective promotional investment of products enables effective use of marketing resources.

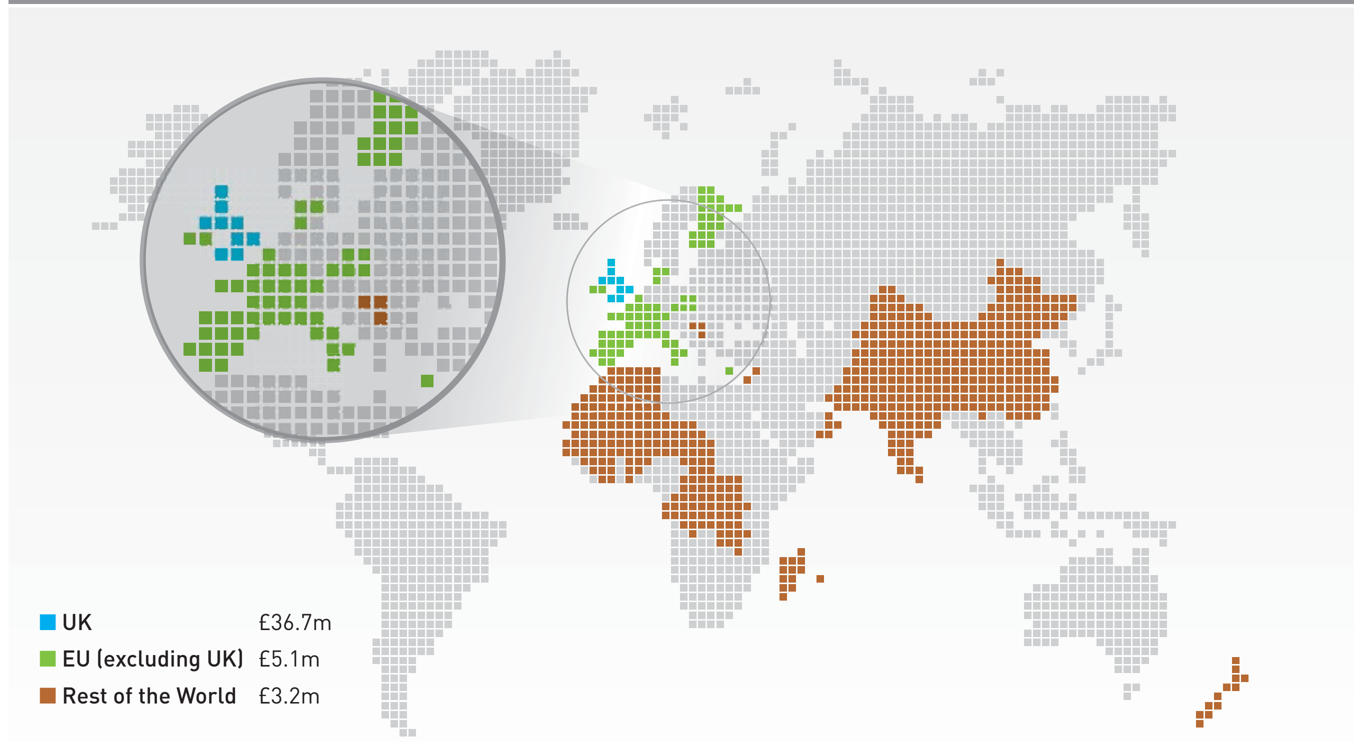
Dermatology	Products in the portfolio		
The Hydromol range grew by 29% to £4.7m (2011: £3.6m) supported by a small field force. The remainder of the portfolio grew by 2%, on a like-for-like basis. The total portfolio had sales of £10.1m (2011: £9.0m).	Acnisal Alphaderm Aquadrate Atarax Dermamist	Hydromol Isotretinoin Meted Naseptin Occlusal	Pentrax Permitabs Quinoderm Timodine

Secondary Care	Products in the portfolio		
We were delighted to add the Opus stoma care products, acquired in 2012, to our Secondary Care portfolio. The stoma care products added £0.7m in 2012 and have annual sales of £3.8m. Gelclair, now a £1m, brand delivered growth of 9%.	Absorbagel Clearway Deogel Gelclair	ImmuCyst La Vera Lift Lift plus	Naturcare SkinSafe Ultracleanse

*Includes full year figures for products acquired during 2012.

International

2012 Geographical Distribution



During 2012 Alliance was pleased to welcome Philippe Pasdelou as our Country Manager in France and Lars Boerger as our Country Manager in Germany, Austria and Switzerland. Both are skilled and experienced pharmaceutical professionals.

Philippe will manage the sales of our anti-malarial products, acquired during the year, in Europe and our export markets including francophone Africa. Annual sales of these products are circa £1m, which provide a foundation on which to build our European infrastructure. This will change our presence in Europe from using distributors to selling direct to market. Our presence in France and Germany is already increasing the number of acquisition opportunities we see. The intention is to replicate the successful Alliance business model in Europe.

In non-European markets we continue to sell via our distributor network and will build on this where opportunities arise.

We continue to learn about the Chinese market. This will stand us in good stead as we continue to study this market for opportunities.

Our Business Model

Strategy

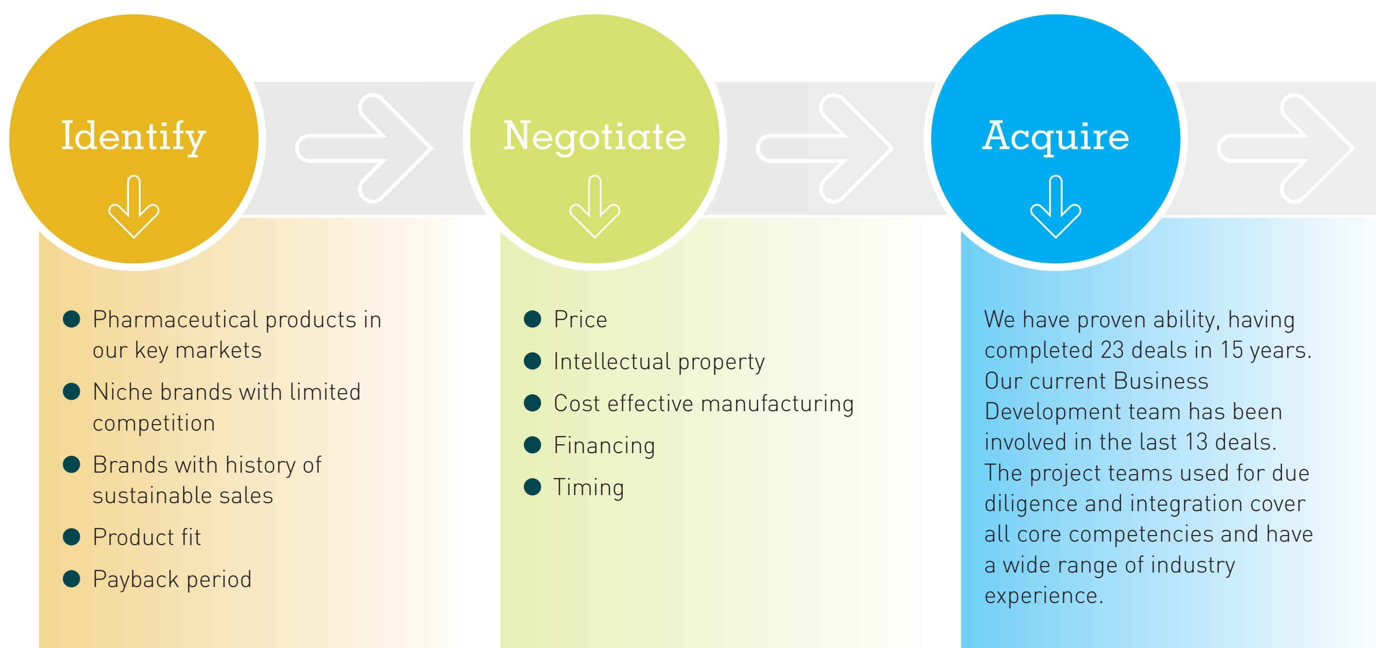
Alliance's strategy is to acquire established, niche pharmaceutical products within key European markets by acquisition or licence.

Acquisitions of products are typically financed by a combination of bank debt and equity in a ratio 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.

Within the product portfolio, brands are selected for promotional investment where management's forecasts suggest an increased return on investment. Non promoted products are managed to maximise their contribution, taking advantage of market opportunities when they occur.

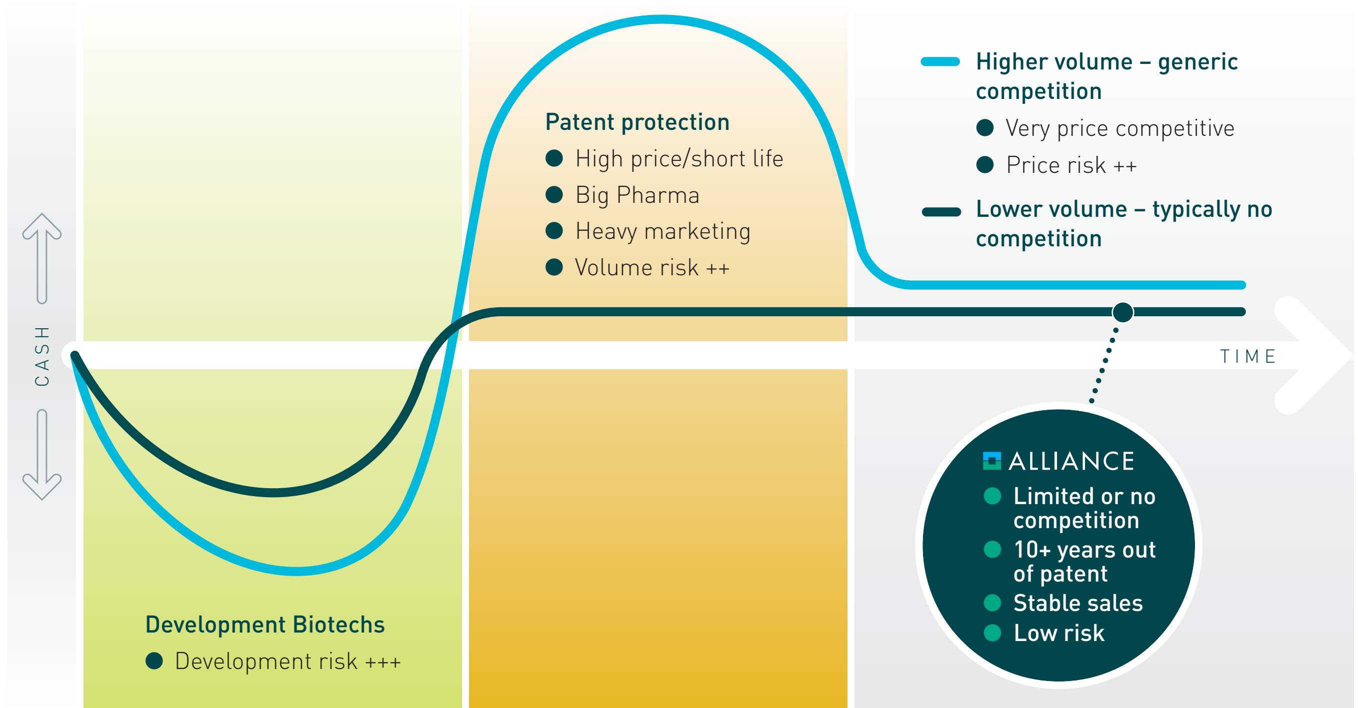
Labour and capital intensive activities, such as manufacturing, warehousing and distribution are outsourced so that new products may be quickly integrated into the Alliance portfolio with minimal increase in overheads. Outsourcing enables management to concentrate on key decisions and act quickly to take advantage of opportunities as they arise.

The Acquisition Process



Product Selection

Product life-cycle: Alliance products are usually at least 10 years post patent expiry, low volume with stable sales history and limited or no direct competition.



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.

Integrate

- Transfer manufacturing to one of Alliance's contract manufacturers
- Incorporate into Alliance's existing brand portfolios
- Integrate into our European operations

Maximise

Market growth strategies including selective promotion, brand extensions and new territories are used to build on the profitability and value of the acquired assets.

06 Acquisition Timeline

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

SUCCESSFUL ACQUISITIONS EXPERTISE TARGETS RECORD STRONG TRACK

Investment value

Year	Value	Acquisitions
1999	£2.1m	4 products from Bioglan Labs
2001	£4.5m	**Symmetrel & Slow-K** from Novartis; **Distamine** from Eli Lilly & Co
2002	£11.1m	**Nu-Seals** from Eli Lilly & Co; **Alphaderm & Aquadrate** from Procter & Gamble
2004	£9.7m	**Forceval** (excluding China) from Unigreg; **Periostat** from CollaGenex; **4 dermatology products** from DermaPharm
2006	£7.4m	**Hydromol** from Ferndale Pharmaceuticals; **Atarax, Deltacortril & Terra-cortril** from Pfizer; **Syntometrine** from Novartis; **Permitabs** from Derma UK; **Dermamist** from Caraderm

ACTIVELY **SEARCHING FOR ACQUISITIONS**

Avloclor, Paludrine & Savarine from AstraZeneca
8 products from Opus
£12.8m

Anbesol & Ashton & Parson from Reckitt Benckiser
6 products from Beacon Pharmaceuticals
Quinoderm and **Ceanel** from Ferndale Pharmaceuticals
£6.5m

18 products from Cambridge Laboratories
£16.4m

Buccastem & Timodine from Reckitt Benckiser
£7.5m

Pavacol-D from William Ransom & Son
£0.6m

Forceval China from Unigreg
£1.95m

2007 2008 2009 2010 2011 2012

Questions and Answers

with **John Dawson**, Chief Executive Officer

Q How are you managing key risks in your business?

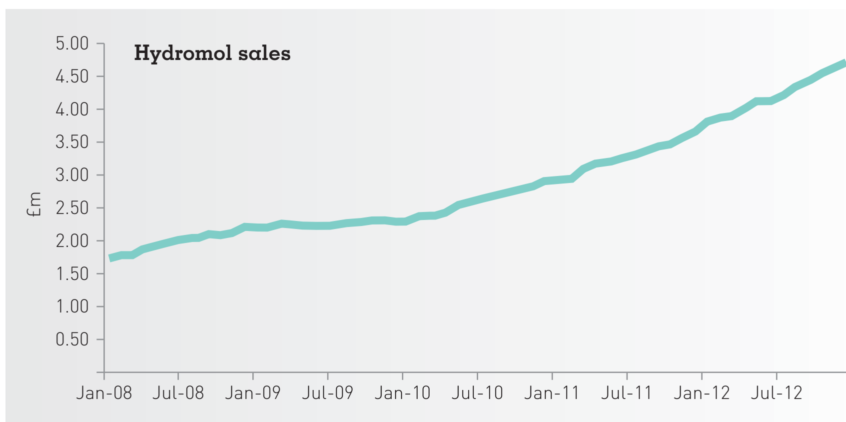
The Board reviews, on a monthly basis, key risks and the actions being taken to mitigate those risks. For example, we have increased the size of our product portfolio to help mitigate reliance on a few key products. Our reliance on the majority of sales in the United Kingdom is being reduced by the appointment of our Country Managers in France and Germany to increase our European sales. This has already been achieved in 2012 as we are already selling anti-malarial products in France and francophone Africa. There was the risk that the shortage of credit that has affected many organisations would affect Alliance, as our business model is mainly acquisitive. We have maintained throughout the period a strong relationship with our banker from whom we obtained a further £10m revolving credit facility in January 2013. The supply side risk continues to be actively managed – for example we streamlined the supply chain this year by outsourcing hospital distribution and adopting a reduced wholesaler model. In 2013 we will continue to develop and invest in the supply chain team ■

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

82% of our sales are based in the UK. Sales of branded products in the UK are subject to the Pharmaceutical Price Regulation Scheme (PPRS), the latest version of which came into force at the start of 2009 and runs for five years. Negotiations have started for any amendments to the existing scheme from 2014. We maintain an involvement in industry affairs in order to influence these negotiations as far as is possible ■

Q Alliance completed two acquisitions in 2012. How do these fit into the existing portfolio?

In August 2012 Alliance completed the acquisition of anti-malarial products from AstraZeneca, This included sales in France and to francophone Africa, which opened new territories to Alliance, and provides critical mass for our new operations in France. Our acquisition of Opus Group Holdings Limited is an acquisition of established products in the UK and Ireland that fits neatly with our existing dermatology and secondary care portfolios ■



Q How do you promote your branded products?

We use small dedicated sales teams to promote products in two areas of specialisation, dermatology and secondary care. Hydromol our lead dermatology brand continues to grow strongly, achieving 29% growth in 2012, as illustrated by the graph left. ImmuCyst was growing at 18% prior to the supply issues and Gelclair grew at 9% in 2012 to reach a £1m brand ■

IN 2013 WE WILL CONTINUE TO DEVELOP AND INVEST IN THE SUPPLY CHAIN TEAM

How is Alliance managing international growth?

The organisation has re-structured to two directorates. The UK directorate is headed by Peter Butterfield who will concentrate on maintaining UK market share and UK expansion. The International Directorate, headed by Tony Booley, is focused on creating critical mass in Europe and looking for suitable worldwide opportunities. Alliance is expanding international sales by supporting the Country Managers from the Company's headquarters, to control start-up costs and use our existing expertise

How are you preparing your people for the growth of the business, particularly expansion into Europe?

Alliance employs many people who have previous experience of large pharmaceutical or global companies. This brings a wealth of experience and an in-depth knowledge of the industry, both within and outside the UK. By developing these people further and also recruiting additional expertise, for example, in France and Germany, we are continuing to build the capability we need for the future

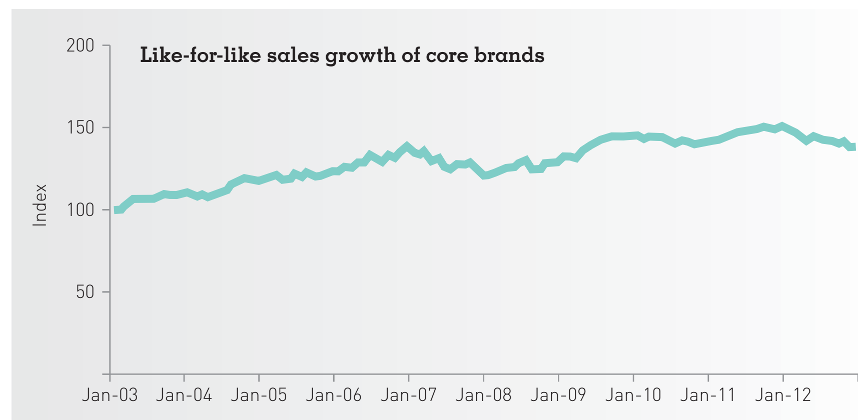
ALLIANCE IS EXPANDING INTERNATIONAL SALES

How have your non-promoted products been performing?

Our core brands, excluding Deltacortril, have continued to grow over the last 10 years which demonstrates the sustainability of these products, as illustrated by the graph below

Is there any news on ImmuCyst?

The impact of the loss of ImmuCyst has been fully explained in the business review. Looking forward, we continue to work closely with Sanofi Pasteur to expedite the return of this important bladder cancer treatment for UK patients. We have been told by Sanofi Pasteur that the product should return to market in early 2014



How does the size of acquisition opportunity impact Alliance?

With our growing portfolio, infrastructure and capability Alliance is now able to consider larger acquisition opportunities than before. The emphasis remains on ensuring the acquisition fits our stringent criteria rather than simply adding sales volume

What will be the impact of the maturity of the Convertible Unsecured Loan stock ("CULs")?

The CULs will mature in November 2013. After this we will not be required to pay 8% interest on the outstanding stock. The interest payment in 2012 was £0.3m. The remaining stock holders have a choice of converting to shares at a rate of 21p per ordinary share or redemption on the nominal value of the loan stock. If the remaining stock holders convert to shares (which is our expectation) there will be an additional 18.1m shares issued (as at 19 March 2013)

How do you build staff motivation?

As soon as anyone joins Alliance, they undergo a comprehensive induction programme so that they fully understand our business and can contribute best to the team effort. We have a proven set of corporate values that are reinforced on a regular basis by personal awards for exemplary performance and behaviour. We have monthly question and briefing meetings for all office-based people where they can build their understanding of our products, projects and business progress. Similar meetings also occur for field-based staff

Business Review

John Dawson, Chief Executive Officer

Our underlying performance in 2012 was robust, with good organic sales growth from our promoted products and a small increase in pre-tax profits. There was a substantial sales contribution from the five acquisitions made over the past two years. This was more than enough to offset the expected decline of Deltacortril sales, which resulted from the launch of a second generic competitor and changing clinical preferences. However, sales growth was affected by a setback in the summer, when Sanofi Pasteur suspended production of the ImmuCyst bladder cancer treatment until late 2013 because of regulatory issues at its manufacturing facility.

TO ADD IMPETUS TO OUR GROWTH IN THE UK WE ALSO ACQUIRED OPUS GROUP IN OCTOBER 2012

Important developments in 2012 that have prepared the ground for renewed growth include the launch of new operations in France and Germany, where we have recruited Country Managers.

We have already commenced sales in France, following our acquisition in August 2012 of the anti-malarial brands Paludrine™, Avloclor™ and Savarine™ from AstraZeneca. These brands are sold in a number of countries but mainly in the UK and France. As well established and well known products they are sold over the counter as well as on prescription, and come with around £1.1m per annum of EBITDA.

To add impetus to our growth in the UK we also acquired Opus Group in October 2012. This business sells products for stoma care, including skin creams and cleansers, and has been growing strongly: sales rose 14% in 2012. The main influences of its sales are the hospital units already served by our secondary care sales force, which has capacity to give it particularly strong support during the ImmuCyst supply hiatus. We expect Opus to add around £2m to annual operating profit initially.

Financial performance

Sales were impacted by the loss of ImmuCyst from May onwards and the diminished contribution from Deltacortril. However, these negative effects were largely offset by growth in the rest of the business as we benefited from two acquisitions in the second half and further strong growth in Hydromol sales. The net effect was a 2% reduction in sales to £44.9m (2011: £46.0m) although the underlying performance, excluding Deltacortril and ImmuCyst, was 13% growth.

It is worth noting that our 2012 sales still represent a 45% increase over the past three years. This demonstrates the effectiveness of our acquisition strategy, and the Group's resilience in the face of

Michael Gatenby, Chairman

THE BOARD'S CONFIDENCE IN THE BUSINESS IS REFLECTED IN OUR PROGRESSIVE DIVIDEND POLICY

short-term headwinds. The temporary boost that Deltacortril provided in 2010 and 2011 has enabled us to fund acquisitions to provide a sustainable business.

Despite the slight reduction in sales, pre-tax profit edged ahead to £10.8m (2011: £10.7m). This reflected a substantial strengthening of the gross margin to 55.9% (2011: 53.3%), due largely to changes in the sales mix and our successful efforts to reduce distribution costs. In cash terms the gross margin was £0.6m higher than 2011 at £25.1m (2011: £24.5m).

The uplift in cash margin was offset by a £0.6m increase in administration and marketing costs. A large proportion of this increase was due to investment in establishing our presence in France and Germany. Some cost savings were realised, offsetting the impact of inflation.

Borrowing rose over the year as we spent some £12.8m on acquisitions. However, with strong cash generation, net debt rose only £3.4m to £21.8m at the year-end (2011: £18.4m). As both acquisitions were completed in the second half, the average debt over the year was lower; helping to reduce financing costs slightly to £1.5m (2011: £1.6m). We also continued to benefit from investors demonstrating their confidence in the business by switching their convertible loan stock into equity. The total amount of convertible loan stock outstanding reduced to £4.2m at the year-end (2011: £4.5m), and has since fallen to £3.8m. The option to convert remains open until November 2013.

The ratio of bank debt to EBITDA (including annualised EBITDA from acquisitions) remains very comfortable at 1.3 times (2011: 1.3 times).

Dividend

The Board's confidence in the business is reflected in our progressive dividend policy. We are recommending a final dividend of 0.55p per ordinary share (2011: 0.50p), making a total for the year of 0.825p (2011: 0.75p), a 10% increase. At this level, the dividend is covered 4.4 times by after-tax earnings (2011: 4.8 times).

Strategy

Alliance acquires and licenses established products with stable sales in niche areas. While most of these require little or no promotional support, we actively market a number of products with clear growth potential. These promoted products account for around a fifth of our sales. We have two UK field forces, one focused on dermatology and the other focused on specialist hospital products, and have scope for economies of scale when we bring in products that these teams can promote alongside the existing ones.

ESTABLISHED PRODUCTS WITH STABLE SALES IN NICHE AREAS

IN 2012 WE APPOINTED TWO COUNTRY MANAGERS

We currently generate just under a fifth of our sales outside the UK, and aim to diversify the business by increasing this proportion – primarily through increased sales in Western Europe. For most of our existing portfolio, the opportunities for expanding international sales are limited; so our international strategy is to replicate the successful UK model by acquiring established products in overseas markets. Our research indicates that other Western European countries are well suited to this approach.

In 2012 we appointed two Country Managers to drive the acquisition and development of product portfolios in Western Europe. Dr Philippe Pasdelou has this role in France, and Lars Börger covers Germany, Switzerland and Austria. Having a presence on the Continent has already increased the flow of opportunities available to us.

Marketing

We now have a portfolio of over 60 products. Organic sales growth in 2012 was led by the Hydromol dermatology range, which achieved a record £1.1m increase – up 29% on the previous year. Hydromol is now almost a £5m brand and one of our largest. Customers like the products, the pricing is competitive, and we continue to invest in the brand. (Hydromol is one of the fastest growing brands in the emollient market). With a share of less than 3% in a fragmented market, there is still plenty of scope for future growth.

Our toxicology product was on the upswing of its 30 month sales cycle in 2012, and sales rose by £0.6m to £2.1m. Sales will reach their peak level in the first half of 2013, giving a useful boost to turnover.

Hydromol is one of the fastest growing brands in the emollient market.

Gelclair™ was another growth story in 2012 as sales reached £1.0m for the first time. This product, acquired alongside ImmuCyst from Cambridge Laboratories, relieves oral mucositis, a painful and debilitating side effect of cancer chemotherapy and radiotherapy. We are seeing good results from our marketing support and clinicians are recognising the clear benefits for their patients.

Sales of ImmuCyst had been growing well until production was suspended in June, and the moving annual sales total had reached £4.4m. The competitor is likely to gain some ground during the hiatus, pending ImmuCyst's return to the market, which is still expected at the beginning of 2014.

As predicted, our Nu-Seals™ enteric-coated low-dose aspirin, sold mainly in the Irish Republic, suffered from the arrival of two new generic competitors. Sales fell 25% to £4.0m, and we expect a further reduction this year as the Irish government enacts long-anticipated legislation to introduce both reference pricing and generic substitution. To mitigate the impact we have been strengthening relationships with pharmacists through a contracted field force.

As previously announced, a group of nine products which Alliance has distributed on behalf of Novartis for many years is being transferred back to Novartis. Between them these products have been generating a combined gross margin of about £0.5m a year.

When we acquired Ashton & Parsons from Reckitt Benckiser in 2011 we cautioned that this infant teething product's sales would be limited initially by unresolved manufacturing issues. We are now implementing a solution which should relieve volume constraints, unlocking the prospect of significant sales growth. We expect the higher production volumes to commence in the second half of 2013.

Team

Apart from the appointment of our two European Country Managers, staff numbers were stable in 2012. However, some additional recruitment is taking place in 2013 to strengthen the support functions in anticipation of further growth.

In particular, we need to maintain effective control of the supply chain as our product range expands: the number of stock keeping units has increased to over 230. We therefore intend to appoint an Operations Director to oversee the supply chain and we are planning to upgrade our systems to more efficiently integrate our operations overall.

Charity

We continue to donate about £20,000 worth of products a year to International Health Partners, a charity that distributes medicines to doctors in the world's neediest areas.

Outlook

We look forward with confidence to growth in 2013. In addition to the underlying strength of our portfolio we can expect a full year's contribution from our 2012 acquisitions and a top-of-cycle contribution from our toxicology product.

We aim to supplement this growth with further acquisitions, and look to maintain or increase our deal rate. We are exploring opportunities in the UK and continental Europe and in December we agreed with our bankers a £10m extension to our acquisition facility. This gives us headroom on the current acquisition facilities of £13.5m, which will be further augmented by continuing strong cash generation during the year.

THIS GIVES US HEADROOM ON THE CURRENT ACQUISITION FACILITIES OF £13.5M

Financial Review

Richard Wright, Finance Director

THE ANTI-MALARIAL PORTFOLIO ADDED SALES OF £1.6M IN 2012

Revenue

2012 has been an important year for Alliance. Strong growth of 29% in our leading dermatology brand Hydromol, acquisition of our anti-malarials and stoma care products and the full year effect of acquisitions made in 2011 largely offset the headwinds from the supply issues affecting ImmuCyst, the slowdown in Deltacortril and generic competition for Nu-Seals. Total turnover for the year was £44.9m (2011: £46.0m).

The acquisition of stoma care products and the anti-malarial portfolio added sales of £1.6m in 2012 and the full year effect of 2011 acquisitions was an additional £2.1m of sales.

Profit and other key performance indicators

Operating profit, a key metric, was £12.3m (2011: £12.3m). As a percentage of sales this remains strong at 27.4% (2011: 26.8%). Profit before tax increased to £10.8m from £10.7m.

Gross profit increased by £0.6m to £25.1m, while gross margins improved from 53.3% to 55.9%. The improvement in gross margins reflected a change in sales mix, partly as a result of the acquisitions.

Administration and marketing expenses were £11.9m, an increase of £0.6m on 2011. These costs include the addition of our two Country Managers and the strengthening of infrastructure in preparation for European expansion.

Amortisation costs have fallen from £0.7m to £0.6m. The ImmuCyst licence renewal in 2011 for a further 7 years extends the period over which it is amortised, reducing the annual cost.

Finance costs and funding

Interest payable in the year fell slightly to £1.5m (2011: £1.6m). Net bank debt at the year end was £21.8m (2011: £18.4m). The increase of £3.4m was after funding two acquisitions in the year for £12.8m.

At the end of 2012, net bank debt stood at £21.8m (2011: £18.4m). We were pleased that Lloyds Banking Group agreed to provide an additional £10.0m Revolving Credit Facility in December 2012. This increased headroom to £13.5m on the acquisition facilities.

Our previous interest rate hedges have expired and so since the year end we have put in place new interest rate swaps fixing the LIBOR element of our debt costs at 1.24% on £18m of our debt for the next 5 years. This means that approximately 80% of current bank debt is hedged at a very low rate.

The Convertible Unsecured Loan Stock ("CULS") carries a fixed interest rate of 8% and can be converted at any time until 30 November 2013 at 21p per share. CULS not converted at this date are due to be redeemed at par. During the year £0.3m (2011: £0.4m) nominal value of CULS were converted resulting in £4.2m outstanding as at 31 December 2012 and since the year end a further £0.4m have converted.

Covenants

The main financial covenants applying to the facilities with our Bank are that leverage (the ratio of net bank debt to EBITDA) should not exceed 2.0 times, interest cover (the ratio of EBITDA to finance charges) should be no less than 3.0 times, and operating cash flows must exceed debt service cash flows. The Group continues to comply comfortably with these covenants.

Net bank debt at the year end was £21.8m (2011: £18.4m) and the net bank debt to EBITDA ratio was 1.7 times, though as measured for the bank covenant (including pro forma EBITDA of recent acquisitions) the ratio was just 1.3 times.

TRADING CASHFLOW
IMPROVED
£2.7M TO £14.4M

Earnings per share and dividends

Basic EPS was virtually unchanged at 3.61p (2011: 3.62p), while diluted EPS was 3.40p (2011: 3.39p). During 2012 the number of shares in issue increased from 240.1m to 243.0m. A total of 1.4m shares were issued on the conversion of £0.3m nominal of the CULS and a further 1.5m were issued on the exercise of employee share options. Since the year end a further 1.9m shares have been issued on conversion of CULS. If all the remaining CULS convert by the 30 November 2013 the issued share capital will increase by 18.1m shares or 7%.

As a result of the strong underlying performance of the business and strong cash generation an interim dividend of 0.275p was paid on 15 January 2013 and the Board is recommending a final dividend of 0.55p, which would make a total dividend for the year of 0.825p, a 10% increase on the prior year. The final dividend will be paid, subject to shareholder approval, on 11 July 2013 to shareholders on the register at 14 June 2013.

Cashflow

Trading cashflow improved £2.7m to £14.4m, reflecting an improvement in working capital. Free cash flow in turn improved by £2.6m to £11.0m.

Corporation tax paid during the period was £2.0m (2011: £1.5m). The Group continues to benefit from tax relief on most of its intangible assets. The effective cash rate of tax for 2012 was 18.3%.

£12.8m was used to fund acquisitions in 2012. Hence the majority of the investment in acquisitions was funded from cash generation in the year. The overall increase in net bank debt was just £3.4m, to £21.8m.

Assets and working capital

Additions to intangibles totalled £14.3m, virtually all of which was due to the two acquisitions during the year.

The net book value of intangible assets stands at £79.9m at the year end (2011: £66.1m).

Working capital balances continue to be carefully managed and controlled. Inventory on hand at December 2012 represents a ratio of 3.2 months, a slight increase on the 2011 ratio of 3.1 months, due to the additional stock acquired in October for the stoma care products.

The Group's net assets stood at £51.8m at December 2012, £7.7m higher than December 2011.

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. In line with the bank covenants, 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 shareholder returns while keeping gearing at comfortable levels.

Risk Management

To reduce the risk arising from changes in interest rates, the Group uses interest rate swaps, where appropriate, and the CULS pay a fixed coupon.

The Group's main transactional currencies are Sterling and Euro, 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.

GROSS MARGINS IMPROVED FROM 53.3% TO 55.9%

Board of Directors

Directors who held office at the date of this report are set out below. All were Directors throughout 2012.

Michael Gatenby – Chairman [136]

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).

John Dawson – Chief Executive Officer [4]

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.

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.

Tony Booley – Executive Director

Tony joined Alliance in 1998. He has had around 30 years 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.

Peter Butterfield – Executive Director

Peter joined the board of Alliance in February 2010 following the acquisition of Cambridge Laboratories, where he spent five years, latterly as UK Commercial Director. He is a Board Member of the Association of the British Pharmaceutical Industry ("ABPI") and is chairman of the ABPI Small Companies Forum. Prior to joining Cambridge Laboratories, Peter spent six years at GlaxoSmithKline. He holds an honours degree in Pharmacology from the University of Edinburgh.

Thomas Casdagli – Non-Executive Director [4]

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.

Paul Ranson – Non-Executive Director [245]

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. Paul specialises exclusively in the commercial and regulatory aspects of life sciences and he was a partner in the international law firm Fasken Martineau LLP before his move to Pinsent Masons LLP in 2013.

Andrew Smith – Non-Executive Director [246]

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.

[1] Chairman Audit Committee, [2] Audit Committee member, [3] Chairman Nomination Committee,
[4] Nomination Committee member, [5] Chairman Remuneration Committee, [6] Remuneration Committee member.

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.

Governance Review

A review of governance was undertaken in 2011 which concluded that the Company has in place the most appropriate governance methods based on its corporate culture, size, and business complexity. The governance review recommended that during 2012 a Nominations Committee is formed to ensure that there is an appropriate balance of skills, experience, knowledge and independence. Accordingly, the new Nominations Committee has been constituted. The 2011 governance review also recommended a Board evaluation; this was conducted in 2012 and the results considered by the Board. A further governance review will be undertaken in 2013 to maintain the development and enhancement of governance methods to suit the Company as it grows.

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

During 2012 the Board delegated management of the business to the Corporate Organisation Team and the UK and International Review and Planning Teams. The Executive Team, which comprises the Executive Directors is the chief operating decision maker and attends the Corporate Organisation Team and Review and Planning team meetings.

Reporting Structure

Committees

The Board has an Audit Committee, a Nominations Committee and a Remuneration Committee, each with written terms of reference. The terms of reference are available on the Group's 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 2012 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:

- 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
- Review management performance and the monitoring and reporting of such performance.

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 for the Board, splitting the categories by
- **Trading** – Significantly between Sales and Supply Chain
- **Financial** – In particular the integrity with which the Group is viewed by lenders and investors as a public company and exposure to liquidity and interest and exchange rates
- **General** – Such as legal risk, the ability to recruit quality staff and the workload pressures existing on the current team
- 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. The Board and management teams 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 brokers 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 Board 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 shares are held by 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 and the Human Resources Director are also 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:

	Salary	Bonuses	Relocation expenses	Other	**Total remuneration 2012 £**	Share-based payments[1]	**Year ended 31 December 2012 £**	Year ended 31 December 2011 £
Tony Booley	149,074	35,117	-	1,932	**186,123**	13,014	**199,137**	197,714
Peter Butterfield	148,536	43,896	1,904	469	**194,805**	104,780	**299,585**	462,241
Thomas Casdagli	-	-	-	-	**-**	-	**-**	-
John Dawson	202,900	48,612	-	4,503	**256,015**	-	**256,015**	254,194
Michael Gatenby	71,925	-	-	648	**72,573**	-	**72,573**	69,322
Paul Ranson	32,736	-	-	-	**32,736**	-	**32,736**	31,560
Andrew Smith	32,736	-	-	940	**33,676**	-	**33,676**	31,560
Richard Wright	148,536	34,838	-	1,732	**185,106**	13,115	**198,221**	195,899
	786,443	162,463	1,904	10,224	**961,034**	130,909	**1,091,943**	1,242,490

1 Share based payment is the IFRS2 charge recognised in the period

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

	Year ended 31 December 2012 £	Year ended 31 December 2011 £
Tony Booley	**17,544**	18,770
Peter Butterfield	**13,834**	13,549
John Dawson	**10,000**	10,000
Richard Wright	**13,834**	13,333
	55,212	55,652

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 2011 Number	Granted Number	Exercised Number	**31 December 2012 Number**	Exercise price Pence	Date from which exercisable	Expiry date
Tony Booley	110,000	-	-	**110,000**	7.75	13/04/12	12/04/19
	116,500	-	-	**116,500**	34.25	29/04/13	28/04/20
	130,000	-	-	**130,000**	34.12	28/04/14	27/04/21
	-	140,000	-	**140,000**	29.25	19/10/15	18/10/22
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
	1,130,000	-	-	**1,130,000**	34.12	28/04/14	27/04/21
	-	140,000	-	**140,000**	29.25	19/10/15	18/10/22
Richard Wright	649,376	-	-	**649,376**	8.50	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
	130,000	-	-	**130,000**	34.12	28/04/14	27/04/21
	-	140,000	-	**140,000**	29.25	19/10/15	18/10/22

The market price of ordinary shares at 31 December 2012 was 31.75 pence and the range during the period was from 23.00 pence to 31.87 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:

	Ordinary shares			
	Beneficial interest Number	Non-beneficial interest Number	**At end of year Number**	At start of year or subsequent appointment Number
Tony Booley	4,610,723	-	**4,610,723**	6,810,723
Peter Butterfield	-	-	**-**	-
Thomas Casdagli	20,947	19,281,197	**19,302,144**	19,300,000
John Dawson	40,036,402	20,000,000	**60,036,402**	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 Group financial statements and have elected to prepare the Company 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.

The directors confirm that:

- 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.

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 pharmaceutical 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 where possible strengthening the supply chain team within the business, dual sourcing of some key products and 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.

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 13 days (2011: 16 days) and nil days (2011: nil days) respectively of average supplies for the year, which is consistent with contractually agreed terms.

Financial risk management objectives and policies

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

Disabled employees

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

Employee information and consultation

The Group continues to involve its staff in the future development of the business. Information is provided to employees through the Group's 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.

Other Matters continued

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 an £8m 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 £19,151 (2011: £41,753) 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 2013 Annual General Meeting of the Company will be held on 22 May 2013, the business of which is set out in the Notice of Meeting.

On behalf of the Board

Sarah Robinson
Company Secretary
20th March 2013

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 2012 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated and parent company balance sheet, the consolidated and parent company statement of changes in equity, the consolidated and parent company cash flow statements and the notes to the financial statements. 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 auditor

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.

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 2012 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;
- 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.

Tracey James
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Bristol
20 March 2013

Consolidated Income Statement

	Note	Year ended 31 December 2012 £000s	Year ended 31 December 2011 £000s
Revenue	3	**44,897**	45,957
Cost of sales		**(19,779)**	(21,469)
Gross profit		**25,118**	24,488
Operating expenses			
Administration and marketing expense		**(11,856)**	(11,235)
Amortisation of intangible assets		**(573)**	(735)
Share-based employee remuneration	6	**(369)**	(179)
		(12,798)	(12,149)
Operating profit		**12,320**	12,339
Finance costs			
Interest payable and similar charges	5	**(1,541)**	(1,600)
Interest income	5	**-**	2
Other finance income/(charges)	5	**30**	(29)
		(1,511)	(1,627)
Profit on ordinary activities before taxation	4	**10,809**	10,712
Taxation	7	**(2,119)**	(2,076)
Profit for the year attributable to equity shareholders		**8,690**	8,636
Earnings per share			
Basic (pence)	9	**3.61**	3.62
Diluted (pence)	9	**3.40**	3.39

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 ended 31 December 2012 £000s	Year ended 31 December 2011 £000s
Profit for the period	**8,690**	8,636
Interest rate swaps – cash flow hedge	**6**	22
Deferred tax on interest rate swaps	**(2)**	(6)
Total comprehensive income for the period	**8,694**	8,652

Consolidated Balance Sheet

	Note	31 December 2012 £000s	31 December 2012 £000s	31 December 2011 £000s	31 December 2011 £000s	1 January 2011 £000s	1 January 2011 £000s
Assets							
Non-current assets							
Intangible assets	10	**79,890**		66,130		60,287	
Property, plant and equipment	11	**564**		765		888	
			80,454		66,895		61,175
Current assets							
Inventories	13	**5,393**		5,652		4,544	
Trade and other receivables	14	**10,145**		8,660		9,690	
Cash and cash equivalents	15	**4,634**		1,079		1,989	
			20,172		15,391		16,223
Total assets			**100,626**		82,286		77,398
Equity							
Ordinary share capital	25	**2,430**		2,401		2,361	
Share premium account		**25,297**		24,866		24,331	
Share option reserve		**792**		423		244	
Reverse takeover reserve		**(329)**		(329)		(329)	
Other reserve		**-**		(4)		(20)	
Retained earnings		**23,658**		16,771		9,494	
Total equity			**51,848**		44,128		36,081
Liabilities							
Non-current liabilities							
Long term financial liabilities	18	**20,225**		15,225		15,000	
Convertible debt	18,19	**-**		4,460		4,822	
Other liabilities	20	**20**		40		60	
Derivative financial instruments	22	**-**		-		13	
Deferred tax liability	23	**6,124**		4,064		3,803	
Provisions for other liabilities	24	**364**		510		641	
			26,733		24,299		24,339
Current liabilities							
Cash and cash equivalents	15	**1**		1		-	
Financial liabilities	18	**6,250**		4,250		4,001	
Convertible debt	18,19	**4,189**		-		-	
Corporation tax		**1,322**		1,046		721	
Trade and other payables	17	**10,086**		8,367		11,869	
Derivative financial instruments	22	**-**		6		15	
Provisions for other liabilities	24	**197**		189		372	
			22,045		13,859		16,978
Total liabilities			**48,778**		38,158		41,317
Total equity and liabilities			**100,626**		82,286		77,398

The financial statements were approved by the Board of Directors on 20 March 2013.

John Dawson
Director

Richard Wright
Director

The accompanying accounting policies and notes form an integral part of these financial statements. Company number 04241478

Company Balance Sheet

	Note	31 December 2012 £000s	31 December 2012 £000s	31 December 2011 £000s	31 December 2011 £000s	1 January 2011 £000s	1 January 2011 £000s
Assets							
Non-current assets							
Investment in subsidiaries	12	**37,618**		36,402		32,260	
			37,618		36,402		32,260
Current assets							
Trade and other receivables	14	**10,021**		2,020		7,086	
Cash and cash equivalents	15	**182**		77		25	
			10,203		2,097		7,111
Total assets			**47,821**		38,499		39,371
Equity							
Ordinary share capital	25	**2,430**		2,401		2,361	
Share premium account		**25,297**		24,866		24,331	
Share option reserve		**792**		423		244	
Retained earnings		**14,719**		6,028		7,202	
Total equity			**43,238**		33,718		34,138
Liabilities							
Non-current liabilities							
Convertible debt	18,19	**-**		4,460		4,822	
			-		4,460		4,822
Current liabilities							
Convertible debt	18,19	**4,189**		-		-	
Corporation tax		**4**		-		95	
Trade and other payables	17	**390**		321		316	
			4,583		321		411
Total liabilities			**4,583**		4,781		5,233
Total equity and liabilities			**47,821**		38,499		39,371

The financial statements were approved by the Board of Directors on 20 March 2013.

John Dawson
Director

Richard Wright
Director

The accompanying accounting policies and notes form an integral part of these financial statements. Company number 04241478

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 2011	2,361	24,331	244	(329)	(20)	9,494	36,081
Issue of shares	40	535	-	-	-	-	575
Dividend paid	-	-	-	-	-	(1,359)	(1,359)
Share options charge	-	-	179	-	-	-	179
Transactions with owners	40	535	179	-	-	(1,359)	(605)
Profit for the period	-	-	-	-	-	8,636	8,636
Other comprehensive income							
Interest rate swaps – cash flow hedge	-	-	-	-	22	-	22
Deferred tax on interest rate swaps	-	-	-	-	(6)	-	(6)
Total comprehensive income for the period	-	-	-	-	16	8,636	8,652
Balance 31 December 2011	2,401	24,866	423	(329)	(4)	16,771	44,128
Balance 1 January 2012	2,401	24,866	423	(329)	(4)	16,771	44,128
Issue of shares	29	431	-	-	-	-	460
Dividend paid	-	-	-	-	-	(1,803)	(1,803)
Share options charge	-	-	369	-	-	-	369
Transactions with owners	29	431	369	-	-	(1,803)	(974)
Profit for the period	-	-	-	-	-	8,690	8,690
Other comprehensive income							
Interest rate swaps – cash flow hedge	-	-	-	-	6	-	6
Deferred tax on interest rate swaps	-	-	-	-	(2)	-	(2)
Total comprehensive income for the period	-	-	-	-	4	8,690	8,694
Balance 31 December 2012	**2,430**	**25,297**	**792**	**(329)**	**-**	**23,658**	**51,848**

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 2011	2,361	24,331	244	7,202	34,138
Issue of shares	40	535	-	-	575
Dividend paid	-	-	-	(1,359)	(1,359)
Share options charge	-	-	179	-	179
Transactions with owners	40	535	179	(1,359)	(605)
Profit for the period	-	-	-	185	185
Balance 31 December 2011	2,401	24,866	423	6,028	33,718
Balance 1 January 2012	2,401	24,866	423	6,028	33,718
Issue of shares	29	431	-	-	460
Dividend paid	-	-	-	(1,803)	(1,803)
Share options charge	-	-	369	-	369
Transactions with owners	29	431	369	(1,803)	(974)
Profit for the period	-	-	-	10,494	10,494
Balance 31 December 2012	**2,430**	**25,297**	**792**	**14,719**	**43,238**

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 £10,494,000 (2011: £185,000). 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 2012 £000s	Year ended 31 December 2011 £000s	**Year ended 31 December 2012 £000s**	Year ended 31 December 2011 £000s
Cash flows from operating activities					
Cash generated from operations	27	**14,417**	11,654	**(1,437)**	(4,915)
Tax paid		**(1,982)**	(1,496)	**4**	(94)
Cash flows from operating activities		**12,435**	10,158	**(1,433)**	(5,009)
Investing activities					
Interest received		**-**	2	**1,310**	1,096
Dividend received		**-**	-	**2,000**	5,000
Payment of deferred consideration		**(20)**	(2,120)	**-**	-
Development costs capitalised	10	**(107)**	(203)	**-**	-
Net proceeds from sale of intangible assets	10	**-**	102	**-**	-
Net assets acquired in Opus, net of cash		**(422)**	-	**-**	-
Purchase of property, plant and equipment	11	**(73)**	(140)	**-**	-
Purchase of other intangible assets	10	**(12,377)**	(6,475)	**-**	-
Net cash (used in)/ received from investing activities		**(12,999)**	(8,834)	**3,310**	6,096
Financing activities					
Interest paid and similar charges		**(1,198)**	(1,439)	**(352)**	(358)
Loan issue costs		**(100)**	(65)	**-**	-
Proceeds from exercise of share options		**190**	182	**164**	182
Dividend paid		**(1,803)**	(1,359)	**(1,803)**	(1,359)
Transfer from subsidiary undertakings		**-**	-	**219**	500
Receipt from borrowings		**10,000**	6,475	**-**	-
Repayment of borrowings		**(3,000)**	(6,000)	**-**	-
Net cash received from/(used in) financing activities		**4,089**	(2,206)	**(1,772)**	1,035
Net movement in cash and cash equivalents		**3,525**	(882)	**105**	52
Cash and cash equivalents at the beginning of the period		**1,078**	1,989	**77**	25
Exchange gains/(losses) on cash and cash equivalents		**30**	(29)	**-**	-
Cash and cash equivalents at the end of the period	15	**4,633**	1,078	**182**	77

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 2012

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 20 March 2013.

2. Summary of significant accounting policies

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

2.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('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 2012. 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 Judgements and estimates

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. Critical estimates and assumptions that are applied in the preparation of the consolidated financial statements include:

Depreciation and amortisation

The Group exercises judgement to determine useful lives and residual values of intangibles, computer equipment, and fixtures, fittings and equipment. The assets are depreciated down to their residual values over their estimated useful lives.

Impairment

The value in use calculation uses cash flow projections based on financial forecasts for the next two years approved by management covering the lower of useful economic life and extrapolated for a 15 year period. In each case it is assumed there will be no growth beyond 2014 and the cash flows of each acquisition are discounted at a rate of 10%, which approximates to the Group's weighted average cost of capital.

2. Summary of significant accounting policies continued

Provisions

Provisions have been made for onerous leases and associated costs (see note 24) and for slow moving and obsolete stock. These provisions are estimates and the actual costs and timing of future cash flows are dependent on future events. The difference between expectations and the actual future liability will be accounted for in the period when such determination is made.

Deferred consideration

The Company determines that where there is an obligation to pay consideration dependent on the sale of a product, and the Company can control whether the product is sold or not, the consideration is only recognised once a sale is made.

Consolidation of Joint Venture

The Group owns 60% of the issued share capital of Unigreg Limited. 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 interests and consequently the company is integrated with proportionate consolidation.

2.4 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 and represents amounts invoiced to third parties in relation to the Group's sole principal activity namely the distribution of pharmaceutical products. Revenue is recognised when a Group entity has delivered products to the customer.

2.5 Foreign currency transactions

The consolidated financial statements are presented in sterling, which is the presentational currency of the Group and the functional currency of the parent Company. 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.

2.6 Property, plant and equipment

Computer equipment, fixtures, fittings and equipment are stated at the cost of purchase less any provisions for depreciation and impairment. 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 represents the excess of the consideration of acquisition over the fair value of the Group's share of the identifiable net assets acquired. Goodwill is reviewed for impairment at least annually by assessing the recoverable amount of each acquisition, considered to be a cash-generating unit, to which the goodwill relates. The recoverable amount is the higher of fair value less costs to sell and value in use. When the recoverable amount of the cash-generating unit is less than the carrying amount an impairment loss is recognised. Any impairment is recognised immediately in the Consolidated Income Statement and is not subsequently reversed.

2. Summary of significant accounting policies continued

2.9 Intangible assets

Acquired intangible assets

Intangible assets are stated at the lower of cost less provision for amortisation and impairment or the recoverable amount (explained further in note 10). Technical know-how and trademarks 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. 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.

Internally-generated intangible assets – Research and development expenditure

Research expenditure is charged to the Consolidated 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.

The capitalised cost is amortised over the period during which the Group is expected to benefit and begins when the asset is ready for use.

Development costs are reviewed at least annually for impairment by assessing the recoverable amount of each cash-generating unit, to which the development costs relate. The recoverable amount is the higher of fair value less costs to sell and value in use. When the recoverable amount of the cash-generating unit is less than the carrying amount an impairment loss is recognised. Any impairment is recognised immediately in the Consolidated Income Statement and is not subsequently reversed.

Development costs not meeting the recognition criteria are expensed as incurred.

Impairment

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 and development costs, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

2.10 Inventories

Inventories are included at the lower of cost less any provision for impairment or net realisable value. Cost is determined on a first-in-first-out basis using the weighted average cost.

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.

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 re-measured 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 are 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 (note 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 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 funds drawn down against this facility. This facility is recognised as a liability for the amount drawn.

2.19 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 Consolidated 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. Summary of significant accounting policies continued

2.20 Equity

Equity comprises the following:

"Share capital" represents the nominal value of equity shares.

"Share premium" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.

"Share option reserve" represents equity-settled share-based employee remuneration until such share options are exercised.

"Other reserve" represents the fair value of derivative financial instruments at the balance sheet date that are designated as cash flow hedges net of deferred tax.

"Retained earnings" represents retained profit.

"Reverse takeover reserve" represents the difference between the fair value and nominal value of shares issued on a reverse takeover.

2.21 Investments

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

2.22 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.

2.23 Business combinations

Business combinations are accounted for using the acquisition accounting method. Identifiable assets, liabilities and contingent liabilities acquired are measured at fair value at acquisition date. The consideration transferred is measured at fair value and includes the fair value of any contingent consideration. The costs of acquisition are charged to the income statement in the period in which they are incurred.

2.24 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 2012 and have not been applied in preparing these financial statements. The following list is not comprehensive but includes the most significant to these financial statements:

- IFRS11 Joint Arrangements issued in May 2011 (effective date 1 January 2014) supersedes IAS31 Interests in Joint Ventures. The new standard restricts the use of proportionate consolidation, currently used by the Group to account for its joint venture Unigreg Limited, in favour of the equity method of accounting. This will affect the presentation of both the balance sheet and the income statement. The results of Unigreg Limited will be brought into the accounts within one line on the income statement and the investment will be shown as one line on the balance sheet rather than on a line by line basis.
- IFRS10 Consolidated financial Statements issued in May 2011 (effective date 1 January 2014) replaces IAS27 Consolidated and Separate Financial Statements which has been renamed IAS27 Separate Financial Statements. IFRS10 changes the definition of control but the core principle remains the same as such no changes in disclosure are expected.
- IFRS12 Disclosure of interests in other entities is a new disclosure standard issued in May 2011 and is effective from 1 January 2014.
- IAS19 Employee Benefits (amendment) is not anticipated to have any impact since the Group does not operate a defined benefit pension scheme.

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

3. Segmental reporting

Operating segments

An operating segment is defined as a component of the entity:

- that engages in business activities from which it may earn revenues and incur expenses,
- 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
- for which discrete financial information is available.

For the year ended 31 December 2012 the Executive Team has been identified as the CODM.

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

- Hydromol
- Secondary Care
- Community and Consumer Products
- 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. pharmaceutical distributors or pharmacies, and
- 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 2012 £000s	Year ended 31 December 2011 £000s
United Kingdom	**36,719**	37,295
Ireland	**4,288**	5,653
China	**2,475**	1,812
Rest of the world	**1,415**	1,197
	44,897	45,957

All non-current assets are located within the United Kingdom.

3. Segmental reporting continued

Major customers

During the year there were 2 (year ended 31 December 2011: 3) customers who separately comprised 10% or more of revenue.

	Year ended 31 December 2012 £000s
Major customer 1	**14,283**
Major customer 2	**10,097**
	24,380

	Year ended 31 December 2011 £000s
Major customer 1	9,438
Major customer 2	7,855
Major customer 3	6,295
	23,588

4. Profit before taxation

Profit before taxation is stated after charging/(crediting):

	Year ended 31 December 2012 £000s	Year ended 31 December 2011 £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	**40**	35
– Other advisory services	**50**	13
– Consultancy	**-**	2
Amortisation of intangible assets	**573**	735
Share options charge	**369**	179
Depreciation of plant, property and equipment	**274**	263
Operating lease rentals	**97**	97
Profit on disposal of intangible assets	**-**	(50)
Loss on foreign exchange transactions	**73**	128

5. Finance costs

	Year ended 31 December 2012 £000s	Year ended 31 December 2011 £000s
Interest payable and similar charges		
On loans and overdrafts	**(1,466)**	(1,504)
Amortised finance issue costs	**(26)**	(31)
Notional interest	**(49)**	(65)
	(1,541)	(1,600)
Interest income	**-**	2
Other finance charges		
Foreign exchange movement on euro denominated debt	**30**	(29)
	30	(29)
Finance costs – net	**(1,511)**	(1,627)

Notional interest relates to the unwinding of the discount applied to the provisions (see note 24).

6. Directors and employees

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

	Year ended 31 December 2012 £000s	Year ended 31 December 2011 £000s
Wages and salaries	**4,288**	3,760
Social security costs	**566**	566
Other pension costs (note 30)	**306**	251
Share-based employee remuneration (note 26)	**369**	179
	5,529	4,756

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

	Year ended 31 December 2012	Year ended 31 December 2011
Management and administration	**63**	59

Remuneration in respect of Directors was as follows:

	Year ended 31 December 2012 £000s	Year ended 31 December 2011 £000s
Emoluments	**959**	941
Relocation expenses	**2**	194
	961	1,135

Gain on share options recognised by directors during the year was £nil (2011: £349,000).

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

6. Directors and employees continued

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

	Year ended 31 December 2012 £000s	Year ended 31 December 2011 £000s
Emoluments for qualifying services	**256**	183
Relocation expenses	**-**	194
	256	377

During the period contributions were paid to money purchase schemes for four directors (year ended 31 December 2011: four).

Key management of the Group are the Executive Team. For the year ended 31 December 2011 the Corporate Performance Team, consisting of the Executive Team and appropriate Senior Managers was considered the key management of the Group. Benefit expenses in respect of the key management was as follows:

	Year ended 31 December 2012 £000s	Year ended 31 December 2011 £000s
Emoluments	**820**	1,833
Relocation expenses	**2**	194
Social security costs	**109**	306
Share-based payments	**131**	197
Company pension contributions to money purchase schemes	**55**	137
	1,117	2,667

Average number of members of the CODM for the year ended 31 December 2012 was four (the Executive Team) (year ended 31 December 2011: 15 (Corporate Performance Team)).

7. Taxation

Analysis of charge in period.

	Year ended 31 December 2012 £000s	Year ended 31 December 2011 £000s
United Kingdom corporation tax at 24.5% (2011: 26.5%)		
In respect of current period	**1,910**	2,046
Adjustment in respect of prior periods	**-**	(225)
	1,910	1,821
Deferred tax (see note 23)		
Origination and reversal of temporary differences	**209**	255
Taxation	**2,119**	2,076

7. Taxation continued

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 2012 £000s	Year ended 31 December 2011 £000s
Profit on ordinary activities before tax	**10,809**	10,712
Profit on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom of 24.5% (2011: 26.5%)	**2,648**	2,839
Effect of:		
Non-deductible expenses	**21**	(61)
Attributable to joint venture	**(189)**	(129)
Impact of reduction in UK tax rate on deferred tax liability	**(353)**	(314)
Adjustment in respect of prior periods	**-**	(225)
Other differences	**(8)**	(34)
Total taxation	**2,119**	2,076

A number of changes to the UK Corporation tax system were announced in the Finance Act 2012. The main rate of corporation tax was reduced from 26% to 24% from 1 April 2012 and reduced further to 23% from 1 April 2013. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 22% by 1 April 2014. At the balance sheet date the substantively enacted rate was 23% (2011: 25%). The further 1% reduction has not been substantively enacted at the balance sheet date and therefore not included in these financial statements.

The proposed reduction of the main rate of corporation tax by 1% from 1 April 2014 is expected to be enacted during 2013. The overall effect of this change from 23% to 22%, if applied to the deferred tax balance at 31 December 2012, would be to decrease the deferred tax liability by £266,000.

8. Dividends

	Pence/share	**Year ended 31 December 2012 £000s**	Pence/share	Year ended 31 December 2011 £000s
Amounts recognised as distributions to owners in the year				
Interim dividend for the prior financial year	**0.25**	**600**	0.17	401
Final dividend for the prior financial year	**0.50**	**1,203**	0.40	958
		1,803		1,359
Interim dividend for the current financial year	**0.275**	**666**	0.25	600

The proposed final dividend of 0.55p per share for the current financial year was approved by the Board of Directors on 20 March 2013 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 2012 in accordance with IAS 10 Events After the Balance Sheet Date. The interim dividend for the current financial year was paid on 15 January 2013. Subject to shareholder approval, the final dividend will be paid on 11 July 2013 to shareholders who are on the register of members on 14 June 2013.

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.

9. Earnings per share (EPS) continued

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

	Year ended 31 December 2012 £000s	Year ended 31 December 2011 £000s
For basic EPS calculation	**240,881,464**	238,601,884
Employee share options	**2,032,846**	2,751,890
Conversion of Convertible Unsecured Loan Stock (CULS)	**20,053,595**	21,466,690
For diluted EPS calculation	**262,967,905**	262,820,464

A reconciliation of the earnings used in the different measures is given below:

	Year ended 31 December 2012 £000s	Year ended 31 December 2011 £000s
Earnings for basic EPS	**8,690**	8,636
Interest saving on conversion of CULS	**337**	361
Tax effect of interest saving on conversion of CULS	**(81)**	(94)
Earnings for diluted EPS	**8,946**	8,903

The resulting EPS measures are:

	Year ended 31 December 2012 Pence	Year ended 31 December 2011 Pence
Basic EPS	**3.61**	3.62
Diluted EPS	**3.40**	3.39

10. Intangible assets

The Group	Goodwill on consolidation £000s	Purchased Goodwill £000s	Technical know-how, trademarks and distribution rights £000s	Development costs £000s	Total £000s
Cost					
At 1 January 2012	1,144	600	65,730	203	67,677
Additions	-	1,849	12,377	107	14,333
At 31 December 2012	**1,144**	**2,449**	**78,107**	**310**	**82,010**
Amortisation and impairment					
At 1 January 2012	-	-	1,547	-	1,547
Amortisation for the year	-	-	573	-	573
At 31 December 2012	**-**	**-**	**2,120**	**-**	**2,120**
Net book amount					
At 31 December 2012	**1,144**	**2,449**	**75,987**	**310**	**79,890**
At 1 January 2012	1,144	600	64,183	203	66,130

10. Intangible assets continued

Technical know-how, trademarks and distribution rights

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.

The following acquisition activities took place in the year:

- On 2 August 2012, the Group acquired the antimalarial brands Paludrine™, Avloclor™ and Savarine™ from AstraZeneca UK Limited for cash consideration of £4.2m. Dependent upon sales of these brands to specified customers at the discretion of the Group, further consideration may become payable over the next three years of around £0.5m.
- On 19 October 2012, the Group acquired Opus Group Holdings Limited for £8.0m plus the net asset value of Opus at completion which was £1.6m. Following the acquisition, the entire trade and assets of Opus Healthcare Ltd (registered in the UK) and Opus Group Holdings Limited were transferred to Alliance Pharmaceuticals Limited. The fair value of the intangible asset acquired was £8.0m included within technical know-how, trademarks and distribution rights.

The consideration value for both acquisitions was payable on completion. Both acquisitions were funded by drawing loans from the £20m Revolving Credit Facility ("RCF") that was put in place in November 2010. At the year-end £16.5m (2011: £6.5m) was drawn down on the facility leaving an availability of £3.5m.

Purchased goodwill

During the year ended 31 December 2010, the Group completed the purchase of the trade and certain assets of Cambridge Laboratories (Ireland) Limited and Cambridge Laboratories Limited. The goodwill of £600k that arose on acquisition reflects Alliance's entry into the oncology market with an established brand name and sales force.

Goodwill of £1.85m arose on the acquisition of Opus Group Holdings Limited (see note 33).

Goodwill on consolidation

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

Impairment

As explained in note 2.8 and 2.9 all intangible assets are stated at the lower of cost less provision for amortisation and impairment or the recoverable amount.

Goodwill (allocated across cash-generating units that are expected to benefit from it), indefinite life assets and development costs are tested for impairment annually, or more frequently if there are indications that amounts might be impaired. The impairment test involves determining the recoverable amount of the relevant asset or cash-generating unit, which corresponds to the higher of the fair value less costs to sell or its value in use.

The value in use calculation considers each asset or cash generating unit on a case by case basis and uses cash flow projections based on financial forecasts for the next two years approved by management covering the lower of useful economic life and extrapolated for a 15 year period.

The key assumptions on which cash flow projections are made are:

- There will be no growth beyond 2014;
- Cash flows are discounted at an appropriate rate. The discount rates consider market information and specific circumstances of each asset or cash-generating unit. A rate of 10%, which approximates to the Group's weighted average cost of capital and is considered appropriate for all assets; and
- The CODM considers 15 years to be a sufficient period to represent the indefinite useful economic lives of the products.

The value in use calculations for all assets and cash generating units, when tested with assumptions beyond a reasonable range the recoverable amounts would not fall below their carrying amounts.

Development projects are reviewed as to the likelihood of their completion and valued using a discounted cash flow, using appropriate risk factors, to assess whether the project is impaired.

10. Intangible assets continued

Unigreg Ltd, the joint venture company of which the Group holds 60%, has applied to China's State Food and Drug Administration ('SFDA') to vary the licence for importing Forceval into China. There is uncertainty about whether or when this variation will be approved. There is a risk that for a period of time Unigreg will be unable to import further product into China. There are a number of measures of mitigation that can be taken to offset this risk. The Board's view is that these mitigation measures are likely to be sufficient to ensure the continuation of the business in the long term, and that the intangible asset relating to Forceval in China is unlikely to be impaired. The carrying value of the related intangible asset is £1.95m.

The Group	Goodwill on consolidation £000s	Purchased Goodwill £000s	Technical know-how, trademarks and distribution rights £000s	Development costs £000s	Total £000s
Cost					
At 1 January 2011	1,144	600	59,355	-	61,099
Disposals	-	-	6,475	203	6,678
Additions	-	-	(100)	-	(100)
At 31 December 2011	1,144	600	65,730	203	67,677
Amortisation and impairment					
At 1 January 2011	-	-	812	-	812
Amortisation for the year	-	-	735	-	735
At 31 December 2011	-	-	1,547	-	1,547
Net book amount					
At 31 December 2011	1,144	600	64,183	203	66,130
At 1 January 2011	1,144	600	58,543	-	60,287

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

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11. Property, plant and equipment

The Group	Computer equipment £000s	Fixtures fittings and equipment £000s	Total £000s
Cost			
At 1 January 2012	271	902	1,173
Additions	18	55	73
Disposals	(67)	(5)	(72)
At 31 December 2012	**222**	**952**	**1,174**
Depreciation			
At 1 January 2012	127	281	408
Provided in the year	83	191	274
Eliminated on disposals	(67)	(5)	(72)
At 31 December 2012	**143**	**467**	**610**
Net book amount			
At 31 December 2012	**79**	**485**	**564**
At 1 January 2012	144	621	765

The net book amount held under finance leases was £nil (year ended 31 December 2011: £1,000, year ended 1 January 2011: £1,000).

The Group	Computer equipment £000s	Fixtures fittings and equipment £000s	Total £000s
Cost			
At 1 January 2011	224	890	1,114
Additions	83	57	140
Disposals	(36)	(45)	(81)
At 31 December 2011	271	902	1,173
Depreciation			
At 1 January 2011	84	142	226
Provided in the year	79	184	263
Eliminated on disposals	(36)	(45)	(81)
At 31 December 2011	127	281	408
Net book amount			
At 31 December 2011	144	621	765
At 1 January 2011	140	748	888

11. Property, plant and equipment continued

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

12. Investments

The Company	Investment in subsidiary undertakings £000s
Cost	
At 1 January 2012	36,402
Additions	1,216
At 31 December 2012	**37,618**
At 1 January 2011	32,260
Additions	4,142
At 31 December 2011	36,402
At 1 January 2010	25,538
Additions	6,722
At 31 December 2010	32,260

The additions in the year relate to the increased investment the company has made in its subsidiary to support the acquisition of new product licenses and £20,000 to establish Alliance Pharmaceuticals GmbH.

12. Investments continued

The subsidiary and associated undertakings where the Group held 20% or more of the equity share capital at 31 December 2012 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
Unigreg Worldwide Limited	United Kingdom	Ordinary	100	Dormant
Opus Group Holdings Limited	United Kingdom	Ordinary	100	Dormant
Opus Healthcare Limited	United Kingdom	Ordinary	100	Dormant
Opus Healthcare Limited	Republic of Ireland	Ordinary	100	Non-trading
Alliance Pharmaceuticals GmbH	Germany	Ordinary	100	Non-trading

All subsidiary undertakings prepare accounts to 31 December, except Opus Healthcare Limited (Republic of Ireland) which prepares accounts to 28 February. Alliance Pharmaceuticals Limited and Alliance Pharmaceuticals GmbH are the only investments held directly by Alliance Pharma plc. All other investments are held by Alliance Pharmaceuticals Limited.

13. Inventories

The Group	**31 December 2012 £000s**	31 December 2011 £000s	1 January 2011 £000s
Finished goods and materials	**5,393**	5,652	4,544

Inventory costs expensed through the income statement during the year were £17,062,000 (year ended 31 December 2011: £18,423,000, year ended 1 January 2011: £16,521,000). During the year £41,000 (2011: £1,083,000) was recognised as an expense relating to the write-down of inventory to net realisable value.

14. Trade and other receivables

		The Group			The Company	
	31 December 2012 £000s	31 December 2011 £000s	1 January 2011 £000s	**31 December 2012 £000s**	31 December 2011 £000s	1 January 2011 £000s
Trade receivables	**9,583**	8,152	9,139	**-**	-	-
Other receivables	**212**	147	55	**10,011**	2,008	7,080
Prepayments and accrued income	**350**	331	439	**10**	12	6
Amounts owed by joint venture	**-**	30	57	**-**	-	-
	10,145	8,660	9,690	**10,021**	2,020	7,086

Dividends declared but not paid between Alliance Pharmaceuticals Limited and the Company of £10m for the year ended 31 December 2012 (for the year ended 31 December 2011: £2m, for the year ended 31 December 2010: £7m) are included within other receivables.

14. Trade and other receivables continued

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

	31 December 2012 £000s	31 December 2011 £000s	1 January 2011 £000s
Not past due	**5,194**	3,858	5,073
Due 30-31 December*	**3,732**	3,289	3,952
Past due 3 days to 91 days	**569**	782	26
Past 91 days	**88**	223	88
	9,583	8,152	9,139

* For the year ended 31 December 2012 £3,149,000 was received by the 11 January 2013. For the year ended 31 December 2011 £2,128,000 was received by the 13 January 2012. For the year ended 31 December 2010 £3,381,000 was received by the 11 January 2011.

Trade and other receivables are stated net of estimated allowances for doubtful debts. As at 31 December 2012, trade and other receivables of £111,000 (for the year ended 31 December 2011: £63,000) 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.

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.

15. Cash and cash equivalents

	The Group			The Company		
	31 December 2012 £000s	31 December 2011 £000s	1 January 2011 £000s	**31 December 2012 £000s**	31 December 2011 £000s	1 January 2011 £000s
Cash at bank and in hand	**4,634**	1,079	1,989	**182**	77	25
Working capital facility	**(1)**	(1)	-	**-**	-	-
	4,633	1,078	1,989	**182**	77	25

16. Major non-cash transactions

Principal non-cash transactions include finance issue costs amortised in the income statement during the year of £26,000 (year ended 31 December 2011: £31,000) and an exchange movement of £30,000 (year ended 31 December 2011: £29,000) (see note 5). Interest rate swaps designated as cash flow hedges resulted in a £6,000 charge (year ended 31 December 2011: £22,000 charge) to other comprehensive income. As a consequence of the onerous contracts a notional interest charge representing the unwinding of the discounted value of the onerous contract provision of £49,000 (year ended 31 December 2011: £65,000) was recognised in the income statement. Amortisation of intangible assets resulted in a charge of £573,000 (year ended 31 December 2011: £735,000) being recognised in the income statement.

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17. Trade and other payables – current

	The Group			The Company		
	31 December 2012 £000s	31 December 2011 £000s	1 January 2011 £000s	**31 December 2012 £000s**	31 December 2011 £000s	1 January 2011 £000s
Trade payables	**902**	1,194	3,799	**-**	-	7
Other taxes and social security costs	**1,225**	864	1,109	**-**	-	-
Accruals and deferred income	**7,019**	6,168	4,841	**370**	321	309
Other payables	**940**	141	2,120	**20**	-	-
	10,086	8,367	11,869	**390**	321	316

18. Financial liabilities – borrowings

	The Group			The Company		
Current	**31 December 2012 £000s**	31 December 2011 £000s	1 January 2011 £000s	**31 December 2012 £000s**	31 December 2011 £000s	1 January 2011 £000s
Bank loans due within one year or on demand						
Secured (a)	**6,250**	4,250	4,000	**-**	-	-
Net obligations under finance leases	**-**	-	1	**-**	-	-
	6,250	4,250	4,001	**-**	-	-
Convertible debt (note 19)	**4,189**	-	-	**4,189**	-	-
	10,439	4,250	4,001	**4,189**	-	-

	The Group			The Company		
Non-current	**31 December 2012 £000s**	31 December 2011 £000s	1 January 2011 £000s	**31 December 2012 £000s**	31 December 2011 £000s	1 January 2011 £000s
Bank loans:						
Secured (a)	**20,225**	15,225	15,000	**-**	-	-
	20,225	15,225	15,000	**-**	-	-
Convertible debt (note 19)	**-**	4,460	4,822	**-**	4,460	4,822
	20,225	19,685	19,822	**-**	4,460	4,822

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

During the year £10m was drawn down on the revolving credit facility to fund acquisitions in the year.

19. Convertible debt

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

During the year, the Company received conversion notices in respect of £296,750 (year ended 31 December 2011: £393,250) nominal value of the Company's 8% Convertible Unsecured Loan Stock. Accordingly, the Company has allotted 1,413,093 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.

20. Other non-current liabilities

	The Group			The Company		
	31 December 2012 £000s	31 December 2011 £000s	1 January 2011 £000s	**31 December 2012 £000s**	31 December 2011 £000s	1 January 2011 £000s
Deferred consideration for acquisitions	**20**	40	60	**-**	-	-
	20	40	60	**-**	-	-

Deferred consideration of £20,000 (year ended 31 December 2011: £40,000, year ended 1 January 2011: £60,000) relates to the acquisition of Dermapharm Limited which took place in the year ended 29 February 2004.

21. Financial instruments

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

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

Interest rate risk

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

The Group uses interest rate swaps to reduce the risk arising from changes in interest rates. These swaps are 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 £nil (year ended 31 December 2011: £8m, year ended 1 January 2010: £16m) to convert the floating interest rate charge to a fixed rate interest charge.

Since the year end the Group has put in place interest rate swaps with a nominal value of £18m for the 5 years from 11 April 2013.

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

	Fixed £000s	Floating £000s	Total £000s
At 31 December 2012			
Bank loans – sterling denominated	-	26,475	26,475
Convertible loan stock	4,211	-	4,211
Sterling subtotal	**4,211**	**26,475**	**30,686**
Working capital facility – euro denominated	-	1	1
Euro subtotal	**-**	**1**	**1**
Total financial liabilities	**4,211**	**26,476**	**30,687**
Unamortised issue costs	(22)	-	(22)
Net book value of financial liabilities	**4,189**	**26,476**	**30,665**

21. Financial instruments continued

	Fixed £000s	Floating £000s	Total £000s
At 31 December 2011			
Bank loans – sterling denominated	-	19,475	19,475
Convertible loan stock	4,508	-	4,508
Interest rate hedges	8,000	(8,000)	-
Sterling subtotal	12,508	11,475	23,983
Working capital facility – euro denominated	-	1	1
Euro subtotal	-	1	1
Total financial liabilities	12,508	11,476	23,984
Unamortised issue costs	(48)	-	(48)
Net book value of financial liabilities	12,460	11,476	23,936
At 31 December 2010			
Bank loans – sterling denominated	-	19,000	19,000
Convertible loan stock	4,901	-	4,901
Interest rate hedges	16,000	(16,000)	-
Total financial liabilities	20,901	3,000	23,901
Unamortised issue costs	(79)	-	(79)
Net book value of financial liabilities	20,822	3,000	23,822

	Fixed rate financial liabilities	
	Weighted average fixed rate %	Weighted average period for which rate is fixed
At 31 December 2012		
Sterling	**8.00**	**0.92 years**
At 31 December 2011		
Sterling	3.64	1.27 years
At 1 January 2011		
Sterling	2.78	2.14 years

21. Financial instruments continued

The Sterling floating rate borrowings bear interest at rates based on LIBOR.

The Group balance sheet also includes financial assets in the form of cash at bank and in hand totalling £4,634,000 (31 December 2011: £1,079,000, 1 January 2011: £1,989,000) which are exposed to floating interest rates based on LIBOR.

A 0.5% increase in LIBOR would reduce pre-tax profits by approximately £17,000 in 2013. 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 £65,000 decrease in predicted pre-tax profits, while a 5% strengthening of sterling would have the opposite effect.

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 convertible into ordinary shares at a conversion rate of 21p per ordinary share up until 30 November 2013 and bank loans with a repayment schedule of £1.25m per quarter from December 2012. The existing bank facilities are due for renewal in November 2014. 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 Group adopted the amendments to IFRS7 for financial instruments that are measured in the Consolidated 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).

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2012:

Liabilities	Level 1 £000s	Level 2 £000s	Level 3 £000s	Total £000s
Derivative financial instruments:				
Interest rate swaps	-	-	-	-
	-	**-**	**-**	**-**

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2011:

Liabilities	Level 1 £000s	Level 2 £000s	Level 3 £000s	Total £000s
Derivative financial instruments:				
Interest rate swaps	-	6	-	6
	-	6	-	6

The following table presents the Group's financial assets and liabilities that are measured at fair value at 1 January 2011:

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

21. Financial instruments continued

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

	At 31 December 2012 £000s	At 31 December 2011 £000s	At 1 January 2011 £000s
Due within:			
One year	**6,250**	4,250	4,000
More than one year, not more than two years	**20,225**	5,000	4,250
More than two years, not more than three years	**-**	10,225	5,000
More than three years, not more than four years	**-**	-	5,750
	26,475	19,475	19,000

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

	31 December 2012				
	In one year, or less £000s	**In more than one year, but not more than two £000s**	**In more than two years, but not more than five £000s**	**In more than five years £000s**	**Total £000s**
Trade and other payables	**10,086**	**20**	**-**	**-**	**10,106**
Working capital facility	**1**	**-**	**-**	**-**	**1**
Bank loans	**6,957**	**20,746**	**-**	**-**	**27,703**
Convertible loan stock	**4,436**	**-**	**-**	**-**	**4,436**
Onerous contracts	**197**	**182**	**182**	**-**	**561**
	21,677	**20,948**	**182**	**-**	**42,807**

	31 December 2011				
	In one year, or less £000s	In more than one year, but not more than two £000s	In more than two years, but not more than five £000s	In more than five years £000s	Total £000s
Trade and other payables	8,367	20	20	-	8,407
Working capital facility	1	-	-	-	1
Bank loans	4,975	5,546	10,519	-	21,040
Derivative financial instruments	6	-	-	-	6
Convertible loan stock	362	4,748	-	-	5,110
Onerous contracts	189	198	420	-	807
	13,900	10,512	10,959	-	35,371

21. Financial instruments continued

	In one year, or less £000s	In more than one year, but not more than two £000s	1 January 2011 In more than two years, but not more than five £000s	In more than five years £000s	Total £000s
Finance leases	1	-	-	-	1
Trade and other payables	11,869	20	40	-	11,929
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
	17,389	5,479	16,891	219	39,978

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

	31 December 2012		31 December 2011		1 January 2011	
	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	**390**	**4,436**	321	362	410	392
In more than one year, but not more than two	**-**	**-**	-	4,748	-	393
In more than two years, but not more than five	**-**	**-**	-	-	-	5,162
In more than five years	**-**	**-**	-	-	-	-
	390	**4,436**	321	5,110	410	5,947

The Group had £11,499,000 (31 December 2011: £21,524,000, 1 January 2011: £21,432,000) undrawn committed borrowing facilities available at 31 December 2012.

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

As at 31 December 2012	**Loans and receivables £000s**	**Non financial assets £000s**	**Total £000s**
Financial assets			
Cash	**4,634**	**-**	**4,634**
Trade and other receivables	**9,795**	**350**	**10,145**
	14,429	**350**	**14,779**

21. Financial instruments continued

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

As at 31 December 2012	Held for trading £000s	Other financial liabilities £000s	Liabilities not within scope of IAS39 £000s	Total £000s
Financial liabilities				
Cash and cash equivalents	-	1	-	1
Long term financial liabilities	-	20,225	-	20,225
Convertible debt	-	4,189	-	4,189
Other liabilities	-	20	-	20
Financial liabilities	-	6,250	-	6,250
Trade and other payables	-	8,861	1,225	10,086
Corporation tax	-	-	1,225	1,322
Onerous contracts – non current	-	-	364	364
Onerous contracts – current	-	-	197	197
	-	39,546	3,108	42,654

As at 31 December 2011	Loans and receivables £000s	Non financial assets £000s	Total £000s
Financial assets			
Cash	1,079	-	1,079
Trade and other receivables	8,329	331	8,660
	9,408	331	9,739

As at 31 December 2011	Held for trading £000s	Other financial liabilities £000s	Liabilities not within scope of IAS39 £000s	Total £000s
Financial liabilities				
Cash and cash equivalents	-	1	-	1
Long term financial liabilities	-	15,225	-	15,225
Convertible debt	-	4,460	-	4,460
Other liabilities	-	40	-	40
Financial liabilities	-	4,250	-	4,250
Trade and other payables	-	7,503	864	8,367
Corporation tax	-	-	1,046	1,046
Onerous contracts – non current	-	-	510	510
Onerous contracts – current	-	-	189	189
Derivative financial instruments – current	6	-	-	6
	6	31,479	2,609	34,094

21. Financial instruments continued

As at 1 January 2011	Loans and receivables £000s	Non financial assets £000s	Total £000s
Financial assets			
Cash	1,989	-	1,989
Trade and other receivables	9,251	439	9,690
	11,240	439	11,679

As at 1 January 2011	Held for trading £000s	Other financial liabilities £000s	Liabilities not within scope of IAS39 £000s	Total £000s
Financial liabilities				
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	34,643	2,844	37,515

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

As at 31 December 2012	**Loans and receivables £000s**	**Non financial assets £000s**	**Total £000s**
Financial assets			
Cash	**182**	**-**	**182**
Trade and other receivables	**-**	**10,021**	**10,021**
	182	**10,021**	**10,203**

As at 31 December 2012	**Other financial liabilities £000s**	**Liabilities not within the scope of IAS39 £000s**	**Total £000s**
Financial liabilities			
Convertible debt	**4,189**	**-**	**4,189**
Trade and other payables	**390**	**-**	**390**
Corporation tax	**-**	**4**	**4**
	4,579	**4**	**4,583**

Notes to the Financial Statements continued

for the year ended 31 December 2012

21. Financial instruments continued

As at 31 December 2011	Loans and receivables £000s	Non financial assets £000s	Total £000s
Financial assets			
Cash	77	-	77
Trade and other receivables	-	2,020	2,020
	77	2,020	2,097

As at 31 December 2011	Other financial liabilities £000s	Total £000s
Financial liabilities		
Convertible debt	4,460	4,460
Trade and other payables	321	321
	4,781	4,781

As at 1 January 2011	Loans and receivables £000s	Non financial assets £000s	Total £000s
Financial assets			
Cash	25	-	25
Trade and other receivables	-	7,086	7,086
	25	7,086	7,111

As at 1 January 2011	Other financial liabilities £000s	Liabilities not within scope of IAS39 £000s	Total £000s
Financial liabilities			
Convertible debt	4,822	-	4,822
Trade and other payables	316	-	316
Corporation tax	-	95	95
	5,138	95	5,233

22. Derivative financial instruments

	31 December 2012 Liabilities £000s	31 December 2011 Liabilities £000s	1 January 2011 Liabilities £000s
Interest rate swap – cash flow hedge	**-**	6	28
	-	6	28
Current portion	**-**	6	15
Non current portion	**-**	-	13

The cash flow hedges were tested for effectiveness during the year 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 £6,000 (year ended 31 December 2011: £47,873 charge).

23. Deferred tax asset/(provision)

The Group	**31 December 2012 £000s**	31 December 2011 £000s	1 January 2011 £000s
Accelerated capital allowances	**(4)**	(41)	(86)
Accelerated allowances on intangible assets	**(4,271)**	(4,025)	(3,725)
Initial recognition of intangible from business combination	**(1,849)**	-	-
Interest rate hedge	**-**	2	8
	(6,124)	(4,064)	(3,803)
Deferred tax asset	**-**	-	-
Deferred tax provision	**(6,124)**	(4,064)	(3,803)

Reconciliation of deferred tax movements:

The Group	31 December 2011 £000s	Recognised in other comprehensive income £000s	Recognised in the income statement £000s	Recognised on business combination £000s	**31 December 2012 £000s**
Non-current assets					
Intangible assets	(4,025)	-	(246)	-	**(4,271)**
Initial recognition of intangible from business combination	-	-	-	(1,849)	**(1,849)**
Property, plant and equipment	(41)	-	37	-	**(4)**
Current Liabilities					
Derivative financial instruments	2	(2)	-	-	**-**
	(4,064)	(2)	(209)	(1,849)	**(6,124)**
Recognised as:					
Deferred tax asset	-				**-**
Deferred tax liability	(4,064)				**(6,124)**

23. Deferred tax asset/(provision) continued

Deferred tax has been calculated at the prevailing rate of 23% (2011: 25% and 2010: 27%).

A number of changes to the UK Corporation tax system were announced in the Finance Act 2012.The main rate of corporation tax was reduced from 26% to 24% from 1 April 2012 and reduced further to 23% from 1 April 2013. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 22% by 1 April 2014. At the balance sheet date the substantively enacted rate was 23% (2011: 25%). The further 1% reduction has not been substantively enacted at the balance sheet date and therefore not included in these financial statements.

The proposed reduction of the main rate of corporation tax by 1% from 1 April 2014 is expected to be enacted during 2013. The overall effect of this change from 23% to 22%, if applied to the deferred tax balance at 31 December 2012, would be to decrease the deferred tax liability by £266,000.

The Group	1 January 2011 £000s	Recognised in other comprehensive income £000s	Recognised in the income statement £000s	31 December 2011 £000s
Non-current assets				
Intangible assets	(3,725)	-	(300)	(4,025)
Property, plant and equipment	(86)	-	45	(41)
Non-current Liabilities				
Derivative financial instruments	4	(4)	-	-
Current Liabilities				
Derivative financial instruments	4	(2)	-	2
Unused tax losses	-	-	-	-
	(3,803)	(6)	(255)	(4,064)
Recognised as:				
Deferred tax asset	-			-
Deferred tax liability	(3,803)			(4,064)

24. Provisions for other liabilities

	31 December 2012 £000s	31 December 2011 £000s	1 January 2011 £000s
At start of year	**699**	1,013	-
Amount provided for in year	**-**	-	1,268
Amount utilised in year	**(187)**	(378)	(340)
Unwinding of discount	**49**	64	85
At year end	**561**	699	1,013

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 2012 an amount of £561,000 (year ended 31 December 2011: £699,000) discounted at a rate of 10%, representing payments due until the end of each contract has been recognised. The Dublin property lease expired in 2011 and the Newcastle property lease will run until 2015.

The balances are analysed as follows:

	31 December 2012 £000s	31 December 2011 £000s	1 January 2011 £000s
Current	**197**	189	372
Non-Current	**364**	510	641

25. Share capital

	Authorised No. of shares	Authorised £000s
At 31 December 2012 – ordinary shares of 1p each	**400,000,000**	**4,000**
At 31 December 2011 – ordinary shares of 1p each	400,000,000	4,000
At 1 January 2011 – 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 2011 – ordinary shares of 1p each	236,105,418	2,361
Issued during the year	3,961,866	40
At 31 December 2011 – ordinary shares of 1p each	240,067,284	2,401
Issued during the year	2,968,358	29
At 31 December 2012 – ordinary shares of 1p each	**243,035,642**	**2,430**

Between 1 January 2012 and 31 December 2012 1,555,265 shares were issued on the exercise of employee share options (2011: 2,089,250).

During the year, the Company received conversion notices in respect of £296,750 nominal value of the Company's 8% Convertible Unsecured Loan Stock (2011: £393,250). Accordingly, the Company has allotted 1,413,093 ordinary shares of 1p each in the Company (2011: 1,872,616).

for the year ended 31 December 2012

25. 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 2012 Number**	31 December 2011 Number	1 January 2011 Number
2005	19.00	2008	**9,000**	9,000	9,000
2006	18.75	2009	**40,250**	40,250	74,750
2007	9.25	2010	**33,250**	33,250	231,126
2008	8.50	2011	**1,308,426**	1,419,526	3,276,400
2009	7.75	2012	**1,037,045**	2,481,210	2,481,210
2010	33.25 and 34.25	2013	**2,633,889**	2,633,889	2,668,639
2011	34.12 and 31.00	2014	**4,248,253**	4,248,253	-
2012	29.25	2015	**3,494,826**	-	-
			12,804,939	10,865,378	8,741,125

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

Managing Capital

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

The capital structure of the Group consists of net bank debt and Shareholders' equity. At 31 December 2012, net bank debt was £21.8 million (excluding convertible unsecured loan stock), whilst Shareholders' equity was £51.8 million.

The business is profitable and cash generative. The main financial covenants applying to bank debt are that leverage (the ratio of net bank debt to EBITDA) should not exceed 2.0 times, interest cover (the ratio of EBITDA to finance charges) should be no less than 3.0 times, and operating cash flows must exceed debt service cash flows. The Group comfortably complied with these covenants in 2012 and 2011.

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.

26. Share based payments

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

Grant date	Share price at issue	Exercise price	Number of options granted	**Number of options remaining at 31 December 2012**	Expected volatility	Risk free rate
27/07/05	19.00p	19.00p	424,516	**9,000**	22.8%	4.13%
04/05/06	18.75p	18.75p	901,190	**40,250**	14.9%	4.30%
02/05/07	9.25p	9.25p	1,402,425	**33,250**	20.4%	4.62%
23/04/08	8.50p	8.50p	5,419,950	**1,308,426**	18.6%	4.90%
14/04/09	7.75p	7.75p	2,307,860	**1,051,345**	25.5%	4.08%
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	**1,333,889**	45.7%	3.90%
28/04/11	34.12p	34.12p	3,981,916	**3,948,253**	43.9%	4.10%
21/09/11	31.00p	31.00p	300,000	**300,000**	53.2%	4.10%
19/10/12	29.25p	29.25p	3,494,826	**3,494,826**	49.7%	1.70%

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:

	2012		2011		2010	
	Number	**Weighted average exercise price Pence**	Number	Weighted average exercise price Pence	Number	Weighted average exercise price Pence
Outstanding at start of year	**10,865,378**	**24.82**	8,741,125	16.59	7,936,543	10.08
Granted	**3,494,826**	**29.25**	4,281,916	33.90	2,802,778	33.79
Exercised	**(1,555,265)**	**10.54**	(2,089,250)	8.70	(1,564,906)	12.48
Forfeited	**-**	**-**	(68,413)	-	(433,290)	22.54
Outstanding at end of year	**12,804,939**	**27.77**	10,865,378	24.82	8,741,125	16.59
Exercisable at end of year	**2,427,971**	**8.40**	1,502,026	8.89	314,876	11.35

Share options were exercised throughout the financial year. Share options were exercised between 29p and 30.5p per share.

Notes to the Financial Statements continued

for the year ended 31 December 2012

27. Cash generated from operations

	Group		Company	
	Year ended 31 December 2012 £000s	Year ended 31 December 2011 £000s	**Year ended 31 December 2012 £000s**	Year ended 31 December 2011 £000s
Result for the period before tax	**10,809**	10,712	**10,494**	185
Interest paid	**1,466**	1,504	**352**	358
Interest income	**-**	(2)	**(1,310)**	(1,096)
Other finance costs	**45**	124	**26**	31
Profit on disposal of intangibles	**-**	(50)	**-**	-
Depreciation of property, plant and equipment	**274**	263	**-**	-
Amortisation of intangibles	**573**	735	**-**	-
Change in inventories	**505**	(1,109)	**-**	-
Change in investments	**-**	-	**(1,435)**	(4,643)
Change in trade and other receivables	**(724)**	1,078	**(10,001)**	66
Change in trade and other payables	**1,100**	(1,780)	**68**	5
Share options charges	**369**	179	**369**	179
Cash flows from operating activities	**14,417**	11,654	**(1,437)**	(4,915)

28. Capital commitments

Neither the Group nor Company had any capital commitments at 31 December 2012 or at 31 December 2011.

29. Contingent liabilities

Neither the Group nor Company had any contingent liabilities at 31 December 2012 or at 31 December 2011.

30. Pensions

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

The Group	**31 December 2012 £000s**	31 December 2011 £000s
Contributions payable by the group for the year	**306**	251

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

31. Leasing commitments

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

	31 December 2012 Land and buildings £000s	31 December 2011 Land and buildings £000s	1 January 2011 Land and buildings £000s
No later than one year	**361**	286	432
Later than one year and no later than five years	**753**	900	985
Later than five years	**317**	415	729
	1,431	1,601	2,146

32. Related party transactions

The group paid £642,000 (year ended 31 December 2011: £431,000) for services from Fasken Martineau LLP, a firm of which P Ranson was a partner during 2012. At 31 December 2012 there was a balance of £13,624 (31 December 2011: £12,150) outstanding in respect of services from Fasken Martineau LLP.

Lynette Booley, wife of Director Tony Booley, was paid £14,000 (31 December 2011: £45,000) for promotional services and goods. £Nil was outstanding at 31 December 2012 (Year ended 31 December 2011: £2,000).

The group paid £24,000 (year ended 31 December 2011: £24,000) for services from Patient Connect Service Limited, a company of which T Casdagli is a director.

During the year the Company received funds of £219,000 (year ended 31 December 2011: £500,000) from its subsidiary Alliance Pharmaceuticals Limited. Net payments of £2,359,000 (year ended 31 December 2011: £1,752,000) were made by Alliance Pharmaceuticals Limited on behalf of Alliance Pharma plc. Interest of £1,309,000 (year ended 31 December 2011: £1,096,000) was charged to Alliance Pharmaceuticals Limited on the total outstanding debt. During the year the Company re-invested £2,010,000 (year ended 31 December 2011: £5,300,000) in Alliance Pharmaceuticals Limited. During the year an amount of £369,000 (year end 31 December 2011: £179,000) was charged to Alliance Pharmaceuticals Limited by the Company for the employee share based payment. The amount owed by Alliance Pharmaceuticals Limited at the year end is £43,161,000 (31 December 2011: £32,065,000).

At the year-end dividends declared by Alliance Pharmaceuticals Limited due to the Company of £10,000,000 for the year ended 31 December 2012 (for the year ended 31 December 2011: £2,000,000, for the year ended 31 December 2010: £7,000,000) are included within other receivables and are still outstanding. During the year dividends of £2,000,000 were paid by Alliance Pharmaceuticals Limited to the Company.

During the year the Group made payments on behalf of Unigreg of £377,000 (year ended 31 December 2011: £129,000), interest receivable from Unigreg was £48,000 (Year ended 31 December 2011: £48,000).

33. Acquisitions

Details of the acquisition of significant subsidiaries are given below.

During the year the Group acquired 100% of the share capital of Opus Group Holdings Ltd ("Opus") for £8,040,000 plus the net asset value of the Opus Group which was £1,626,848. In the twelve months to 31 March 2012 the turnover of Opus was £3.8m and the pre-tax profit, before directors' emoluments, was £2.1m. The group incurred acquisition related costs of £206,000 that have been expensed to the income statement.

	Book of value assets and liabilities acquired £000s	Fair value adjustments £000s	**Fair value of assets and liabilities acquired £000s**
Intangible fixed assets	3	8,040	**8,043**
Current assets (excluding cash and cash equivalents)	1,045	-	**1,045**
Cash and cash equivalents	1,204	-	**1,204**
Current liabilities	(625)	-	**(625)**
Net assets	1,627	8,040	**9,667**
Deferred tax liability	-	(1,849)	**(1,849)**
Goodwill	-	1,849	**1,849**
Total consideration	1,627	8,040	**9,667**

Notes to the Financial Statements continued

for the year ended 31 December 2012

34. Joint Venture

Name	Principal Activity	Country of Incorporation	% Owned
Unigreg Ltd	Distribution of pharmaceutical products to China	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 accounted for using the proportionate consolidation method of accounting. 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 2012 £000s	31 December 2011 £000s	1 January 2011 £000s
Intangible fixed assets	**1,950**	1,950	1,950
Current assets	**658**	853	836
Current liabilities	**(145)**	(309)	(600)
Net assets	**2,463**	2,494	2,186

	Year ended 31 December 2012 £000s	Year ended 31 December 2011 £000s	Year ended 31 December 2010 £000s
Income	**2,475**	1,812	1,874
Cost of sales	**(1,415)**	(1,029)	(1,033)
Administration and marketing expense	**(239)**	(249)	(276)
Profit on ordinary activities before taxation	**821**	534	565

35. Ultimate controlling party

There is no single ultimate controlling party.

Shareholder Information

Shareholder enquiries

The Company's share register is maintained on our behalf by Capita Registrars, who are responsible for updating the register, including details of changes to shareholders' addresses and purchases and sales of the Company's shares. If you have any questions about your shareholding in the Company or need to notify any changes to your personal details you should write to Capita Registrars, Northern House, Woodsome Park, Fenay Bridge, Huddersfield, West Yorkshire HD8 0LA or telephone 0871 664 0300 (calls cost 10p per minute plus network extras, lines are open 9:00am to 5:30pm Monday to Friday).

Financial Calendar

Annual General Meeting	22 May 2013
Final dividend record date	14 June 2013
Payment of final dividend	11 July 2013
Interim results announcement	11 September 2013
Year End	31 December 2013
Preliminary announcement	March 2014

Shareholder Analysis

Below is an analysis of the share register by size of holding as at 18 March 2013:

Size of shareholding	Proportion of shareholders	Number of shares held	Proportion of shares
1-5,000	29%	354,946	0.14%
5,001-10,000	17%	787,468	0.32%
10,001-50,000	35%	4,600,062	1.88%
50,001-100,000	5%	2,585,630	1.06%
100,001-500,000	5%	8,195,923	3.35%
500,001-1,000,000	3%	11,099,612	4.53%
1,000,001-5,000,000	4%	51,386,763	20.98%
5,000,001-10,000,000	1%	31,444,199	12.84%
10,000,001-50,000,000	1%	134,509,099	54.90%
	100%	244,963,702	100%

As at 18 March 2013 the Company has 584 registered shareholders.

Five Year Summary

	Year ended 31 December 2008 £m	Year ended 31 December 2009 £m	Year ended 31 December 2010 £m	Year ended 31 December 2011 £m	**Year ended 31 December 2012 £m**
Revenue	21.8	31.2	49.9	46.0	**44.9**
Operating profit before exceptional items	6.4	11.2	18.7	12.3	**12.3**
Exceptional operating items	-	(2.8)	(1.7)	-	**-**
Operating profit after exceptional items	6.4	8.4	17.0	12.3	**12.3**
Exceptional finance items	-	-	(1.8)	-	**-**
Profit before tax before exceptional items	2.4	8.5	16.4	10.7	**10.8**
Profit before tax after exceptional items	2.4	5.7	12.9	10.7	**10.8**
Intangible assets	40.0	44.9	60.3	66.1	**79.9**
Tangible assets	0.2	0.1	0.9	0.8	**0.6**
Current assets	8.7	11.7	16.2	15.4	**20.2**
Current liabilities	11.1	11.4	17.0	13.9	**22.0**
Equity	8.8	16.6	36.1	44.2	**51.8**
Average shares in issue (millions)	162.1	173.2	226.1	238.6	**240.9**
Shares in issue at period end (millions)	162.1	193.3	236.1	240.0	**243.0**
Earnings per share – basic (p)	1.55	2.37	3.96	3.62	**3.61**
Earnings per share – adjusted basic (p)	1.17	3.55	5.07	3.62	**3.61**

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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.

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Breathing life into medicines

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