ALLIANCE

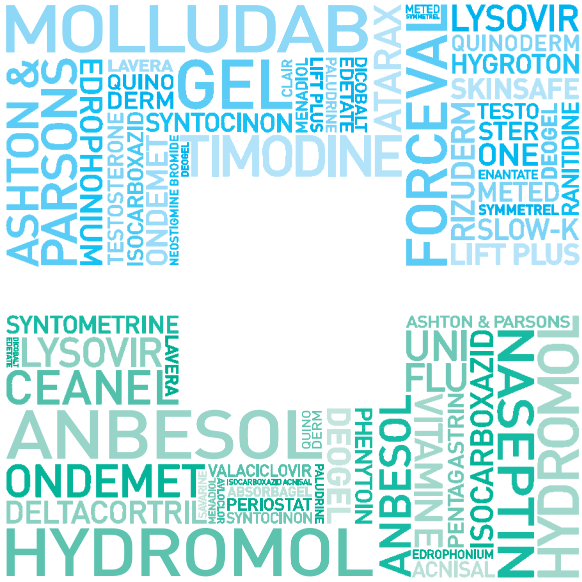
Breathing life into medicines

ALLIANCE PHARMA plc Annual Report and Accounts for the year ended 31 December 2013

2013 Annual Report

Contents

*Unaudited information.



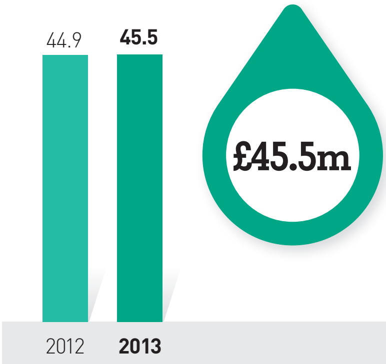
Alliance Pharma plc is an AIM listed speciality pharmaceutical company

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 £46m. Alliance has its headquarters in the UK at Chippenham, Wiltshire.

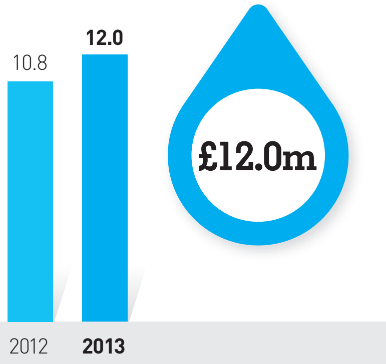
Highlights

Key Numbers

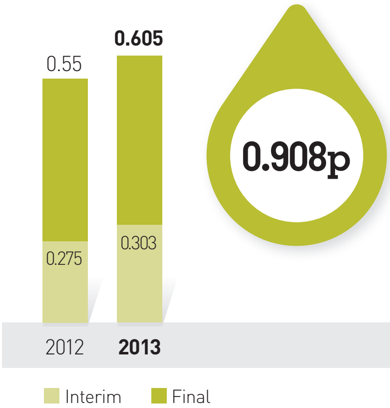
Revenue



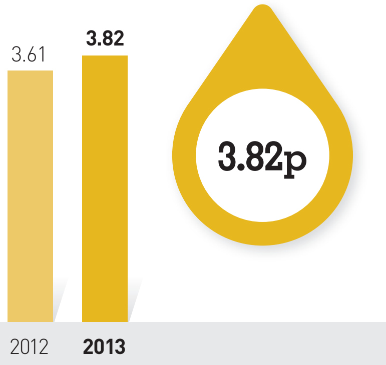
Profit before tax



Dividend



EPS – basic



2013 Key Facts

- Three acquisitions of products since June 2013 with annualised gross margin of £2.6m
- France and Germany both now trading profitably
- Hydromol continues good growth, achieving year on year revenue growth of 12%
- New packaging equipment for Ashton & Parsons Infants' Powders now operational, with production volumes ramping-up
- Full year dividend up 10% to 0.908p per share (2012: 0.825p)
- Low gearing with Debt to EBITDA ratio of 1.6 times*
- Operating profit 29% of sales

*Including proforma EBITDA of acquisitions.

Our Business Model

Strategy

Alliance is a speciality pharma company pursuing a buy and build strategy. It expands its portfolio by acquisition or inward licensing. It does not engage in R&D, except for minor line extensions.

The acquired products are ones whose market position has been established by their originators. Where necessary, Alliance ensures the product's viability by regulatory and technical initiatives so that the established franchise can be relied upon to provide sustainable cash-flow into the foreseeable future. Acquired products are assessed for their potential to respond to promotional investment. If promotion would produce an economic return, then it is implemented via Alliance's specialised sales and marketing operation. For many products, however, having had their market positions established many years ago, the most economic strategy is to maintain them for their cash generation.

Corporate growth is further enhanced by licensing in and marketing products that have been developed by other companies' R&D activities.

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.

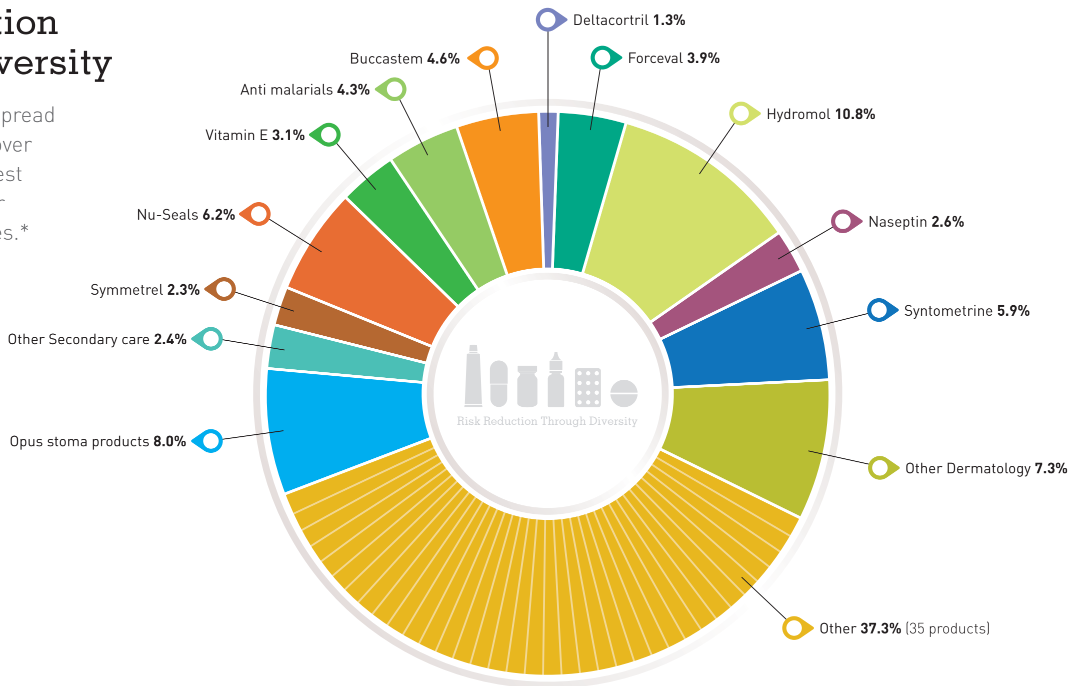
Labour and capital intensive activities, such as manufacturing, warehousing and distribution, are outsourced so that new products may be quickly integrated into the Alliance portfolio with minimal increase in overheads. Outsourcing enables management to concentrate on key decisions and act quickly to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

Longevity of Brands

PRODUCT	ANNUAL REVENUE 2013	LAUNCH
Hydromol	£5.3m	1987
Toxicology Product	£3.9m	1991
Nu-Seals	£3.0m	1978
Syntometrine	£2.8m	1956
Buccastem	£2.3m	1987
Forceval	£1.9m	1970
Timodine	£1.6m	1972
Syntocinon	£1.6m	1956
Paludrine	£1.5m	1972
Vitamin E	£1.5m	1989

Risk Reduction Through Diversity

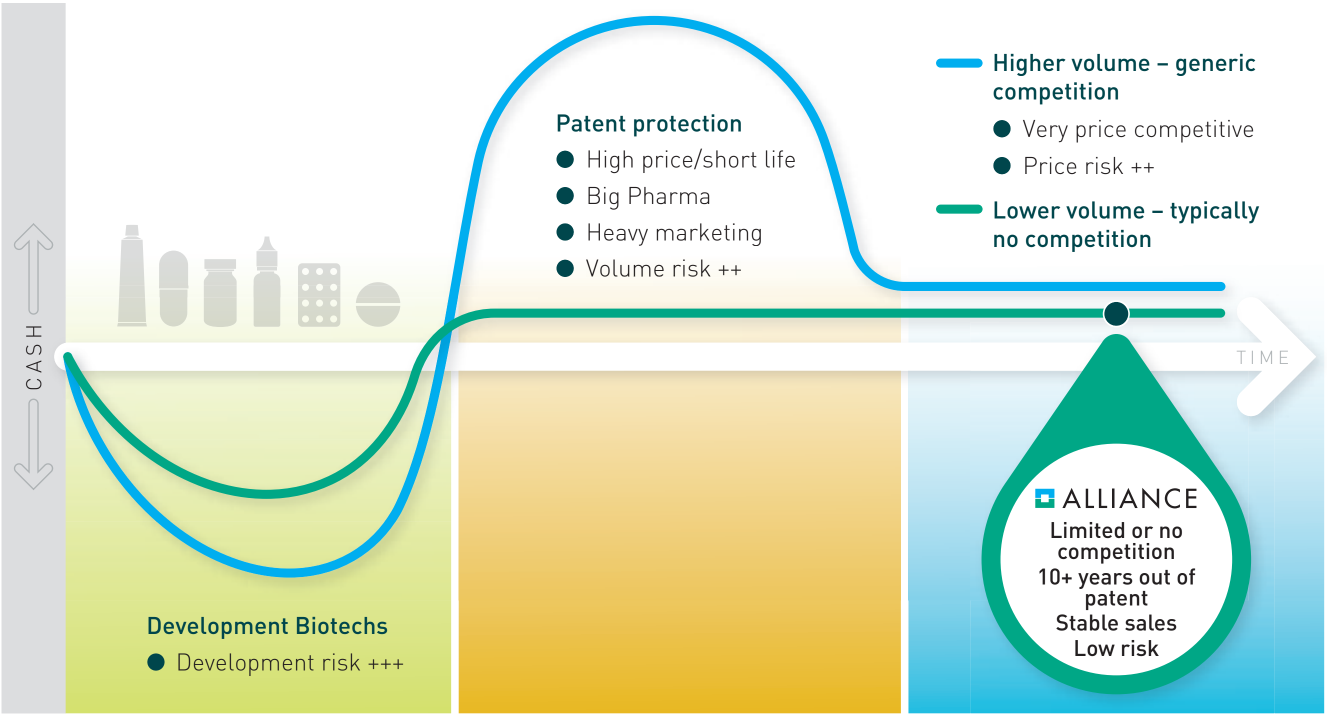
Any potential risk is spread across a portfolio of over 60 products, the largest representing just over 10% of Alliance's sales.*

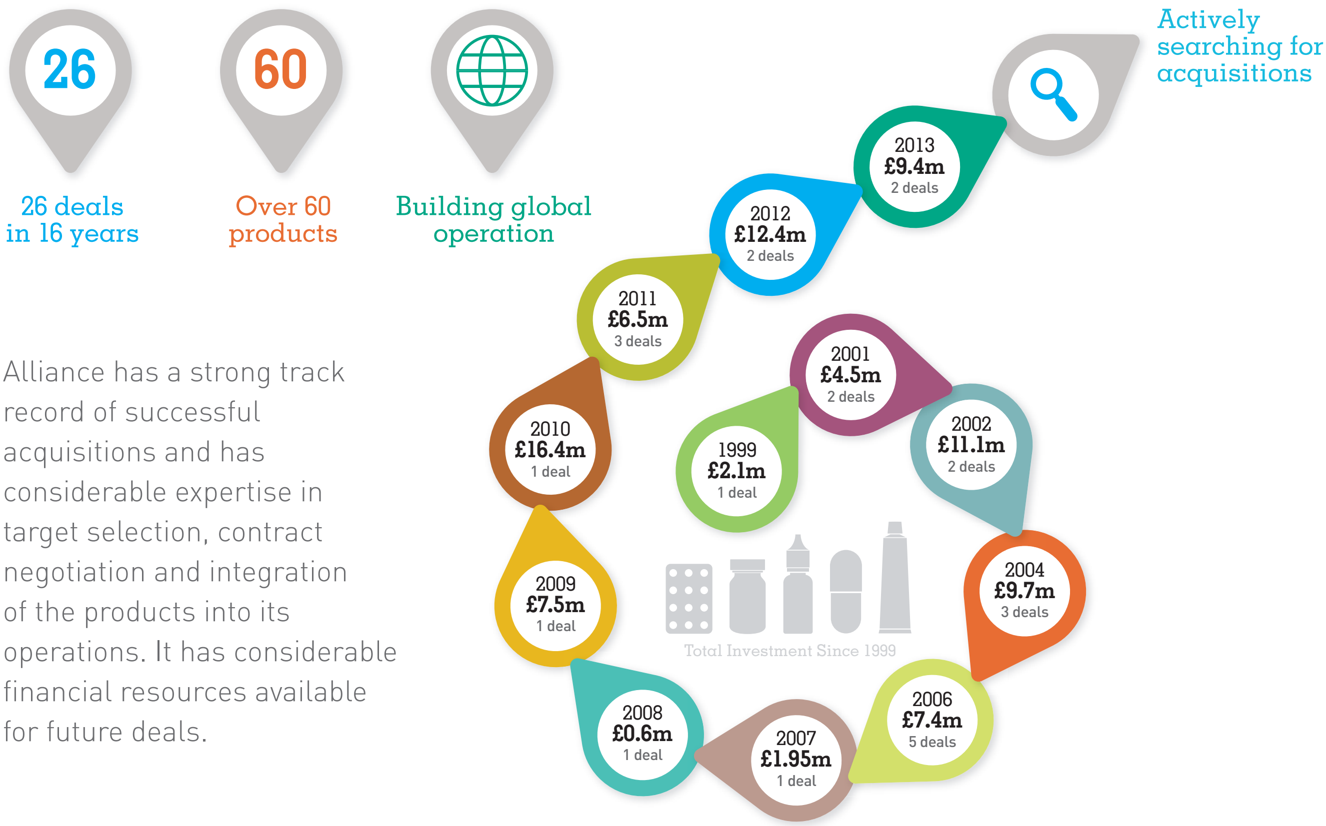


*Proforma 2013 Revenue.

Product Acquisition Strategy

Product life-cycle: Alliance's bedrock products are usually at least 10 years post patent expiry with a stable sales history and a low volume that limits direct competition.



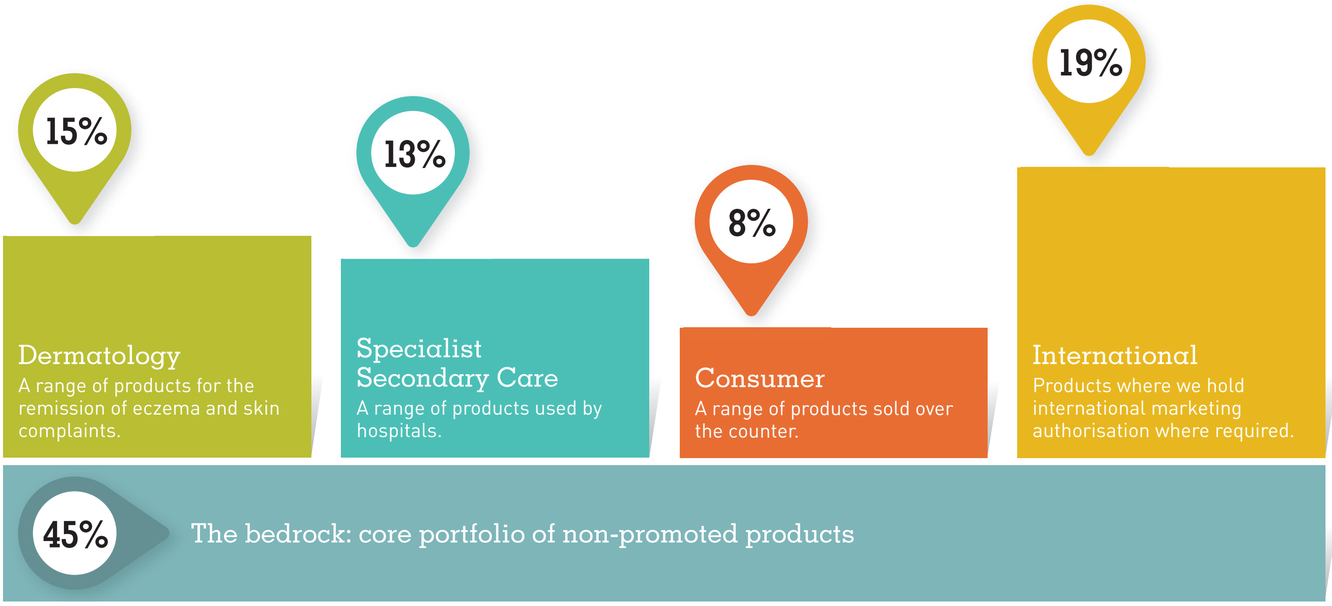


Alliance has a strong track record of successful acquisitions and has considerable expertise in target selection, contract negotiation and integration of the products into its operations. It has considerable financial resources available for future deals.

Products

Balanced Portfolio

The bedrock of non-promoted products provides considerable cash generation to support the growth activities behind the Dermatology, Specialised Secondary Care and Consumer products. In this way a healthy corporate operating profit of 29% of sales is maintained.



Portfolio Profiles

Alliance has acquired products in a range of therapy areas; details on some of these are provided below:

Dermatology

Hydromol – an emollient range of creams, bath additives and ointments to maintain skin hydration and prevent exacerbations of eczema.

Timodine – is used to treat inflamed skin conditions, such as eczema and severe nappy rash, particularly involving the fungal infection Candida albicans.

Specialist Secondary Care

ImmuCyst – Immunotherapy for non-muscle-invasive bladder cancer.

ImmuCyst is instilled into the bladder and produces an intensive, local immune response that destroys the tumour cells.

Gelclair – an oral gel that helps to relieve the severe pain associated with oral mucositis and other oral lesions that can occur with common cancer treatments.

Opus stoma care products – a range of ancillary products such as barrier creams, adhesive removers and absorbent gels that make the wearing of stoma bags more comfortable.

Consumer

Ashton & Parsons – a well renowned herbal product traditionally used in infants for the symptomatic relief of the pain and stomach upset associated with teething.

Anbesol – to relieve the pain of mouth ulcers, denture irritation and teething pain in children.

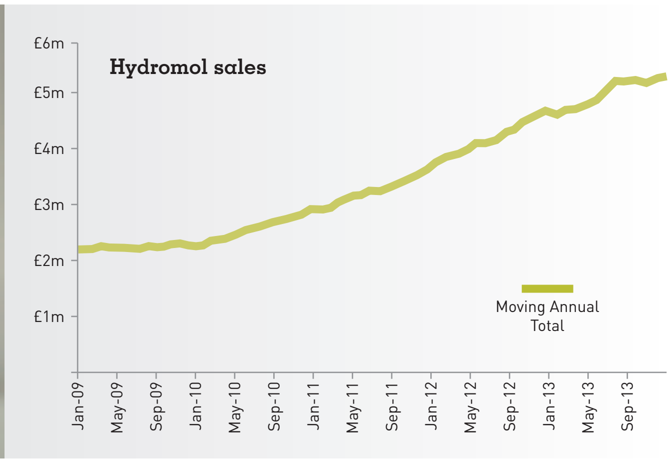
Quinoderm – a dual action product for acne, particularly in teenagers.

MolluDab – a proven treatment for molluscum contagiosum, which is a common and highly contagious viral infection of the skin, particularly in school children.

Lypsyl – a classic brand of lip salve for preventing cracked lips.

Hydromol

Alliance acquired Hydromol in 2006 from Ferndale Pharmaceuticals. Hydromol is promoted by a small field force covering hospital and general practice. Sales have grown from £0.9m at the time of acquisition to £5.3m in 2013.



Opus stoma care products

Alliance acquired the Opus stoma care business in 2012. Turnover in 2013 was £3.9m.

Ashton & Parsons Infants' Powders

Ashton & Parsons Infants' Powders were first produced in London in the late 1800s and soon became a popular treatment with parents for easing the symptoms of teething.

Alliance acquired the brand in 2011. However, the specialist packaging machinery required to produce the traditional paper wrap originated in the 1950s, was unreliable and could not service the demand for the product. Alliance has re-designed the pack into a modern sachet and, together with its contract manufacturer, has invested in modern high speed machinery.

Production levels are being ramped up in 2014 to meet the previously unsatisfied demand. In the past, the brand's popularity was maintained through recommendation by generations of grandparents and parents. With increased product availability, promotion of the brand, which had been limited for decades because of limited supply, now becomes possible. As technology has moved on, so have the means of communication. The format of support networks for new mums and dads has changed and online social forums have become the main ways of seeking advice and support from a much wider network. Responding to this shift, the 2014 Ashton and Parsons communication program features a family album of mums through the decades and aims to encourage parents to spread the word about Ashton and Parsons which, with full product availability, no longer has to remain 'Mum's little secret' and parents are now free to pass it on!

International Commercial Presence

Direct Presence

Joint Venture

Local Partners

Local Partners:

Netherlands	Niger
Denmark	Burkina Faso
Finland	Madagascar
Sweden	Kenya
Iceland	South Africa
Spain	Namibia
Portugal	Swaziland
Italy	Mauritius
Malta	Sri Lanka
Cyprus	Malaysia
Lebanon	Brunei
Pakistan	Singapore
Qatar	Hong Kong
Oman	Australia
Egypt	New Zealand
Gabon	The Caribbean

Europe

Germany

As reported in 2012, Alliance has been identifying an increasing number of acquisition opportunities in Germany. In January 2014 we moved to a position of profitable trading by acquiring Irenat from Bayer. Irenat is an established endocrinology brand that is mainly used for diagnosing and treating hyperthyroidism.

France

In France where we achieved profitability via the anti-malarial business that was acquired in 2012, we are also seeing a large number of opportunities for further acquisitions.

Republic of Ireland

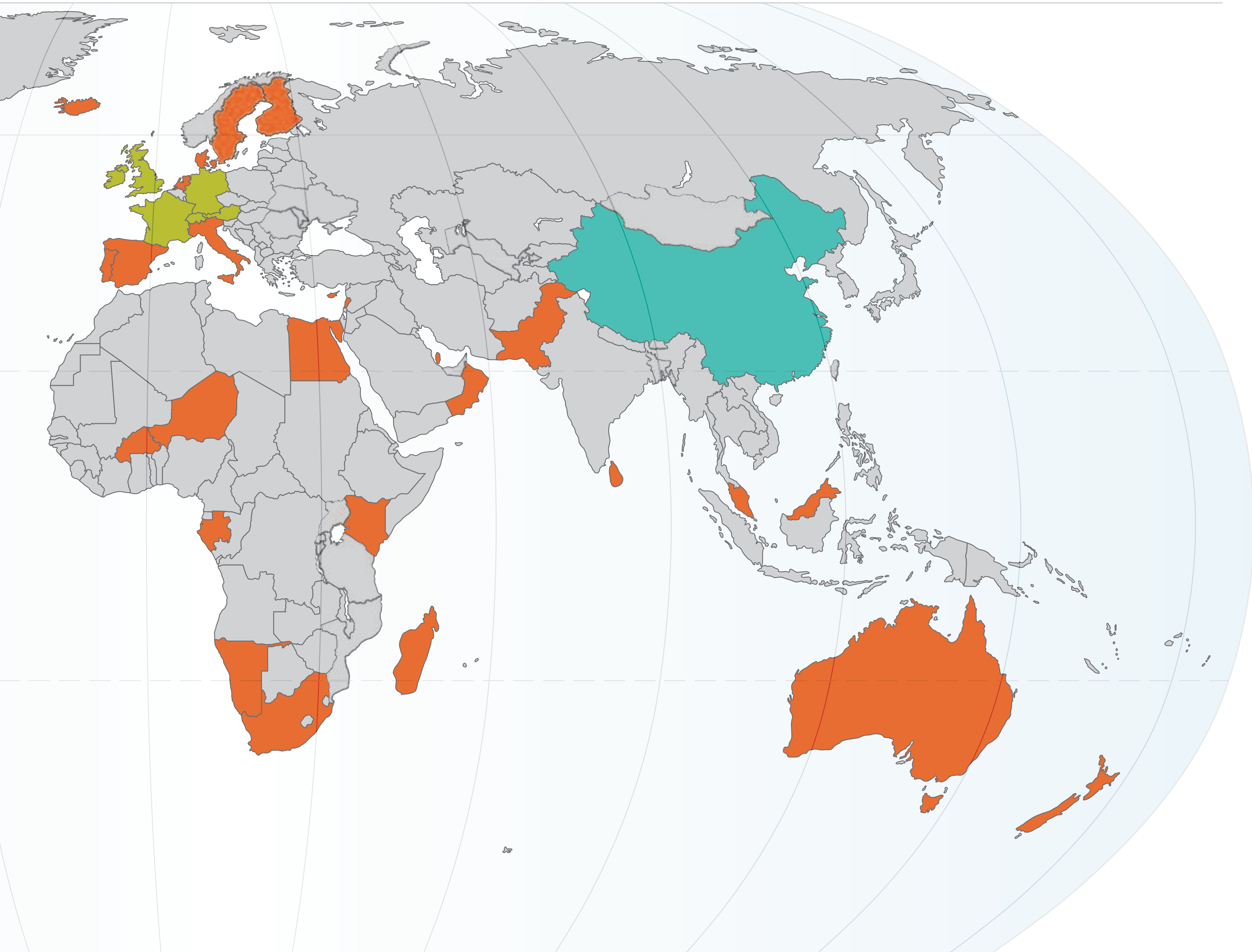
Although competition against Nu-Seals has increased ahead of the anticipated price referencing and generic substitution changes due in 2014, our commercial activities have been effective in maintaining sales at a higher level than expected.

The Opus stoma care products acquired in 2012 grew strongly at 40%.

China

Alliance is well positioned to benefit from growth in China's mother and baby market. Since 2007, via its joint venture partner, it has been selling the vitamin / mineral supplement FushiFu (Forceval) for use in early pregnancy.

In 2014 Alliance acquired for £0.5m a 20% stake in Synthasia, a Shanghai based company supplying the Chinese market with Suprememil, its advanced infant milk formula brand, which it has specially manufactured for it in Switzerland. Suprememil has an excellent reputation amongst the increasing numbers of medium and high income households. Demand for high quality baby milk products from abroad is high within China and the future market may see further growth following the recent



government announcements relaxing the one child policy.

Alliance has a shareholder agreement providing it with joint managerial control and has options to acquire the remaining 80% stake at pre-agreed performance multiples over the next 9 years. Synthasia provides an operating base potentially enabling Alliance to acquire other products in the fast-growing China market.

Rest of the World

In June 2013 Alliance acquired the worldwide rights to Syntometrine. Alliance already owned the UK rights to Syntometrine, an obstetric drug used in the final stage of labour. This acquisition added several important new territories including Australia, South Africa and Malaysia, thus providing Alliance with new distributor relationships that may be valuable in the event of further acquisitions.

Far left: Suprememil.
Left: Syntometrine.
Above: FushiFu (Forceval).

Strategic Report

Alliance returned to double-digit headline profit growth in 2013, with pre-tax profits up by 11% to £12.0m. This robust performance reflects the resilience of the business and the strength of our increasingly broad product portfolio. Since 2010 the business has absorbed a reduction in gross margin from Deltacortril of £11m, a product we acquired in 2006 for less than £1m. Excluding Deltacortril, the underlying pre-tax profits grew 21% in 2013 and have grown at a compound annual growth rate of 30% over the past three years, underlining our confidence in our buy and build strategy.

Revenue increased by 1.4% to £45.5m despite some headwinds, including the temporary production issues with ImmuCyst. This augurs well for our prospects over the next couple of years, as we reap the benefits of recent acquisitions and expect to resume sales of ImmuCyst at the end of this year.

With five acquisitions completed in the past two years, we have continued to demonstrate our ability to find and negotiate attractive deals. Given our strong funding position and healthy pipeline of prospective targets, we expect to continue growth through further acquisitions over the coming months and years.

ALLIANCE RETURNED TO DOUBLE-DIGIT PROFIT GROWTH

Trading performance

Our revenue growth in 2013 was underpinned by the continuing success of the Hydromol dermatology range. With revenue up 12% to £5.3m in 2013, Hydromol is now our largest brand. We are increasing manufacturing capacity for Hydromol after demand briefly outstripped production during the year.

Our cyclical toxicology product also made a significant contribution, particularly in the first half, as it reached the peak of its 30-month sales cycle. However, sales are now on the cyclical downswing and, with several competitors entering the market, we expect future sales to be markedly lower.

Revenue of the stoma care products, which we acquired in October 2012, was £3.9m, up slightly on the £3.8m pre-acquisition level.

Our Gelclair treatment for oral mucositis accelerated its revenue growth to 16% in 2013 and achieved £1.2m in revenue.

In the first half of 2013 we launched MolluDab, the first effective treatment for the highly infectious skin condition molluscum contagiosum, which was part of the Beacon Pharmaceuticals acquisition in 2011. It has been warmly received in both prescription and over-the-counter (OTC) markets, with favourable comments in consumer media such as Mumsnet, and sales are steadily building.

The planned hand-back of nine products that we had been distributing for Novartis has been partly phased through over the past year and is expected to be completed soon. These products were generating some £0.5m of annual gross margin for us, and we received a termination payment of about the same amount.

Revenue of our Nu-Seals enteric-coated low-dose aspirin, sold mainly in the Irish Republic, has been reducing more slowly than anticipated since the arrival of generic competitors during 2012. The decline of less than £1m to £3.0m suggests that our strategy of maintaining relationships with pharmacists through a contracted sales force is having some success. The position of Nu-Seals in the implementation schedule of the long-anticipated reference pricing and generic substitution regime means that this may not impact on prices for some time – possibly not until late 2014.

In China we had to cut back deliveries of Forceval in 2013 as lower than expected in-market revenue left our distributor overstocked. The distributor is now re-stocking and in-market revenue has recovered somewhat. Elsewhere, there was an interruption in supply of Forceval for the UK and other international markets as a move between contract manufacturers took longer than expected and buffer stocks were exhausted before the new supply commenced.

Financial performance

The gross margin rate in 2013 rose to 60.3% (2012: 55.9%), benefiting from top-of-cycle revenue of our higher-margin toxicology product. We expect the percentage rate to return to closer to 2012 levels in 2014.

We continue to manage our cost base carefully. However, in a busy year for new acquisitions, including a large aborted deal and the Synthasia International deal explained below, deal-related costs totalled £0.9m. Staff costs also increased, following some recruitment in late 2012 to support our growing product portfolio and the build-up of our new Operations team in 2013. As a result, operating costs rose by £1.4m to £13.7m.

Total marketing investment was broadly unchanged, with a modest shift from the dermatology portfolio in favour of the OTC consumer products where we see scope for driving more revenue growth. In 2013 these products included MolluDab, Anbesol for mouth ulcers and teething, Quinoderm for acne, and Pavacol-D cough syrup. In 2014 we will also be supporting Ashton & Parsons Infants' Powders and our newly acquired Lypsyl lip care range.

FINANCED NEARLY £10M OF ACQUISITIONS IN 2013 LARGELY FROM CASH FLOW

As a result of the higher revenue and improved gross margin rate, operating profit increased 8% to £13.4m (2012: £12.3m). This represents 29.4% of revenue, a strong improvement on the 27.4% of 2012. Profit before tax increased 11% to £12.0m (2012: £10.8m).

Cash generation remained strong, with free cash flow of £8.4m, albeit this was lower than the £11.0m of 2012 because of movements in working capital, particularly trade and other payables being relatively high at December 2012 and then relatively low at December 2013. These movements are within the normal range of variation from month to month.

Financing

Holders of our convertible loan stock continued to convert to equity ahead of the maturity date in November 2013, and all outstanding stock was converted in December. Over recent years conversion of loan stock has increased the number of Alliance shares on the market by some 16%, with a consequent dilutive effect on earnings per share. The completion of conversions brings this dilution to an end.

Our finance costs reduced again in 2013, to £1.4m (2012: £1.5m), benefiting from conversion of the loan stock. We have interest rate swaps in place fixing the LIBOR element of our debt costs at 1.24% on £20m of our debt until 2018, and so are well protected against interest rate rises over the next few years.

In October 2013 we replaced the bank facilities, which were due to mature in 2014, with new enlarged facilities that will be available until June 2018 and are on improved terms. We now have undrawn acquisition facilities of over £20m, positioning us strongly to continue expanding our product portfolio.

Healthy cash generation enabled us to finance nearly £10m of acquisitions in 2013 largely from cash flow. Net debt rose by just £3.2m to £25.0m at the year-end (2012: £21.8m). The bank debt to EBITDA ratio remains comfortable at just 1.6 times, including pre-acquisition EBITDA from the 2013 deals.

Earnings per share

Basic EPS improved 6% to 3.82p (2012: 3.61p), while diluted EPS improved 8% to 3.68p (2012: 3.40p). During 2013 the number of shares in issue increased by 21.0m to 264.1m, 20.0m of which was due to the loan stock conversions and 1.0m from exercises of employee share options.

Dividend

We are maintaining our progressive dividend policy, proposing a final payment of 0.605 pence per ordinary share to give a total dividend for the year of 0.908 pence. This represents an increase of 10% on last year's dividend while still maintaining ample cover of 4.2 times (2012: 4.4 times). The final dividend will be paid on 10 July 2014 to shareholders on the register on 13 June 2014.

MAINTAINING OUR PROGRESSIVE DIVIDEND POLICY

Strategy

Our long-established business model is based on acquiring and licensing established products with stable revenue in niche areas with limited or no competition. Most of these require little or no promotional support. In recent years we have been broadening the scope of our portfolio, primarily to include consumer healthcare products. These typically require some modest marketing investment but offer potential for organic growth; they also help to balance risk across the portfolio because they are not exposed to government price control.

In December 2013 we further expanded our consumer healthcare portfolio with the US$3.0m acquisition of the Lypsyl lip care range. We believe the brand has good turnaround potential – it was UK market leader in 2003 but has since suffered from lack of marketing support.

Our UK sales force is focused on dermatology and on specialist hospital products. As we add further products – such as MolluDab for the dermatology team – we will benefit from economies of scale.

We currently generate about a fifth of our revenue outside the UK. In 2012 we launched a strategy to increase the flow of acquisition opportunities by replicating our successful UK model in overseas markets, primarily in Western Europe. In 2012 we appointed Country Managers to develop product portfolios in France and Germany. Both operations are now generating profits: France from the antimalarial brands acquired in 2012 and Germany from Irenat, a thyroid product acquired from Bayer in January 2014. With both businesses fully operational and profitable we are now well placed to find and negotiate further acquisitions in those countries.

NEW PRODUCTION MACHINERY FOR ASHTON & PARSONS INFANTS' POWDERS

We maintain an opportunistic approach to international products. In June 2013 we acquired the international rights to the obstetric drug Syntometrine – a product we already know well from producing and marketing it for the UK. International revenue, which we are managing through distributors, made a useful contribution to profits in the second half of the year.

In January 2014 we supplemented our existing joint venture in China with a small investment to take a minority stake in Synthasia International. We have joint managerial control and the option to take full ownership over the next nine years. Synthasia International, a Shanghai and Hong Kong based business which markets Swiss-made infant formula milk in China, complements the Forceval business as they are both in the mother and baby market and sold through largely the same channels. This gives us an operating base from which to acquire other products in the fast-growing Chinese market.

Our project to introduce new production machinery for Ashton & Parsons Infants' Powders in partnership with the contract manufacturer has recently completed. We are now ramping-up sales, which had been constrained by limited production capacity. We have also been able to increase the product's consumer appeal with redesigned packaging in easy-open sachets.

We look forward to the resumption of ImmuCyst production at the end of this year. Sanofi Pasteur has completed refurbishment of its aseptic manufacturing plant to address regulatory issues, and the lengthy process of obtaining approvals is progressing on schedule. Customers have switched to using an alternative product, but there are encouraging indications that a number intend to return to ImmuCyst. It is unlikely to regain all of its former 90% market share, but we expect a steady build-up of revenue through 2015.

Team

In 2013 we set up a small Operations team under Stephen Kidner, which is already making a substantial contribution to optimising efficiency in the supply chain.

After a decade at the helm, our Chairman, Michael Gatenby, retires from the Company at the Annual General Meeting. He will be succeeded by non-executive director Andrew Smith, who has been with Alliance since 2006. Non-executive director Paul Ranson, who has also been with Alliance for 10 years, has also indicated he intends to retire from the Board later this year.

Charity

For some years we have been donating around £20,000 worth of products annually to International Health Partners, a charity that distributes medicines to doctors in the world's neediest areas. In 2013 we increased the value of our contribution to £41,000 including £10,000 cash for the appeal following the devastation that Typhoon Haiyan caused in the Philippines.

Outlook

In the UK a new five-year price regulation regime began at the start of this year, requiring us to pay a rebate of 3.74% on sales under the scheme. However, these now account for less than a third of our total revenue and the impact on revenue will be about £0.5m this year.

Our buy and build strategy has been very effective at producing growth, which at the headline level has been clouded by Deltacortril's decline from its peak of £11m margin in 2010 to just £0.3m in 2013. At this level, changes in Deltacortril profits will no longer mask the benefit of future acquisitions.

Given the strength of our portfolio, the acquisitions made in the past couple of years and the healthy pipeline of opportunities we are seeing, we are confident of good revenue and profit growth over the next few years. We plan to gain momentum from further acquisitions during 2014.

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.

STRONGLY POSITIONED TO CONTINUE EXPANDING

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.

Risk management

To reduce the risk arising from changes in interest rates, the Group uses interest rate swaps, where appropriate, and the Convertible Unsecured Loan Stock paid a fixed coupon.

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

Principal risks and uncertainties

The Group's principal risks and uncertainties are outlined below.

Sales volumes being affected by a change in demand

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

Sales volumes being affected by supply chain constraints

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

Sales pricing being reduced by regulatory action

Around one third of the Group's revenues are from products covered by the Pharmaceutical Price Regulation Scheme (PPRS), which 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 January 2014 and runs for five years. Most of the other UK revenue is from products that are medical devices, sold over the counter or are generic. The regulatory regime for medical devices allows for inflationary price increases each year and over the counter and generic products are freely priced. In Ireland, a new pricing regime is being implemented which is likely to impact Nu-Seals later in 2014.

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.

INCREASINGLY BROAD PRODUCT RANGE

Board of Directors

Directors who held office at the date of this report are set out below.
All were Directors throughout 2013.

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[2,4,5]

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[2,4,6]

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.

Senior Team Members

Janice Timberlake –
Human Resources Director

Janice joined Alliance in 2011 as HR Director. She is a Fellow of the Chartered Institute of Personnel & Development and has over 20 years of experience in HR roles across a variety of industry sectors. Janice's early career was in the UK mining industry, followed by Board roles in the UK division of MyTravel Plc (formerly Airtours) and latterly the Natural Environment Research Council. She is currently a non-executive Director and Trustee of Plymouth Marine Laboratory Ltd, and holds a BSc honours degree in Geography from Hull University.

Dan Thomas –
Business Development Director

Since joining Alliance in 2006 Dan has led Alliance's M&A and licensing activity, completing over 14 deals. Dan has worked in senior management in the clinical research (CRO) sector, at Chiltern International and in the biotech research and diagnostics sector, at R&D Systems Europe (Techne Corp Inc), responsible for international regional sales operations. Dan has worked in Canada, Germany and France. He holds a first class honours degree in Applied Biochemistry from Brunel University. In 2011 Dan won the PLG/AstraZeneca BD Executive of the Year award.

Dr David Yau –
Technical & Quality Director RP

David joined Alliance in 2008. He has over 25 years of experience in the pharmaceutical and healthcare industries having held positions at Reckitt & Colman Pharmaceuticals, Seven Seas and GlaxoSmithKline. David graduated with a PhD and an MBA from the University of Bradford.

Margaret Boulton –
Medical & Regulatory Affairs Director

Margaret joined Alliance in 2009. She has around twenty years of experience in the pharmaceutical and healthcare industries, with Regulatory/Scientific Affairs positions at Abbott, Baxter and Élan. Margaret graduated in Animal Science at Nottingham, has a PhD from Edinburgh and an MBA from Bath.

Stephen Kidner –
Operations Director

Stephen joined Alliance in August 2013 bringing a background in development, manufacturing and supply chain management gained in the pharmaceutical industry over a 23 year career with Wyeth and Mundipharma International.

A science graduate, Stephen holds a MSc in Pharmaceuticals and an MBA.

Sarah Robinson –
Company Secretary

Sarah joined Alliance in 2010 as the Company Secretary. She has worked in Asia, the UK and the USA, was Company Secretary for the Financial Times and has further experience in the financial services and health sector. A Chartered Secretary, Sarah gained her MBA from Southampton University.

Corporate Governance

Introduction

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

Responsibilities of the Board

The Board is responsible to the shareholders for:

- Setting the Group's strategy
- Maintaining the policy and decision-making process around which the strategy is implemented
- Ensuring that necessary financial and human resources are in place to meet strategic aims
- Monitoring performance against key financial and non-financial indicators
- Providing leadership whilst maintaining the controls for managing risk
- Overseeing the system of risk management
- Setting values and standards in corporate governance matters.

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

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

Management Teams

During 2013 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 attended 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 website. The Report of the Remuneration Committee and Report of the Nominations Committee form part of this governance section. Each Committee reports to the Board on its activities.

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 2013 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.

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. 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)

Thomas Casdagli (appointed 9 September 2013)

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.

There were 6 Remuneration Committee meetings held during the year.

The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 do not apply to companies quoted on AIM; the Remuneration Committee is committed to use the Regulations to influence the Report and follow best practice where appropriate.

The terms of reference of the Remuneration Committee are available on www.alliancepharma.co.uk

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 payable to the directors during the period was as follows:

	Salary		Bonus		Other		Pension		Total Remuneration	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
A R Booley	**153,001**	149,074	**35,908**	35,117	**2,114**	1,932	**17,792**	17,544	**208,815**	203,667
P J Butterfield	**153,001**	148,536	**45,063**	43,896	**473**	2,373	**14,280**	13,834	**212,817**	208,639
T T Casdagli	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
J Dawson	**209,076**	202,900	**49,904**	48,612	**6,086**	4,503	**10,000**	10,000	**275,066**	266,015
M R B Gatenby	**74,246**	71,925	**-**	-	**770**	648	**-**	-	**75,016**	72,573
P M Ranson	**33,791**	32,736	**-**	-	**-**	-	**-**	-	**33,791**	32,736
A L Smith	**33,791**	32,736	**-**	-	**499**	940	**-**	-	**34,290**	33,676
R D Wright	**153,001**	148,536	**36,050**	34,838	**1,610**	1,732	**14,280**	13,834	**204,941**	198,940
	809,907	786,443	**166,925**	162,463	**11,552**	12,128	**56,352**	55,212	**1,044,736**	1,016,246

Directors' Remuneration continued

	Total Remuneration 2013	Total Remuneration 2012	Share based payments 2013	Share based payments 2012	Total 2013	Total 2012
A R Booley	**208,815**	203,667	**20,227**	13,014	**229,042**	216,681
P J Butterfield	**212,817**	208,639	**80,077**	104,780	**292,894**	313,419
T T Casdagli	**-**	-	**-**	-	**-**	-
J Dawson	**275,066**	266,015	**-**	-	**275,066**	266,015
M R B Gatenby	**75,016**	72,573	**-**	-	**75,016**	72,573
P M Ranson	**33,791**	32,736	**-**	-	**33,791**	32,736
A L Smith	**34,290**	33,676	**-**	-	**34,290**	33,676
R D Wright	**204,941**	198,940	**20,258**	13,115	**225,199**	212,055
	1,044,736	1,016,246	**120,562**	130,909	**1,165,298**	1,147,155

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:

	Number 2012		Granted		Exercised		Number 2013				
	Not subject to performance conditions	Subject to performance conditions	Not subject to performance conditions	Subject to performance conditions	Not subject to performance conditions	Subject to performance conditions	Not subject to performance conditions	Subject to performance conditions	Exercise price (pence)	Date from which exercisable	Expiry date
A R 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
	-	-	144,200	-	-	-	**144,200**	**-**	37.25	06/06/16	05/06/23
	-	-	-	400,000	-	-	**-**	**400,000**	35.75	23/10/18	22/10/23
P J 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
	-	-	144,200	-	-	-	**144,200**	**-**	37.25	06/06/16	05/06/23
	-	-	-	400,000	-	-	**-**	**400,000**	35.75	23/10/18	22/10/23
R D 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
	-	-	144,200		-	-	**144,200**	**-**	37.25	06/06/16	05/06/23
	-	-	-	400,000	-	-	**-**	**400,000**	35.75	23/10/18	22/10/23

The market price of ordinary shares at 31 December 2013 was 41.00 pence and the range during the period was from 31.85 pence to 41.00 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
Anthony Booley	4,610,723	-	**4,610,723**	4,610,723
Peter Butterfield	-	-	**-**	-
Thomas Casdagli	26,101	24,035,799	**24,061,900**	19,302,144
John Dawson	39,576,402	20,000,000	**59,576,402**	60,036,402
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

On 17 January 2014, Mrs Lynette Booley, wife of Mr Anthony Booley, sold 300,000 Shares at 33.5p.

Directors' Responsibilities Statement

The directors are responsible for preparing the Strategic Report and 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 elected to prepare the Group financial statements and 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 judgments 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:

- 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 auditors are 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.

Financial risk management objectives and policies

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

Disabled employees

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

Employee information and consultation

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

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

Going concern

As explained in the Strategic Report, the current rate of cash generation by the Group comfortably exceeds the capital and debt servicing needs of the business (though there cannot, of course, be absolute certainty that the rate of cash generation will be maintained). The Board remains confident that all the bank covenants will continue to be met. The Group has a £5m 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 £42,792 (2012: £19,151) 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 2014 Annual General Meeting of the Company will be held on 21 May 2014, the business of which is set out in the Notice of Meeting.

On behalf of the Board

Sarah Robinson
Company Secretary
25 March 2014

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 2013 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the company balance sheet, the consolidated statement of changes in equity, company statement of changes in equity, and the consolidated and company cash flow statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and 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 Financial Reporting Council'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 2013 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and 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.

Norman Armstrong
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Bristol
25 March 2014

Consolidated Income Statement

	Notes	Year ending 31 December 2013 £000s	Year ending 31 December 2012 £000s
Revenue	3	**45,513**	44,897
Cost of sales		**(18,072)**	(19,779)
Gross profit		**27,441**	25,118
Operating expenses			
Administration and marketing expense		**(13,027)**	(11,856)
Amortisation of intangible assets		**(422)**	(573)
Share-based employee remuneration	6	**(632)**	(369)
		(14,081)	(12,798)
Operating profit		**13,360**	12,320
Finance costs			
Interest payable and similar charges	5	**(1,281)**	(1,541)
Interest income	5	**2**	-
Other finance (charges)/income	5	**(72)**	30
		(1,351)	(1,511)
Profit on ordinary activities before taxation	4	**12,009**	10,809
Taxation	7	**(2,425)**	(2,119)
Profit for the year attributable to equity shareholders		**9,584**	8,690
Earnings per share			
Basic (pence)	9	**3.82**	3.61
Diluted (pence)	9	**3.68**	3.40

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 ending 31 December 2013 £000s	Year ending 31 December 2012 £000s
Profit for the period	**9,584**	8,690
Other comprehensive income		
Other items recognised directly in equity		
Items that may be reclassified to profit or loss		
Interest rate swaps – cash flow hedge	**443**	6
Deferred tax on interest rate swaps	**(93)**	(2)
Total comprehensive income for the period	**9,934**	8,694

Consolidated Balance Sheet

	Note	31 December 2013 £000s	31 December 2013 £000s	31 December 2012 £000s	31 December 2012 £000s	1 January 2012 £000s	1 January 2012 £000s
Assets							
Non-current assets							
Intangible assets	10	**89,061**		79,890		66,130	
Property, plant and equipment	11	**592**		564		765	
Derivative financial instruments	22	**443**		-		-	
			90,096		80,454		66,895
Current assets							
Inventories	13	**5,468**		5,393		5,652	
Trade and other receivables	14	**10,539**		10,145		8,660	
Cash and cash equivalents	15	**888**		4,634		1,079	
			16,895		20,172		15,391
Total assets			**106,991**		100,626		82,286
Equity							
Ordinary share capital	25	**2,641**		2,430		2,401	
Share premium account		**29,380**		25,297		24,866	
Share option reserve		**1,424**		792		423	
Reverse takeover reserve		**(329)**		(329)		(329)	
Other reserve		**350**		-		(4)	
Retained earnings		**31,202**		23,658		16,771	
Total equity			**64,668**		51,848		44,128
Liabilities							
Non-current liabilities							
Long term financial liabilities	18	**20,881**		20,225		15,225	
Convertible debt	18,19	**-**		-		4,460	
Other liabilities	20	**-**		20		40	
Deferred tax liability	23	**6,294**		6,124		4,064	
Provisions for other liabilities	24	**199**		364		510	
			27,374		26,733		24,299
Current liabilities							
Cash and cash equivalents	15	**2,125**		1		1	
Financial liabilities	18	**2,895**		6,250		4,250	
Convertible debt	18,19	**-**		4,189		-	
Corporation tax		**1,154**		1,322		1,046	
Trade and other payables	17	**8,585**		10,086		8,367	
Derivative financial instruments	22	**-**		-		6	
Provisions for other liabilities	24	**190**		197		189	
			14,949		22,045		13,859
Total liabilities			**42,323**		48,778		38,158
Total equity and liabilities			**106,991**		100,626		82,286

The financial statements were approved by the Board of Directors on 25 March 2014.

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 2013 £000s**	**31 December 2013 £000s**	31 December 2012 £000s	31 December 2012 £000s	1 January 2012 £000s	1 January 2012 £000s
Assets							
Non-current assets							
Investment in subsidiaries	12	**47,119**		37,618		36,402	
			47,119		37,618		36,402
Current assets							
Trade and other receivables	14	**50**		10,021		2,020	
Cash and cash equivalents	15	**12**		182		77	
			62		10,203		2,097
Total assets			**47,181**		47,821		38,499
Equity							
Ordinary share capital	25	**2,641**		2,430		2,401	
Share premium account		**29,380**		25,297		24,866	
Share option reserve		**1,424**		792		423	
Retained earnings		**13,527**		14,719		6,028	
Total equity			**46,972**		43,238		33,718
Liabilities							
Non-current liabilities							
Convertible debt	18,19	**-**		-		4,460	
			-		-		4,460
Current liabilities							
Convertible debt	18,19	**-**		4,189		-	
Corporation tax		**-**		4		-	
Trade and other payables	17	**209**		390		321	
			209		4,583		321
Total liabilities			**209**		4,583		4,781
Total equity and liabilities			**47,181**		47,821		38,499

The financial statements were approved by the Board of Directors on 25 March 2014.

J Dawson

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 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 swap	-	-	-	-	(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
Balance 1 January 2013	2,430	25,297	792	(329)	-	23,658	51,848
Issue of shares	211	4,083	-	-	-	-	4,294
Dividend paid	-	-	-	-	-	(2,040)	(2,040)
Share options charge	-	-	632	-	-	-	632
Transactions with owners	211	4,083	632	-	-	(2,040)	2,886
Profit for the period	-	-	-	-	-	9,584	9,584
Other comprehensive income							
Interest rate swaps – cash flow hedge	-	-	-	-	443	-	443
Deferred tax on interest rate swap	-	-	-	-	(93)	-	(93)
Total comprehensive income for the period	-	-	-	-	350	9,584	9,934
Balance 31 December 2013	**2,641**	**29,380**	**1,424**	**(329)**	**350**	**31,202**	**64,668**

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 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
Balance 1 January 2013	2,430	25,297	792	14,719	43,238
Issue of shares	211	4,083	-	-	4,294
Dividend paid	-	-	-	(2,040)	(2,040)
Share options charge	-	-	632	-	632
Transactions with owners	211	4,083	632	(2,040)	2,886
Profit for the period	-	-	-	848	848
Balance 31 December 2013	**2,641**	**29,380**	**1,424**	**13,527**	**46,972**

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 £848,000 (2012: Profit £10,494,000).
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 Year ended 31 December 2013 £000s	Group Year ended 31 December 2012 £000s	Company Year ended 31 December 2013 £000s	Company Year ended 31 December 2012 £000s
Cash flows from operating activities					
Cash generated from operations	27	**12,546**	14,417	**(23)**	(2)
Tax paid		**(2,516)**	(1,982)	**(4)**	4
Cash flows from operating activities		**10,030**	12,435	**(27)**	2
Investing activities					
Interest received		**2**	-	**1,464**	1,310
Dividend received		**-**	-	**10,000**	2,000
Investment in subsidiary		**-**	-	**(9,501)**	(1,435)
Payment of deferred consideration		**(20)**	(20)	**-**	-
Development costs capitalised	10	**(63)**	(107)	**-**	-
Net assets acquired in Opus, net of cash		**-**	(422)	**-**	-
Purchase of property, plant and equipment	11	**(298)**	(73)	**-**	-
Purchase of other intangible assets	10	**(9,534)**	(12,377)	**-**	-
Net cash (used in) / received from investing activities		**(9,913)**	(12,999)	**1,963**	1,875
Financing activities					
Interest paid and similar charges		**(1,232)**	(1,198)	**(148)**	(352)
Loan issue costs		**(500)**	(100)	**-**	-
Proceeds from exercise of share options		**82**	190	**82**	164
Dividend paid		**(2,040)**	(1,803)	**(2,040)**	(1,803)
Transfer from subsidiary undertakings		**-**	-	**-**	219
Receipt from borrowings		**28,500**	10,000	**-**	-
Repayment of borrowings		**(30,725)**	(3,000)	**-**	-
Net cash (used in) / received from financing activities		**(5,915)**	4,089	**(2,106)**	(1,772)
Net movement in cash and cash equivalents		**(5,798)**	3,525	**(170)**	105
Cash and cash equivalents at the beginning of the period		**4,633**	1,078	**182**	77
Exchange (losses) / gains on cash and cash equivalents		**(72)**	30	**-**	-
Cash and cash equivalents at the end of the period	15	**(1,237)**	4,633	**12**	182

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

Notes to the Financial Statements
for year ended 31 December 2013

1. General information

Alliance Pharma plc ('the Company') and its subsidiaries (together 'the Group') acquire, market and distribute pharmaceutical and other medical 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 25 March 2014.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. IFRS 13 has been applied for the first time in these financial statements. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention, with the exception of derivatives which are included at fair value. 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 2013. 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 consideration transferred 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 judgements, 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 2015 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 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 principle activity namely the distribution of pharmaceutical products. Revenue is recognised when a Group entity has delivered products to the customer and confirmation of receipt is confirmed. The risks and rewards are transferred upon customers receiving the goods.

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	20% – 33.3% per annum, straight line
Fixtures, fittings and equipment	20% – 25% per annum, straight line

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

2.7 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 transferred 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 Group 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 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 Group Income Statement. Any reversal of a previously recorded impairment loss in a subsequent period would also be recognised immediately in the Group 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 jointly controls 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 is recognised in other comprehensive income, while the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Changes in the fair value of derivative financial instruments that are not designated as cash flow hedges are recognised in the income statement as they arise.

2.13 Debt instruments

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

Convertible Unsecured Loan Stock issued by the Company is regarded as compound financial instruments. Compound financial instruments are split and recorded respectively within each of its two components, equity and liability. The fair values of the liability component and the equity conversion component were determined at issuance of the bond. The equity component was determined as nil and the fair value of the liability component, included in long-term borrowings, was calculated using a market interest rate for an equivalent non-convertible bond.

2.14 Trade payables

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

2.15 Financial assets – loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and cash and cash equivalents in the balance sheet (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 drawdown against this facility. This facility is recognised as a liability for the amount drawn.

2. Summary of significant accounting policies continued

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 Group 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.

2.20 Equity

Equity comprises the following:

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

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

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

"Other reserves" represents the fair value of derivative financial instruments at the balance sheet date that are designated as cash flow hedges net of deferred tax, less amounts reclassified through other comprehensive income.

"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 2013 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.
- IFRS12 Disclosure of interests in other entities is a new disclosure standard issued in May 2011 and is effective from 1 January 2014.

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:

i) that engages in business activities from which it may earn revenues and incur expenses,

ii) whose operating results are regularly reviewed by the entity's chief operating decision maker (CODM) to make decisions about the resources to be allocated to the segment and assess its performance, and

iii) for which discrete financial information is available.

For the year ended 31 December 2013 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 and other medical 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 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 2013 £000s	Year ended 31 December 2012 £000s
United Kingdom	**38,890**	36,719
Ireland	**3,626**	4,288
China	**239**	2,475
Rest of the world	**2,758**	1,415
	45,513	44,897

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 2012: 2) customers who separately comprised 10% or more of revenue.

	Year ended 31 December 2013 £000s
Major customer 1	15,252
Major customer 2	10,937
	26,189

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

4. Profit before taxation

Profit before taxation is stated after charging:

	Year ended 31 December 2013 £000s	Year ended 31 December 2012 £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	**38**	40
– Other advisory services	**112**	50
Amortisation of intangible assets	**422**	573
Share options charge	**632**	369
Depreciation of plant, property and equipment	**266**	274
Operating lease rentals	**97**	97
Loss on foreign exchange transactions	**72**	73

5. Finance costs

	Year ended 31 December 2013 £000s	Year ended 31 December 2012 £000s
Interest payable and similar charges		
On loans and overdrafts	**(1,222)**	(1,466)
Amortised finance issue costs	**(22)**	(26)
Notional interest	**(37)**	(49)
	(1,281)	(1,541)
Interest income	**2**	-
Other finance charges		
Foreign exchange movement on euro denominated debt	**(72)**	30
	(72)	30
Finance costs – net	**(1,351)**	(1,511)

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

6. Directors and employees

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

	Year ended 31 December 2013 £000s	Year ended 31 December 2012 £000s
Wages and salaries	**4,691**	4,288
Social security costs	**639**	566
Other pension costs (note 30)	**307**	306
Share-based employee remuneration (note 26)	**632**	369
	6,269	5,529

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

	Year ended 31 December 2013	Year ended 31 December 2012
Management and administration	**72**	63

Remuneration in respect of Directors (including pension) was as follows:

	Year ended 31 December 2013 £000s	Year ended 31 December 2012 £000s
Emoluments	**1,045**	1,014
Relocation expenses	**-**	2
	1,045	1,016

Gain on share options recognised by directors during the year was £212,920 (2012: £nil).
For additional disclosures please refer to Directors' Remuneration section of the Directors' Report.

Notes to the Financial Statements continued

for year ended 31 December 2013

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 2013 £000s	Year ended 31 December 2012 £000s
Emoluments for qualifying services	**265**	256

During the period contributions were paid to money purchase schemes for four directors (year ended 31 December 2012: four).

Key management of the Group are the Executive Team. Benefit expenses in respect of the key management was as follows:

	Year ended 31 December 2013 £000s	Year ended 31 December 2012 £000s
Short term employee benefits	**986**	931
Share-based payments	**121**	131
Post-employment benefits	**56**	55
	1,163	1,117

Average number of members of the CODM (the Executive Team) for the year ended 31 December 2013 was four (year ended 31 December 2012:4).

7. Taxation

Analysis of charge in period.

	Year ended 31 December 2013 £000s	Year ended 31 December 2012 £000s
United Kingdom corporation tax at 23.25% (2012: 24.5%)		
In respect of current period	**2,242**	1,910
Adjustment in respect of prior periods	**106**	-
	2,348	1,910
Deferred tax (see note 23)		
Origination and reversal of temporary differences	**77**	209
Taxation	**2,425**	2,119

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 2013 £000s	Year ended 31 December 2012 £000s
Profit on ordinary activities before tax	**12,009**	10,809
Profit on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom of 23.25% (2012: 24.5%)	**2,792**	2,648
Effect of:		
Non-deductible expenses	**139**	21
Attributable to joint venture	**(11)**	(189)
Adjustment in respect of prior period	**106**	-
Impact of reduction in UK tax rate on deferred tax liability	**(597)**	(353)
Other differences	**(4)**	(8)
Total taxation	**2,425**	2,119

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 24% to 23% from 1 April 2013. Further reductions to the main rate are proposed to reduce the rate by 2% per annum to 21% from 1 April 2014 and will reduce by another 1% to 20% from 1 April 2015. At the balance sheet date the substantively enacted rate was 21% (2012: 23%). The further 1% reduction has not been substantively enacted at the balance sheet date and is therefore not included in these financial statements.

The proposed reduction of the main rate of corporation tax by 1% from 1 April 2015 is expected to be enacted during 2014. The overall effect of this change from 21% to 20%, if applied to the deferred tax balance at 31 December 2013, would be to decrease the deferred tax liability by £300,000 (2012: £266,000).

8. Dividends

	Pence/share	**Year ended 31 December 2013 £000s**	Pence/share	Year ended 31 December 2012 £000s
Amounts recognised as distributions to owners in the year				
Interim dividend for the prior financial year	**0.275**	**666**	0.250	600
Final dividend for the prior financial year	**0.550**	**1,374**	0.500	1,203
		2,040		1,803
Interim dividend for the current financial year	**0.303**	**800**	0.275	666

The proposed final dividend of 0.605 per share for the current financial year was approved by the Board of Directors on 25 March 2014 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 2013 in accordance with IAS 10 Events After the Balance Sheet Date. The interim dividend for the current financial year was paid on 15 January 2014. Subject to shareholder approval, the final dividend will be paid on 10 July 2014 to shareholders who are on the register of members on 13 June 2014.

Notes to the Financial Statements continued
for year ended 31 December 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 in issue during the year. For diluted EPS, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares.

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

	Year ended 31 December 2013	Year ended 31 December 2012
For basic EPS calculation	**250,836,337**	240,881,464
Employee share options	**2,020,036**	2,032,846
Conversion of Convertible Unsecured Loan Stock (CULS)	**12,154,481**	20,053,595
For diluted EPS calculation	**265,010,854**	262,967,905

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

	Year ended 31 December 2013 £000s	Year ended 31 December 2012 £000s
Earnings for basic EPS	**9,584**	8,690
Interest saving on conversion of CULS	**204**	337
Tax effect of interest saving on conversion of CULS	**(47)**	(81)
Earnings for diluted EPS	**9,741**	8,946

The resulting EPS measures are:

	Year ended 31 December 2013 Pence	Year ended 31 December 2012 Pence
Basic EPS	**3.82**	3.61
Diluted EPS	**3.68**	3.40

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 2013	1,144	2,449	78,107	310	82,010
Additions	-	-	9,534	63	9,597
Disposals	-	-	(4)	-	(4)
At 31 December 2013	**1,144**	**2,449**	**87,637**	**373**	**91,603**
Amortisation and impairment					
At 1 January 2013	-	-	2,120	-	2,120
Amortisation for the year	-	-	422	-	422
At 31 December 2013	**-**	**-**	**2,542**	**-**	**2,542**
Net book amount					
At 31 December 2013	**1,144**	**2,449**	**85,095**	**373**	**89,061**
At 1 January 2013	1,144	2,449	75,987	310	79,890

Goodwill on consolidation

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

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 £0.6m 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 acquisition of Opus Group Holdings Limited in the year ended 31 December 2012.

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 6 June 2013, the Group acquired all existing rights to Syntometrine from Novartis AG and Novartis Pharma AG (together "Novartis") for a consideration of US$11.5 million. Alliance already owned the UK rights to Syntometrine, but Novartis and its affiliates ("the Novartis Group") had been selling Syntometrine in a number of countries worldwide including Australia, South Africa, Malaysia and New Zealand. In the 12 months to March 2013 the total sales of Syntometrine by the Novartis Group were US$3.2 million and the gross margin generated was US$2.8 million. Alliance expects to have annual distribution and operating costs of approximately £0.5 million associated with these new territories.
- On 18 December 2013, the Group acquired all UK and Republic of Ireland rights to Lypsyl from Novartis AG for a consideration of US$3.0 million. In the 12 months to September 2013, total sales of Lypsyl by the Novartis Group were £1.2 million and the gross margin generated was £0.5 million. Alliance intends to reinvest a proportion of the gross margin in marketing activity to promote the brand.

The consideration value for the Syntometrine and Lypsyl acquisitions was payable on completion. The acquisitions were funded from available cash and existing facilities. £25 million was undrawn on the Group's acquisition facilities at year end.

10. Intangible assets continued

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, which are based on historic sales trends and management's sales growth assumptions. These forecasts are 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 2015;
- 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, 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, did not result in the recoverable amounts falling 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.

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.

A new generic substitution and reference pricing regime is in the process of being implemented in the Republic of Ireland. This is expected to adversely impact Nu-Seals sales, and may occur later this year. The Board's view is that this impact will not be sufficiently great as to cause the related intangible asset of £9.1m to be impaired. The recoverable amount, based on value in use, is estimated at £9.7m. The key assumptions in arriving at the value in use are that the Nu-Seals' volumes will fall by around 8%, that pricing will reduce by 50% and that these impacts will be felt from Quarter 4 2014. The intangible asset could be impaired if volumes fell by more than 18%, or if pricing fell by more than 53%.

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

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
Additions	-	-	6,475	203	6,678
Disposals	-	-	(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

11. Property, plant and equipment

The Group	Computer equipment £000s	Fixtures, fittings and equipment £000s	Total £000s
Cost			
At 1 January 2013	222	952	1,174
Additions	257	41	298
Disposals	-	(4)	(4)
At 31 December 2013	**479**	**989**	**1,468**
Depreciation			
At 1 January 2013	143	467	610
Provided in the year	68	198	266
At 31 December 2013	**211**	**665**	**876**
Net book amount			
At 31 December 2013	**268**	**324**	**592**
At 1 January 2013	79	485	564

The net book amount held under finance leases was £nil (year ended 31 December 2012: £nil, year ended 1 January 2012: £1,000).

11. Property, plant and equipment continued

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 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

12. Investments

The Company	Investment in subsidiary undertakings £000s
Cost	
At 1 January 2013	37,618
Additions	9,501
At 31 December 2013	**47,119**
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

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 £20,902 to establish Alliance Pharmaceuticals SAS.

The subsidiary and associated undertakings where the Group held 20% or more of the equity share capital at 31 December 2013 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	60	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
Alliance Pharmaceuticals SAS	France	Ordinary	100	Pharmaceutical sales

All subsidiary undertakings prepare accounts to 31 December, except Opus Healthcare Limited (Republic of Ireland) which prepares accounts to 28 February and Unigreg Worldwide Limited which prepares accounts to 31 May. Alliance Pharmaceuticals Limited, Alliance Pharmaceuticals GmbH and Alliance Pharmaceuticals SAS are the only investments held directly by Alliance Pharma plc. All other investments are held by Alliance Pharmaceuticals Limited with the exception of Opus subsidiaries which are held by Opus Group Holdings Limited and Unigreg Worldwide Limited which is held by Unigreg Limited.

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for year ended 31 December 2013

13. Inventories

The Group	31 December 2013 £000s	31 December 2012 £000s	1 January 2012 £000s
Finished goods and materials	**5,468**	5,393	5,652

Inventory costs expensed through the income statement during the year were £15,945,000 (year ended 31 December 2012: £17,062,000, year ended 1 January 2012: £18,423,000). During the year £157,217 (2012: £41,000) 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 2013 £000s	31 December 2012 £000s	1 January 2012 £000s	**31 December 2013 £000s**	31 December 2012 £000s	1 January 2012 £000s
Trade receivables	**9,131**	9,583	8,152	**-**	-	-
Other receivables	**536**	212	147	**38**	10,011	2,008
Prepayments and accrued income	**804**	350	331	**12**	10	12
Amounts owed by joint venture	**68**	-	30	**-**	-	-
	10,539	10,145	8,660	**50**	10,021	2,020

Dividends declared but not paid between Alliance Pharmaceuticals Limited and the Company of nil for the year ended 31 December 2013 (for the year ended 31 December 2012: £10m, for the year ended 31 December 2011: £2m) are included within other receivables.

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

	31 December 2013 £000s	31 December 2012 £000s	1 January 2012 £000s
Not past due	**4,292**	5,194	3,858
Due 30-31 December*	**3,994**	3,732	3,289
Past due 3 days to 91 days	**662**	569	782
Past 91 days	**183**	88	223
	9,131	9,583	8,152

* For the year ended 31 December 2013 £3,384,000 was received by the 10 January 2014. 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.

Trade and other receivables are stated net of estimated allowances for doubtful debts. As at 31 December 2013, trade and other receivables of £108,000 (for the year ended 31 December 2012: £111,000) 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.

15. Cash and cash equivalents

	The Group			The Company		
	31 December 2013 £000s	31 December 2012 £000s	1 January 2012 £000s	**31 December 2013 £000s**	31 December 2012 £000s	1 January 2012 £000s
Cash at bank and in hand	**888**	4,634	1,079	**12**	182	77
Working capital facility	**(2,125)**	(1)	(1)	**-**	-	-
	(1,237)	4,633	1,078	**12**	182	77

16. Major non-cash transactions

Principal non-cash transactions include finance issue costs amortised in the income statement during the year of £22,000 (year ended 31 December 2012: £26,000) and an exchange movement of £72,000 (year ended 31 December 2012: £30,000) (see note 5). Interest rate swaps designated as cash flow hedges resulted in a £443,000 gain (year ended 31 December 2012: £6,000 gain) 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 £37,000 (year ended 31 December 2012: £49,000) was recognised in the income statement. Amortisation of intangible assets resulted in a charge of £422,000 (year ended 31 December 2012: £573,000) being recognised in the income statement.

17. Trade and other payables – current

	The Group			The Company		
	31 December 2013 £000s	31 December 2012 £000s	1 January 2012 £000s	**31 December 2013 £000s**	31 December 2012 £000s	1 January 2012 £000s
Trade payables	**1,118**	902	1,194	**19**	-	-
Other taxes and social security costs	**1,123**	1,225	864	**-**	-	-
Accruals and deferred income	**6,028**	7,019	6,168	**190**	370	321
Other payables	**316**	940	141	**-**	20	-
	8,585	10,086	8,367	**209**	390	321

18. Financial liabilities – borrowings

	The Group			The Company		
Current	**31 December 2013 £000s**	31 December 2012 £000s	1 January 2012 £000s	**31 December 2013 £000s**	31 December 2012 £000s	1 January 2012 £000s
Bank loans due within one year or on demand						
Secured (a)	**3,000**	6,250	4,250	**-**	-	-
Finance issue costs	**(105)**	-	-	**-**	-	-
	2,895	6,250	4,250	**-**	-	-
Convertible debt (note 19)	**-**	4,189	-	**-**	4,189	-
	2,895	10,439	4,250	**-**	4,189	-

	The Group			The Company		
Current	**31 December 2013 £000s**	31 December 2012 £000s	1 January 2012 £000s	**31 December 2013 £000s**	31 December 2012 £000s	1 January 2012 £000s
Bank loans:						
Secured (a)	**21,250**	20,225	15,225	**-**	-	-
Finance issue costs	**(369)**	-	-	**-**	-	-
	20,881	20,225	15,225	**-**	-	-
Convertible debt (note 19)	**-**	-	4,460	**-**	-	4,460
	20,881	20,225	19,685	**-**	-	4,460

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

During the year £3.5m was drawn down on the revolving credit facility to fund acquisitions in the year.

In October 2013 the bank debt was repaid in full and new loans were drawn under new facilities provided by Lloyds Bank and Royal Bank of Scotland.

19. Convertible debt

All outstanding convertible unsecured loan stock was converted into ordinary shares during 2013. The conversion rate was 21p per ordinary share.

The Company received conversion notices in respect of £4,211,255 (year ended 31 December 2012: £296,750) nominal value of the Company's 8% Convertible Unsecured Loan Stock. Accordingly, the Company has allotted 20,053,570 ordinary shares of 1p each in the Company.

20. Other non-current liabilities

	The Group			The Company		
	31 December 2013 £000s	31 December 2012 £000s	1 January 2012 £000s	**31 December 2013 £000s**	31 December 2012 £000s	1 January 2012 £000s
Deferred consideration for acquisitions	**-**	20	40	**-**	-	-
	-	20	40	**-**	-	-

Deferred consideration of £nil (year ended 31 December 2012: £20,000, year ended 1 January 2012: £40,000) 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. 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 £20m (year ended 31 December 2012: £nil, year ended 1 January 2012: £8m) to convert the floating interest rate charge to a fixed rate interest charge.

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 2013			
Bank loans – sterling denominated	-	24,250	24,250
Interest rate hedges	20,000	(20,000)	-
Sterling subtotal	**20,000**	**4,250**	**24,250**
Working capital facility	-	2,124	2,124
Total financial liabilities	**20,000**	**6,374**	**26,374**
Unamortised issue costs	-	(474)	(474)
Net book value of financial liabilities	**20,000**	**5,900**	**25,900**

21. Financial instruments continued

	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
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

	Fixed rate financial liabilities	
	Weighted average fixed rate %	Weighted average period for which rate is fixed
At 31 December 2013		
Sterling	**3.19**	**4.27 years**
At 31 December 2012		
Sterling	8.00	0.92 years
At 1 January 2012		
Sterling	3.64	1.27 years

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

The Group balance sheet also includes financial assets in the form of cash at bank and in hand totalling £888,000 (31 December 2012: £4,634,000, 1 January 2012: £1,079,000) which are exposed to floating interest rates based on LIBOR.

A 0.5% increase in LIBOR would reduce pre-tax profits by approximately £43,000 in 2014. A 0.5% decrease would have the opposite effect.

21. Financial instruments continued

Currency risk

Approximately 9% 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. Approximately 5% of the Group's sales are invoiced in other currencies.

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 £33,000 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 bank loans with a repayment schedule of £750,000 per quarter from December 2013. The existing bank facilities are due for renewal in June 2018. 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 £5,000,000 working capital facility.

Fair value measurement

Effective from 1 January 2013, the Group adopted the amendments to IFRS13 for financial instruments that are measured in the Group 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).

Lloyds Bank performs valuations of financial items for financial reporting purposes. Valuation techniques are selected based on the characteristics of each instrument, with the overall objective of maximising the use of market-base information. Valuation processes and fair value changes are discussed among the audit committee and the finance team, who report to the Finance Director (FD) at least every year, in line with the Group's reporting dates.

The valuation techniques used for instruments categorised in Level 2 are described below:

Interest rate swaps (Level 2)

The Group's interest rate swaps are not traded in active markets. These have been fair valued using observable interest rates. The effects of non-observable inputs are not significant for interest rate swaps.

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2013:

Assets	Level 1 £000s	Level 2 £000s	Level 3 £000s	Total £000s
Derivative financial instruments:				
Interest rate swaps	**-**	**443**	**-**	**443**
	-	**443**	**-**	**443**

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 1 January 2012:

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

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 2013 £000s	At 31 December 2012 £000s	At 1 January 2012 £000s
Due within:			
One year	**3,000**	6,250	4,250
More than one year, not more than two years	**3,000**	20,225	5,000
More than two years, not more than three years	**3,000**	-	10,225
More than three years	**15,250**	-	-
	24,250	26,475	19,475

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

	31 December 2013				
	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	**8,585**	**-**	**-**	**-**	**8,585**
Working capital facility	**2,125**	**-**	**-**	**-**	**2,125**
Bank loans	**3,737**	**3,642**	**19,436**	**-**	**26,815**
Convertible loan stock	**-**	**-**	**-**	**-**	**-**
Onerous contracts	**190**	**199**	**-**	**-**	**389**
	14,637	**3,841**	**19,436**	**-**	**37,914**

	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

21. Financial instruments continued

1 January 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	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

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

	31 December 2013		31 December 2012		1 January 2012	
	Trade payables and other £000s	**Bank borrowings other loans 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	**209**	**-**	390	4,436	321	362
In more than one year, but not more than two	**-**	**-**	-	-	-	4,748
In more than two years, but not more than five	**-**	**-**	-	-	-	-
In more than five years	**-**	**-**	-	-	-	-
	209	**-**	390	4,436	321	5,110

The Group had £25,000,000 (31 December 2012: £11,499,000, 1 January 2012: £21,524,000) undrawn committed borrowing facilities available at 31 December 2013 and £2,875,000 of working capital facility available.

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

As at 31 December 2013	**Loans and receivables £000s**	**Non-financial assets £000s**	**Total £000s**
Financial assets			
Cash	**888**	**-**	**888**
Trade and other receivables	**9,734**	**805**	**10,539**
	10,622	**805**	**11,427**

21. Financial instruments continued

As at 31 December 2013	Held for trading £000s	Other financial liabilities £000s	Liabilities not within scope of IAS39 £000s	Total £000s
Financial liabilities				
Cash and cash equivalents	-	2,125	-	2,125
Long term financial liabilities	-	21,250	-	21,250
Convertible debt	-	-	-	-
Other liabilities	-	-	-	-
Financial liabilities	-	3,000	-	3,000
Trade and other payables	-	7,462	1,123	8,585
Corporation tax	-	-	1,154	1,154
Onerous contracts – non current	-	-	199	199
Onerous contracts – current	-	-	190	190
	-	33,837	2,666	36,503

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

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	-	-	1,322	1,322
Onerous contracts – non current	-	-	364	364
Onerous contracts – current	-	-	197	197
	-	39,546	3,108	42,654

Notes to the Financial Statements continued

for year ended 31 December 2013

21. Financial instruments continued

As at 1 January 2012	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 1 January 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	-	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

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

As at 31 December 2013	**Loans and receivables £000s**	**Non-financial assets £000s**	**Total £000s**
Financial assets			
Cash	**12**	**-**	**12**
Trade and other receivables	**-**	**50**	**50**
	12	**50**	**62**

As at 31 December 2013	**Other financial liabilities £000s**	**Liabilities not within scope of IAS39 £000s**	**Total £000s**
Financial liabilities			
Convertible debt	**-**	**-**	**-**
Trade and other payables	**19**	**190**	**209**
Corporation tax	**-**	**-**	**-**
	19	**190**	**209**

21. Financial instruments continued

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 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

As at 1 January 2012	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 1 January 2012	Other financial liabilities £000s	Total £000s
Financial liabilities		
Convertible debt	4,460	4,460
Trade and other payables	321	321
	4,781	4,781

22. Derivative financial instruments

	31 December 2013 Assets £000s	31 December 2012 Liabilities £000s	1 January 2012 Liabilities £000s
Interest rate swap – cash flow hedge	**443**	-	6
	443	-	6
Current portion	**-**	-	6
Non-current portion	**443**	-	-

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 £105,000 (year ended 31 December 2012: £6,000 charge).

23. Deferred tax provision

The Group	**31 December 2013 £000s**	31 December 2012 £000s	1 January 2012 £000s
Accelerated capital allowances	**(18)**	(4)	(41)
Accelerated allowances on intangible assets	**(4,493)**	(4,271)	(4,025)
Initial recognition of intangible from business combination	**(1,690)**	(1,849)	-
Interest rate hedge	**(93)**	-	2
	(6,294)	(6,124)	(4,064)
Deferred tax asset	**-**	-	-
Deferred tax provision	**(6,294)**	(6,124)	(4,064)

Reconciliation of deferred tax movements:

The Group	31 December 2012 £000s	Recognised in other comprehensive income £000s	Recognised in the income statement £000s	Recognised on business combination £000s	**31 December 2013 £000s**
Non-current assets					
Intangible assets	(4,271)	-	(222)	-	**(4,493)**
Initial recognition of intangible from business combination	(1,849)	-	159	-	**(1,690)**
Property, plant and equipment	(4)	-	(14)	-	**(18)**
Current Liabilities					
Derivative financial instruments	-	(93)	-	-	**(93)**
	(6,124)	(93)	(77)	-	**(6,294)**
Recognised as:					
Deferred tax asset	-				**-**
Deferred tax liability	(6,124)				**(6,294)**

23. Deferred tax provision continued

The Finance Act 2012 included legislation to reduce the main rate of corporation tax from 24% to 23% from 1 April 2013. The reduction from 24% to 23% was substantively enacted at the balance sheet date and has therefore been reflected in these Group financial statements.

In addition to the changes in the rates of corporation tax disclosed above, it was announced in the December 2012 Budget Statement that the rate would be reduced from 23% to 21% from 1 April 2014 and in the March 2013 Budget Statement it was announced that the rate would be further reduced to 20% from 1 April 2015.

At the balance sheet date the substantively enacted rate was 21% (2012: 23%). The further 1% reduction (to 20%) has not been substantively enacted at the balance sheet date and is therefore not included in these financial statements. The overall effect of these changes, if applied to the deferred tax balance at the balance sheet date, would be to reduce the deferred tax liability by £300,000 (2012: £266,000). Deferred tax has been calculated at the prevailing rate of 21% (2012: 23% and 2011: 25%).

The Group	1 January 2012 £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)

24. Provisions for other liabilities

	31 December 2013 £000s	31 December 2012 £000s	1 January 2012 £000s
At start of year	**561**	699	1,013
Amount provided for in year	**-**	-	-
Amount utilised in year	**(209)**	(187)	(378)
Unwinding of discount	**37**	49	64
At year end	**389**	561	699

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 2013 an amount of £389,000 (year ended 31 December 2012: £561,000) 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 2013 £000s	31 December 2012 £000s	1 January 2012 £000s
Current	**190**	197	189
Non-Current	**199**	364	510

25. Share capital

	Authorised No. of shares	Authorised £000s
At 31 December 2013 – ordinary shares of 1p each	**400,000,000**	**4,000**
At 31 December 2012 – ordinary shares of 1p each	400,000,000	4,000
At 1 January 2012 – 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 2012 – 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
Issued during the year	21,045,231	211
At 31 December 2013 – ordinary shares of 1p each	**264,080,873**	**2,641**

Between 1 January 2013 and 31 December 2013, 991,661 shares were issued on the exercise of employee share options (2012: 1,555,265).

During the year, the Company received conversion notices in respect of £4,211,255 nominal value of the Company's 8% Convertible Unsecured Loan Stock (2012: £296,750). Accordingly, the Company has allotted 20,053,570 ordinary shares of 1p each in the Company (2012: 1,413,093).

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 37.25p. Options are exercisable three years after date of grant, but in certain instances this can be extended to five years. Options outstanding are as follows:

Year of grant	Exercise price pence	Exercise from	**31 December 2013 Number**	31 December 2012 Number	1 January 2012 Number
2005	19.00	2008	**9,000**	9,000	9,000
2006	18.75	2009	**40,250**	40,250	40,250
2007	9.25	2010	**33,250**	33,250	33,250
2008	8.5	2011	**644,750**	1,308,426	1,419,526
2009	7.75	2012	**709,060**	1,037,045	2,481,210
2010	33.25 and 34.25	2013	**2,482,139**	2,633,889	2,633,889
2011	34.12 and 31.00	2014	**4,030,261**	4,248,253	4,248,253
2012	29.25	2015	**3,250,600**	3,494,826	-
2013	37.25 and 35.75	2016	**5,228,976**	-	-
2013	35.75	2018	**4,000,000**	-	-
			20,428,286	12,804,939	10,865,378

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 2013, net bank debt was £25.0 million, whilst Shareholders' equity was £64.7 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 2.5 times, interest cover (the ratio of EBITDA to finance charges) should be no less than 4.0 times, and operating cash flows must exceed debt service cash flows. The Group comfortably complied with these covenants in 2013 and 2012.

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.

Notes to the Financial Statements continued

for year ended 31 December 2013

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. Generally, options granted become exercisable on the third anniversary of the date of grant, but in certain instances this can be extended to five years. 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 generally no performance conditions attached to the options, but 4m of the options granted on 23 October 2013 are subject to performance criteria and have the extension to five years before they can be exercised. 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 2013**	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	**644,750**	18.6%	4.90%
14/04/09	7.75p	7.75p	2,307,860	**709,060**	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	**1,182,139**	45.7%	3.90%
28/04/11	34.12p	34.12p	3,981,916	**3,730,261**	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	**3,250,600**	49.7%	1.70%
06/06/13	37.25p	37.25p	3,370,703	**3,328,976**	49.8%	2.40%
23/10/13	35.75p	35.75p	5,900,000	**5,900,000**	49.5%	2.60%

In each case, it is assumed the majority of options will be exercised at the earliest opportunity and that on average they are exercised one year after they become exercisable. 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:

	2013		2012		2011	
	Number	**Weighted average exercise price Pence**	Number	Weighted average exercise price Pence	Number	Weighted average exercise price Pence
Outstanding at start of year	**12,804,939**	**27.77**	10,865,378	24.82	8,741,125	16.59
Granted	**9,270,703**	**36.30**	3,494,826	29.25	4,281,916	33.90
Exercised	**(991,661)**	**8.24**	(1,555,265)	10.54	(2,089,250)	8.70
Forfeited	**(655,695)**	**32.54**	-	-	(68,413)	-
Outstanding at end of year	**20,428,286**	**32.43**	12,804,939	27.77	10,865,378	24.82
Exercisable at end of year	**3,918,449**	**16.79**	2,427,971	8.40	1,502,026	8.89

Share options were exercised throughout the financial year. Share options were exercised between 31.75 and 36.50 pence per share.

27. Cash generated from operations

	Group		Company	
	Year ended 31 December 2013 £000s	Year ended 31 December 2012 £000s	**Year ended 31 December 2013 £000s**	Year ended 31 December 2012 £000s
Result for the period before tax	**12,009**	10,809	**848**	10,494
Interest paid	**1,281**	1,466	**171**	352
Interest income	**(2)**	-	**(1,464)**	(1,310)
Other finance costs	**72**	45	**-**	26
Depreciation of property, plant and equipment	**266**	274	**-**	-
Amortisation of intangibles	**422**	573	**-**	-
Change in inventories	**(75)**	505	**-**	-
Change in trade and other receivables	**(394)**	(724)	**(28)**	(10,001)
Change in trade and other payables	**(1,665)**	1,100	**(182)**	68
Share options charges	**632**	369	**632**	369
Cash flows from operating activities	**12,546**	14,417	**(23)**	(2)

28. Capital commitments

Neither the Group nor Company had any capital commitments at 31 December 2013 or at 31 December 2012.

29. Contingent liabilities

Neither the Group nor Company had any contingent liabilities at 31 December 2013 or at 31 December 2012.

30. Pensions

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

The Group	**31 December 2013 £000s**	31 December 2012 £000s
Contributions payable by the group for the year	**307**	306

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 2013 Land and buildings £000s	31 December 2012 Land and buildings £000s	1 January 2012 Land and buildings £000s
No later than one year	**287**	361	286
Later than one year and no later than five years	**589**	753	900
Later than five years	**220**	317	415
	1,096	1,431	1,601

32. Related party transactions

The group paid £163,000 (year ended 31 December 2012: £642,000) for services from Fasken Martineau LLP and £15,000 for services from Pinsent Mason (year ended 31 December 2012: £nil), both firms had Paul Ranson as a partner during 2013. At 31 December 2013 there was a balance of £33,238 (31 December 2012: £13,624) outstanding in respect of services from Fasken Martineau LLP and £nil in respect of Pinsent Mason.

Notes to the Financial Statements continued

for year ended 31 December 2013

32. Related party transactions continued

Lynette Booley, wife of director Tony Booley, was paid £nil (31 December 2012: £14,000) for promotional services and goods. £nil was outstanding at 31 December 2013 (year ended 31 December 2012: £nil).

The group paid £nil (year ended 31 December 2012: £24,000) for services from Patient Connect Service Limited, a company of which Thomas Casdagli is a director.

During the year the Company received funds of £12,450,000 (year ended 31 December 2012: £219,000) from its subsidiary Alliance Pharmaceuticals Limited. Net payments of £485,000 (year ended 31 December 2012: £2,359,000) were made by Alliance Pharmaceuticals Limited on behalf of Alliance Pharma plc. Interest of £1,464,000 (year ended 31 December 2012: £1,309,000) was charged to Alliance Pharmaceuticals Limited on the total outstanding debt. During the year the Company re-invested £5,550,000 (year ended 31 December 2012: £2,010,000) in Alliance Pharmaceuticals Limited. During the year an amount of £632,000 (year end 31 December 2012: £369,000) 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 £42,108,000 (31 December 2012: £43,161,000).

Dividends declared by Alliance Pharmaceuticals Limited due to the Company are £nil for the year ended 31 December 2013 (for the year ended 31 December 2012: £10,000,000, for the year ended 31 December 2011: £2,000,000). During the year dividends of £10m were paid by Alliance Pharmaceuticals Limited to the Company.

During the year the Group made payments on behalf of Unigreg of £299,000 (year ended 31 December 2012: £377,000). Interest receivable from Unigreg was £52,000 (year ended 31 December 2012: £48,000).

33. 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 2013 £000s	31 December 2012 £000s	1 January 2012 £000s
Intangible fixed assets	**1,950**	1,950	1,950
Current assets	**200**	658	853
Current liabilities	**(54)**	(145)	(309)
Net assets	**2,096**	2,463	2,494

	Year ended 31 December 2013 £000s	Year ended 31 December 2012 £000s	Year ended 31 December 2011 £000s
Income	**239**	2,475	1,812
Cost of sales	**(129)**	(1,415)	(1,029)
Administration and marketing expense	**(111)**	(239)	(249)
(Loss)/profit on ordinary activities before taxation	**(1)**	821	534

34. Ultimate controlling party

There is no single ultimate controlling party.

35. Subsequent event

On 14 January 2014, the Company acquired the rights to the thyroid product Irenat from subsidiaries of Bayer AG ("Bayer") for a consideration of €3.3 million. Irenat, a sodium perchlorate monohydrate, is marketed in Germany and is mainly used for diagnosing and treating hyperthyroidism. In the 12 months to October 2013, total sales of Irenat by Bayer were €0.8 million and the gross margin generated was €0.5 million.

Shareholder Information

Shareholder enquiries

The Company's share register is maintained on our behalf by Capita Asset Services, 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 Asset Services, PXS1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF 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	21 May 2014
Final dividend record date	13 June 2014
Payment of final dividend	10 July 2014
Interim results announcement	10 September 2014
Year end	31 December 2014
Preliminary announcement	March 2015

Shareholder Analysis

Below is an analysis of the share register by size of holding as at 6 January 2014:

Size of shareholding	Proportion of shareholders	Number of shares held	Proportion of shares
1-5,000	22%	395,695	0.16%
5,001-10,000	13%	858,792	0.34%
10,001-50,000	39%	8,049,629	3.24%
50,001-100,000	12%	7,050,331	2.83%
100,001-500,000	7%	11,878,494	4.78%
500,001-1,000,000	3%	18,637,596	7.50%
1,000,001-5,000,000	2%	56,764,970	22.84%
5,000,001-10,000,000	1%	19,336,071	7.78%
10,000,001-50,000,000	1%	125,597,976	50.53%
	100%	248,569,554	100%

As at 6 January 2014 the Company has 353 registered shareholders.

Five Year Summary

	Year ended 31 December 2009 £m	Year ended 31 December 2010 £m	Year ended 31 December 2011 £m	Year ended 31 December 2012 £m	**Year ended 31 December 2013 £m**
Revenue	31.2	49.9	46.0	44.9	**45.5**
Operating profit before exceptional items	11.2	18.7	12.3	12.3	**13.4**
Exceptional operating items	(2.8)	(1.7)	-	-	**-**
Operating profit after exceptional items	8.4	17.0	12.3	12.3	**13.4**
Exceptional finance items	-	(1.8)	-	-	**-**
Profit before tax before exceptional items	8.5	16.4	10.7	10.8	**12.0**
Profit/(loss) before tax after exceptional items	5.7	12.9	10.7	10.8	**12.0**
Intangible assets	44.9	60.3	66.1	79.9	**89.1**
Tangible assets	0.1	0.9	0.8	0.6	**0.6**
Current assets	11.7	16.2	15.4	20.2	**16.9**
Current liabilities	11.4	17.0	13.9	22.0	**14.9**
Equity	16.6	36.1	44.1	51.8	**64.7**
Average shares in issue (millions)	173.2	226.1	238.6	240.9	**250.8**
Shares in issue at period end (millions)	193.3	236.1	240.1	243.0	**264.1**
Earnings per share – basic (p)	2.37	3.96	3.62	3.61	**3.82**
Earnings per share – adjusted basic (p)	3.55	5.07	3.62	3.61	**3.82**

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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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