For Immediate Release **13 September 2006**

ALLIANCE PHARMA PLC
(“Alliance Pharma” or “the Company”)

Interim Results for the six month period ended 30 June 2006

Alliance Pharma plc (AIM: APH), an emerging speciality pharmaceutical company, is pleased to announce its interim results for the half year ended 30 June 2006.

Financial highlights

- Sales up 13.2% to £7.8m (compared with the six months to June 2005)
- Operating profit of £0.9m
- Pre-tax loss of £0.2m
- Strengthened investment in marketing growth products – up 22% to £1.2m
- Strengthened investment in development projects – up 16% to £2.3m
- Planned marketing investment and two short-term operational factors adversely affected profits in the first half of the year

Operational highlights

- Development projects making good progress towards submission in 2007 and 2008
- Out-licensing discussions for development projects are ongoing
- Pre-marketing for development products includes successful international symposium on melatonin
- Three acquisitions completed bringing critical mass to the dermatology range:
    - Hydromol: a range of emollients
    - Dermamist: a spray for dry skin
    - Atarax, Terra-Cortril and Deltacortril: acquired from Pfizer post half-year

Commenting on the results, Michael Gatenby, Alliance Pharma’s Chairman, said:

“We have made encouraging progress in implementing our strategy for sustainable long-term growth. We acquired four new brands for our growth portfolio and continued to broaden the distribution network for this segment. We also acquired a further product for the core portfolio that generates cash for further investment. In addition we advanced our two development projects towards their planned submission.

“In the second half we expect sales to be stronger, with a return to satisfactory profitability, and to have a significantly stronger trading business supporting an increasing weight of investment in the development products. This will position us for the next phase of our growth, as we make progress towards our new product submissions in 2007 and 2008.”

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Chairman's statement

In the first six months of 2006, and post the period end, we made encouraging progress in implementing our strategy for sustainable long-term growth. We acquired four new brands for our growth portfolio and continued to broaden the distribution network for this segment. We also acquired a further product for the core portfolio that generates cash for further investment. In addition we advanced our two development projects towards their planned submission.

Given this good progress, it was disappointing that two short-term operational issues slowed our sales growth and that, together with the planned increase in marketing investment, this resulted in a modest loss for the half year. However, these operational issues, the nature of which is described below, have now been resolved and we believe we are on track to deliver full-year sales and profits in line with expectations.

Financial performance

At the end of 2005 we changed our accounting year-end from 28 February to 31 December. The figures in this interim report are for the six months to 30 June 2006, and the comparative figures in this statement are for the six months to June 2005.

Sales grew to £7.8m – a 13.2% increase on the corresponding period last year. The overall increase would have been substantially greater, had it not been for two temporary impacts. One was a stockout of Naseptin, caused by a manufacturing problem; the other involved parallel imports into Ireland, which reduced sales and margins. We believe the combined impact on sales was close to £300,000. This was disappointing, but it is clear that these factors will not play a part in future trading and that the underlying sales trend remains very strongly upward.

Costs rose by 48% to £3.3m as planned, constraining profits in the short term as we substantially increased promotional investment behind our growth brands and increased the pre-launch marketing activity associated with our development projects. We are acutely aware of the need to maintain rigorous cost discipline, but judge that these increases in spend are necessary as we expand our infrastructure to manage additional products, grow sales and progress towards launch of our development products.

Increased costs, combined with the temporary impact on sales growth, resulted in a first-half loss of £0.2m. We anticipate this to be more than offset in the second half, as sales resume their growth curve and we receive the additional benefit of the marketing investment and product acquisitions made in the first half.

It is useful to segment the Company into the underlying trading business, covering our core and growth portfolios, and the development business, covering the two development products. The trading business remains strongly profitable, with a first-half operating profit of £2.1m. The investment of £0.9m in the development business, accounted as a loss, reflects increasing expenditure as we move closer to launch. The investment risk remains relatively low: Isprelor is based on an already marketed molecule and Posidorm is a copy of a naturally occurring hormone.

	Six months to		Ten months to
	Jun 06	Jun 05	Dec 05
	£000	£000	£000
Trading company			
Sales	7,801	6,893	12,276
Cost of sales	3,658	3,170	5,601
Gross margin	4,144	3,723	6,675
%	53.1%	54.0%	54.1%
Project costs	1,099	836	1,348
Overheads	905	642	1,639
Total selling, general and administrative costs (SG&A)	2,005	1,478	2,987
Operating profit	2,139	2,246	3,688
% of sales	27.4%	32.6%	30.0%
Development projects			
Project costs	462	195	600
Overheads	457	239	544
Total development spend	919	434	1,145
% of sales	11.8%	5.6%	9.3%
Unallocated overheads	359	309	604
Operating profit	861	1,503	1,939

In May we raised additional funding of £2.5m before expenses through a share placing that was well supported by existing and new shareholders. This has given us additional funding and flexibility as we move towards the regulatory filing and launch of our development products.

Growth brands

Our growth portfolio is increasingly focused on dentistry and dermatology. Overall sales in this segment grew 16% to £3.8m as we benefited from past marketing investment and the acquisition of new products. Although sales of many of the products in the portfolio have continued to increase, we have been concentrating marketing investment this year on Periostat and the dermatology products.

Our experience to date with Periostat has convinced us that it has excellent growth potential and is continuing to build momentum. In May we reached agreement in Italy with a leading local dental specialist company to distribute and market Periostat, and in the second half we expect to gain approval to launch it in Turkey in 2007. We are stepping-up marketing in the UK; in Europe and further afield we are revitalising existing distribution arrangements and pursuing new ones. So far this year we have invested more in marketing the product than it has earned in revenues, and we expect to reap increasing benefit from this investment.

Core brands

Our core brands, which do not receive promotional support, continued to provide stable cash flows to underpin our growth and development portfolios. This relatively stable cash generation underpins our strategy, supports our debt and allows us to run an optimally leveraged operation.

Brand acquisitions

This year we have given the dermatology portfolio real critical mass. In February we acquired the Hydromol range of prescription emollients, which is increasing sales at over 30% in a market growing by 10% a year. In May we acquired Caraderm, whose primary product is Dermamist, a spray for dry skin conditions. After the Hydromol acquisition we expanded and reorganised the sales force into separate dermatology and dental teams. We will continue to enlarge our sales capability, at a pace that can be funded out of ongoing sales growth.

In July, at the beginning of the current half year, we acquired the UK rights to three products from Pfizer: Atarax, for itchy skin disorders, is growing at 11% a year and joins our growth portfolio; Deltacortril, for a wide range of steroid-responsive conditions, joins our core portfolio; and we plan to relaunch Terra-Cortril, which has been off the market for 18 months but has been much in demand from burns units.

Development brands

We have made substantial progress on our development programmes and are continuing the pre-launch marketing of both products among clinical opinion leaders. This included investment in a highly successful symposium on melatonin at the Royal Society of Medicine in London, which attracted a wide range of international experts in care of the elderly, neurology, occupational health and ophthalmology.

Isprelor, an intravaginal tablet of misoprostol for induction of labour, is planned to complete its Phase III clinical trial programme in 2006, allowing submission in 2007.
Posidorm, a novel surge-sustained tablet of melatonin for sleep disorders, is on track to finish development in 2007, allowing submission in early 2008.

We are progressing discussions on outlicensing both products in Europe. We also continue to look for additional low-risk development opportunities where the therapeutic proof of principle has been established and we can undertake the final development to registration.

People

In June we were pleased to announce the appointment of Andrew Smith as our third non-executive director. Andrew brings us extensive international experience of the pharmaceutical, biotechnology and medico-marketing services sectors, gained in senior positions at companies including SmithKline Beecham, Cerebrus and Parexel International. His knowledge will be particularly valuable to us as we roll-out our development projects.

Investor relations

We recognise the importance of communicating effectively with our investors, both institutional and retail. In particular, we wish to ensure understanding of the interrelationship between the two components of the company: the trading business and the development business. In the year to date we have held three conferences for investors and the financial media, and we will continue to explain and update our story as it progresses.

Outlook

In the second half we expect sales to be stronger with a return to satisfactory profitability and to have a significantly stronger trading business supporting an increasing weight of investment in the development products. This will position us for the next phase of our growth, as we make progress towards our new product submissions in 2007 and 2008.

Michael Gatenby
Chairman
13 September 2006

Consolidated Income Statement
For the six months ended 30 June 2006

	Note	6 months to 30 June 2006 £	6 months to 31 Aug 2005 £	10 months to 31 Dec 2005 £
Revenue	4	7,801,369	7,545,724	12,275,888
Cost of sales		(3,657,599)	(3,501,628)	(5,601,143)
Gross profit		4,143,770	4,044,096	6,674,745
Operating expenses				
Administration and marketing expense		(3,268,117)	(2,618,909)	(4,716,258)
Share based employee remuneration		(14,736)	(10,187)	(19,083)
		(3,282,853)	(2,629,096)	(4,735,341)
Operating profit pre non-recurring items		860,917	1,415,000	1,939,404
Non-recurring items		-	-	227,731
Operating profit before finance costs		860,917	1,415,000	2,167,135
Finance costs				
Interest paid		(1,057,722)	(906,300)	(1,366,747)
Other finance costs		(59,689)	(20,806)	(76,373)
Change in fair value of derivative financial instruments		74,942	(115,263)	(62,846)
		(1,042,469)	(1,042,369)	(1,505,966)
Profit/(Loss) on ordinary activities before taxation		(181,552)	372,631	661,169
Taxation		11,456	12,497	-
Profit for the year attributable to equity shareholders		(170,096)	385,128	661,169
Earnings per share				
Basic (pence)	6	(0.11)	0.26	0.45
Diluted (pence)	6	(0.11)	0.46	0.45

Consolidated balance sheet
At 30 June 2006

	30 Jun 06	31 Aug 05	31 Dec 05
	£	£	£
Assets			
Non-current assets			
Goodwill	1,128,973	1,128,973	1,128,973
Intangible fixed assets			
- Product licences	29,139,849	25,621,988	25,501,988
- Development costs	3,855,727	2,070,239	3,075,200
Property, plant and equipment	256,836	299,048	280,977
Deferred tax assets	-	12,497	-
	34,381,385	29,132,745	29,987,138
Current assets			
Inventories	2,537,019	2,351,889	2,739,869
Trade and other receivables	3,014,589	3,377,500	3,034,240
Cash and cash equivalents	-	267,853	-
	5,551,608	5,997,242	5,774,109
Total assets	**39,932,993**	**35,129,987**	**35,761,247**
Equity			
Ordinary share capital	1,620,616	1,473,559	1,473,559
Share premium account	11,285,268	9,030,959	9,030,959
Share option reserve	46,242	22,610	31,506
Reverse takeover reserve	(329,349)	(329,349)	(329,349)
Retained earnings	(2,872,213)	(2,978,159)	(2,702,117)
Total equity	9,750,564	7,219,620	7,504,558
Liabilities			
Non-current			
Long-term financial liabilities	16,011,462	12,905,164	14,794,873
Convertible debt	7,187,906	7,153,229	7,167,100
Other liabilities	179,023	163,889	177,778
	23,378,391	20,222,282	22,139,751
Current liabilities			
Cash and cash equivalents	687,437	-	899,066
Financial liabilities	3,391,234	3,016,827	933,749
Trade and other payables and provisions	2,725,367	4,671,258	4,284,123
	6,804,038	7,688,085	6,116,938
Total liabilities	30,182,429	27,910,367	28,256,689
Total equity and liabilities	**39,932,993**	**35,129,987**	**35,761,247**

Consolidated Statement of Cash Flows
For the six months ended 30 June 2006

	6 months to 30 June 2006	6 months to 31 Aug 2005	10 months to 31 Dec 2005
	£	£	£
Operating activities			
Result for the period before tax and finance costs	860,917	1,415,000	2,167,135
Depreciation of property, plant and equipment	56,084	65,526	108,374
Change in inventories	211,929	117,474	(270,506)
Change in trade and other receivables	47,657	(1,227,887)	(884,627)
Change in trade and other payables	(1,602,126)	1,443,781	876,429
Write-off intangible assets	-	-	120,269
Gain on divestment of Uniflu	-	-	(348,000)
Tax received/(paid)	11,456	(1,420)	-
Share options charges	14,736	10,187	19,083
Cash flows from operating activities	(399,347)	1,822,661	1,788,157
Investing activities			
Interest received	-	51,621	61,215
Payment of deferred consideration	-	(13,889)	-
Development costs capitalised	(780,526)	(724,630)	(1,849,860)
Purchase of tangible assets	(31,943)	(58,001)	(82,778)
Investment in subsidaries	(253,605)		
Proceeds from divestment of Uniflu	-	-	500,000
Transaction costs on divestment of Uniflu	-	-	(32,000)
Purchase of other intangible assets	(3,377,972)	(1,555)	(1,555)
Net cash used in investing activities	(4,444,046)	(746,454)	(1,404,978)
Financing activities			
Net proceeds from the issue of shares	2,401,366	-	-
Interest paid and similar charges	(1,138,933)	(956,719)	(1,426,319)
Other finance charges paid	-	(1,202)	(1,643)
Receipt from borrowings	3,800,000	-	-
Repayment of borrowings	-	(1,115,514)	(1,115,839)
Finance lease payments	(7,457)	(10,378)	(13,904)
Net cash used in financing activities	5,054,976	(2,083,813)	(2,557,705)
Net movement in cash and cash equivalents	211,583	(1,007,606)	(2,174,526)
Cash and cash equivalents at 1 January 2006	(899,066)	1,275,460	1,275,460
Cash and cash equivalents at 30 June 2006	(687,483)	267,854	(899,066)

Consolidated Statement of Changes in Equity
At 30 June 2006

	Share capital £	Share premium £	Shares to be issued £	Reserves £	Retained earnings £	**Total equity £**
Balance 1 March 2005	1,473,559	9,030,959	12,423	(329,349)	(3,363,287)	6,824,305
Employee benefits	-	-	10,187	-	-	10,187
Profit for the period	-	-	-	-	385,128	385,128
Balance 31 August 2005	1,473,559	9,030,959	22,610	(329,349)	(2,978,159)	7,219,620
Balance 1 September 2005	1,473,559	9,030,959	22,610	(329,349)	(2,978,159)	7,219,620
Employee benefits	-	-	8,896	-	-	8,896
Profit for the period	-	-	-	-	276,042	276,042
Balance 31 December 2005	1,473,559	9,030,959	31,506	(329,349)	(2,702,117)	7,504,558
Balance 1 January 2006	1,473,559	9,030,959	31,506	(329,349)	(2,702,117)	7,504,558
Issue of shares	147,057	-	-	-	-	147,057
Premium on shares issued	-	2,254,309	-	-	-	2,254,309
Employee benefits	-	-	14,736	-	-	14,736
Profit for the period	-	-	-	-	(170,096)	(170,096)
Balance 30 June 2006	**1,620,616**	**11,285,268**	**46,242**	**(329,349)**	**(2,872,213)**	**9,750,564**

Notes to the interim report
For the six months ended 30 June 2006

1 Nature of operations

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

The company is listed on the AIM exchange

2 General information

The information in these financial statements does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. A copy of the statutory accounts for the period ended 31 December 2005, prepared under International Financial Reporting Standards, has been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified.

The interim financial report for the six month period ended 30 June 2006 (including comparatives for the six months ended 31 August 2005) were approved by the board of directors on 8 September 2006.

3 Accounting policies

The interim financial report has been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting

The same accounting policies and methods of computation are followed in the interim financial report as published by the company in its 31 December 2005 Annual Report which is available on the company's website at www.alliancepharma.co.uk (a copy of which is included as an appendix to this interim report).

Notes to the interim report (continued)
For the six months ended 30 June 2006

4 Segmental information
The business is split between the trading business, consisting of those brands which have no promotional investment, and the Development Brands.

	Growth Brands £	Core Brands £	Trading Business £	Development Brands £	Central and Unallocated £	Total Group £
For the half year ended 30 June 2006						
Segment revenue	3,692,673	4,108,694	7,801,367	-	-	7,801,367
Segment result	1,237,146	902,089	2,139,235	(919,086)	(359,233)	860,916
For the half year ended 31 August 2005						
Segment revenue	3,586,822	3,958,904	7,545,726	-	-	7,545,726
Segment result	1,568,625	874,788	2,443,413	(590,530)	(437,679)	1,415,204
For the 10 months ended 31 December 2005						
Segment revenue	5,651,609	6,624,279	12,275,888	-	-	12,275,888
Segment result	2,362,333	1,325,517	3,687,850	(1,144,733)	(603,713)	1,939,404

At 30 June 2006	Growth Brands £	Core Brands £	Trading Business £	Development Brands £	Central and Unallocated £	Total Group £
Segment assets						
Non current assets						
Goodwill	1,128,973	-	1,128,973	-	-	1,128,973
Product licences	19,388,845	9,751,004	29,139,849	-	-	29,139,849
Development costs	-	-	0	3,855,727	-	3,855,727
Property plant and equipment	14,000	-	14,000	-	242,836	256,836
Current assets						
Inventories	737,790	1,799,229	2,537,019	-	-	2,537,019
Trade & other receivables	1,446,996	1,539,587	2,986,583	-	-	2,986,583
Non-current liabilities						
Long term financial liabilities	10,932,576	5,078,886	16,011,462	-	-	16,011,462
Convertible debt	5,462,809	-	5,462,809	1,725,097	-	7,187,906
Other liabilities	179,023	-	179,023	-	-	179,023
Current liabilities						
Cash & cash equivalents	-	-	-	-	687,437	687,437
Financial liabilities	2,310,156	1,081,078	3,391,234	-	-	3,391,234
Trade & other payables	-	-	0	-	2,725,367	2,725,367

At 31 August 2005	**Growth Brands £**	**Core Brands £**	**Trading Business £**	**Development Brands £**	**Central and Unallocated £**	**Total Group £**
Segment assets						
Non current assets						
Goodwill	1,128,973	-	1,128,973	-	-	1,128,973
Product licences	15,837,010	9,784,978	25,621,988	-	-	25,621,988
Development costs	-	-	-	2,070,239	-	2,070,239
Property plant and equipment	19,833	-	19,833	-	279,215	299,048
Deferred tax assets	-	-	-	-	12,497	12,497
Current assets						
Inventories	700,152	1,651,737	2,351,889	-	-	2,351,889
Trade & other receivables	1,605,477	1,772,023	3,377,500	-	-	3,377,500
Cash and cash equivalents	-	-	-	-	267,853	267,853
Non-current liabilities						
Long term financial liabilities	7,551,380	5,353,784	12,905,164	-	-	12,905,164
Convertible debt	5,436,454		5,436,454	1,716,775	-	7,153,229
Other liabilities	163,889	-	163,889	-	-	163,889
Current liabilities						
Financial liabilities	955,183	2,061,644	3,016,827	-	-	3,016,827
Trade & other payables	-	-	-	-	4,671,258	4,671,258

At 31 December 2005	Growth Brands £	Core Brands £	Trading Business £	Development Brands £	Central and Unallocated £	Total Group £
Segment assets						
Non current assets						
Goodwill	1,128,973	-	-	-	-	1,128,973
Product licences	15,837,010	9,664,978	25,501,988	-	-	25,501,988
Development costs	-	-	-	3,075,200	-	3,075,200
Property plant and equipment	17,500	-	17,500	-	263,477	280,977
Current assets						
Inventories	806,986	1,932,883	2,739,869	-	-	2,739,869
Trade & other receivables	1,396,913	1,637,327	3,034,240	-		3,034,240
Non-current liabilities						
Long term financial liabilities	8,916,484	5,878,389	14,794,873	-	-	14,794,873
Convertible debt	5,446,996	-	5,446,996	1,720,104	-	7,167,100
Other liabilities	177,778	-	177,778	-	-	177,778
Current liabilities						
Cash & cash equivalents	-	-	-	-	899,066	899,066
Financial liabilities	588,402	345,347	933,749	-	-	933,749
Trade & other payables	-	-	-	-	4,284,123	4,284,123

Notes to the Interim Report (continued)
For the six months ended 30 June 2006

6 Earnings per share

Basic earning per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversation of all dilutive potential shares. The group has two categories of dilutive potential ordinary shares: share options granted to directors and employees and convertible unsecured loan stock. For employee share options a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options. The convertible unsecured loan stock is convertible into ordinary shares at any time between the date of issue and 30 November 2013, unconditionally and at the option of the note holder. The conversion rate is £4.7619 nominal of Ordinary share capital for every £100 nominal of loan stock. These could potentially dilute the earnings per share into the future, but were not included in the calculation of diluted earnings per share because they are anti-dilutive for the periods presented.

	6 months to 30 June 2006	6 months to 31 Aug 2005	10 months to 31 December 2005
	Weighted average number of shares	Weighted average number of shares	Weighted average number of shares
For basic earnings per share	**151,114,061**	147,355,891	147,355,891
Exercise of options	**209,523**	-	130,968
For diluted earnings per share	**151,323,584**	147,355,891	147,486,859

	6 months to 30 June 2006	6 months to 31 Aug 2005	10 months to 31 December 2005
	£	£	£
Basic (loss)/profit	**(170,096)**	385,128	661,169
For diluted earnings per share	**(170,096)**	385,128	661,169
Basic earning per share (pence)	**(0.11)**	0.26	0.45
Diluted earnings per share (pence)	**(0.11)**	0.26	0.45

7 Acquisition of subsidiary undertaking

Assets	Book value	Fair value adjustment	Fair value
Non-current assets			
Intangible assets - product licences	111,000	148,890	259,890
Current assets			
Inventories	9,079		9,079
Trade and other receivables	28,006		28,006
	37,085		37,085
Total assets	**148,085**		**296,975**
Current liabilities			
Trade and other payables and provisions	(43,370)		(43,370)
Total liabilities	**(43,370)**		**(43,370)**
Net assets	**104,715**		**253,605**
Goodwill			-
Satisfied by:			
Cash			**253,605**

On 18th May, the Group acquired 100% of the share capital of Caraderm Limited. The company earned a profit on ordinary activities after taxation on £20,280 in the 3 month period ended 30 June 2006, of which £Nil arose in the period from 18 May 2006 to 30 June 2006.

Appendix

Group accounting policies based on International Financial Reporting Standards ('IFRS')

Consolidation

The consolidation balance sheet includes the assets and liabilities of the company and its subsidiaries and are made up to 30 June 2006. Entities over which the Group has the ability to exercise control are accounted for as subsidiaries. Interest acquired in entities are consolidated from the effective date of acquisition and interests sold are consolidated up the date of disposal. Balances between group companies are eliminated; no profit I taken on sales between group companies. Deferred tax relief on unrealised intro-group profit is accounted for only to the extent it is considered recoverable. Goodwill arising on the acquisition of interests in subsidiaries representing the excess of purchase consideration over the Group's share of the fair values of identifiable assets, liabilities and contingent liabilities acquired, is capitalised as a separate item.

Foreign currency transactions

Foreign currency transactions by Group companies are booked at the exchange rate ruling on the date of the transaction. Foreign currency monetary assets and liabilities are retranslated into local currency at the rate of exchange ruling at the balance sheet date. Exchange differences are booked to the income statement.

Research and development

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

Property, plant and equipment

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

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

Leases

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

Goodwill

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

Intangible fixed assets

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

Inventories

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

Taxation

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases on assets and liabilities and their carrying amounts in the financial statements, 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 have been enacted of substantively enacted by the balance sheet date. Deferred tax assets and liabilities are not discounted.

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 Alliance Pharma plc is interest rate swaps. The Group does not hold or issue derivative financial instruments for trading or speculative purposes. Derivative financial instruments are originally recognised in the balance sheet at cost and then remeasured at subsequent reporting date to fair value. Changes in the fair value of derivatives designated as fair value hedges are recorded in the income statement. Changes in the fair value of derivatives designated as cash flow hedges are recognised in equity. Amounts deferred in equity are transferred to the income statement in line with the hedged forecast transaction. Changes in fair value of any derivative instrument that does not quality for hedge accounting is recognised immediately in the income statement.

Debt instruments

Unhedged debt instruments are stated at the amount of net proceeds, adjusted to amortise the issue costs of the debt over its term.

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 highly liquid investments, available with no penalty, with ordinary maturities of three months or less and bank overdrafts.

Segment reporting

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

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. 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 assumption about the number if options that are expected to become exercisable. At each balance sheet date, the entity 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, on the income statement, with a corresponding adjustment to equity. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Revenue recognition

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

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.
- “Retained earnings” represents retained profit.
- “Reserve takeover reserve” represents the difference between the fair value of shares issued on a reverse takeover.

Investments

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