



ALLIANCE PHARMA PLC
("Alliance" or "the Group")

Preliminary results for the year ended 31 December 2007

Alliance Pharma plc (AIM: APH), the speciality pharmaceutical company, is pleased to announce its preliminary results for the year ended 31 December 2007.

Financial Highlights

- Sales up 6% to £18.2m (2006: £17.3m)
- Operating profit* up 39% to £3.6m (2006: £2.6m)
- Step change in profitability mid-year, with £1.1m pre-tax profit* in the second half of 2007
- Full year pre-tax profit* of £0.4m (2006: £0.5m)
- Cash flow from operations of £4.1m (2006: £1.1m)
- Non-cash impairment charge of £3.4m in respect of Posidorm®

*Before exceptional items

Operational Highlights

- Acquisition of Forceval® rights in China through new joint venture
- Successful completion of Phase III trial for Isprelor®, with encouraging reaction from potential prescribers
- Strategy implemented to increase profitability and cash generation
- Mid-year reorganisation reduced overheads by more than £1m annually

Commenting on the results, Michael Gatenby, Alliance's Chairman, said: "We are greatly encouraged by the speed and effectiveness of the turnaround in the second half of 2007. Following the decisive action we took, Alliance has delivered the best six months' performance in its history. The current year has begun well. Provided there is no unexpected setback on pricing, we are confident that the improved profitability achieved in the second half of 2007 will be sustainable through 2008."

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CHAIRMAN'S AND CHIEF EXECUTIVE'S STATEMENT

Business Review

After a difficult first half of the year caused by supply issues, the decisive action we took to restore profitability proved highly effective. In the second half of 2007, the Group delivered the best six months' performance in its history. Turnover in the second half was £10.4m, up £2.6m on the first half, and pre-tax profit, before exceptional items, was a record £1.1m in the second half, helped by additional Forceval[®] sales as wholesalers and pharmacies restocked.

As a result, full-year turnover was £18.2m, a 6% increase on the previous year (2006: £17.3m). Pre-tax profit, before exceptional items, was in line with expectations at £0.4m (2006: £0.5m) despite the £0.7m trading loss announced at the half-year.

However, the reported result for the full year is affected by two exceptional items. In accordance with international accounting standards, we had been capitalising the development costs of Posidorm[®], our unique formulation of melatonin for sleep disorders. Following our decision to put the development of Posidorm[®] on hold until we have a co-development partner, we have concluded that it is no longer appropriate to continue carrying these costs on the balance sheet. We have therefore written off these costs through a one-off £3.4m charge to the profit and loss account. This is an accounting charge only and has no impact on the Group's cash position. Securing a co-development partner for Posidorm[®] is still a top priority within Alliance.

The other exceptional item is a £0.2m charge relating to reorganisation costs as part of the strategic changes announced at the half-year.

As a result of these two exceptional charges, the reported result for the year is a loss of £3.2m (2006: £0.5m profit). However, the strong second-half performance gives a clear indication of what the new strategy is capable of delivering in 2008.

Strategy

At the start of 2007 it became clear that a change in regulatory procedure would add significantly to the time and cost involved in obtaining registration for Posidorm[®]. We also experienced supply problems with three of our products, which cost us an estimated £1m of sales in the first half.

Given the immediate impact on sales and the longer-term deferral of prospective income from Posidorm[®], we shifted the emphasis of our strategy to maximise near-term profitability and cash generation in the trading business.

We have suspended development of Posidorm[®] until we have a co-development partner, although work continues unabated on Isprelor[®], our other development product.

In our trading business we implemented a cost reduction programme involving a reduction in marketing expenditure, rationalisation of our sales forces and 11 redundancies across our operations.

This prompt action removed more than £1m per annum of marketing and administration costs and pre-marketing spend on development products. The benefit was evident in the second-half performance. We are satisfied that our current structure and cost base will be sustainable for the foreseeable future.

Our product acquisition strategy has always been to seek out brands that have established demand and cash flows. As a result, reducing our marketing spend has had a relatively modest impact on ongoing sales. We will continue to operate on this basis. Where it is profitable to put

more marketing weight behind individual brands we will consider gain-share arrangements similar to our successful partnership with Pharmexx, Europe's largest contract sales organisation, which is developing new sales channels in the UK for two of our larger brands, Forceval[®] and Hydromol[®].

Our fastest-growing brand, Hydromol[®], has sustained its growth rate under this new strategy. Reducing support for Periostat[®], another of our major brands, has slowed its growth but sharply increased profitability. Overall, the remainder of our brands continue to be very resilient.

Our strategy now puts increased emphasis on the trading portfolio as a driver of future growth and profits. Our business model is fully scalable and we continue to seek opportunities to acquire brands with potential to enhance our profitability by generating additional sales volumes through our existing infrastructure.

These efforts should benefit from the rationalisation of cost bases being undertaken by the larger pharmaceutical players as a result of falling R&D productivity and increased pricing pressure. This creates acquisition opportunities for us as these companies divest older products that no longer fit with their global strategies. Our Business Development Director is in regular contact with companies across the Industry to identify suitable candidate products.

Trading business

The supply chain problems that held back sales in the first half of 2007 are now largely resolved: Forceval[®] came back into stock in September; Deltacortril[®] production is now rapidly approaching demand levels; and Atarax[®] should be back in supply shortly.

For the year as a whole, gross margins were down on the previous year at 49.0% (2006: 53.5%). This reduction was mainly the result of a change in the mix of sales, but also partly due to a 20% price reduction that was temporarily imposed on Nu-Seals[®] in the Republic of Ireland before being reversed.

Exports accounted for 32% of sales in 2007 and our products are now sold in 20 countries. The most important development in 2007 was the acquisition of Forceval[®] rights in China from the Administrator of Unigreg Ltd, via a joint venture with the brand's existing Chinese distributor. Alliance has a 60% share of the joint venture, with the balance held by the distributor. The joint venture took over shipments from April 2007 and sales have developed satisfactorily through the year. Our joint venture with the local distributor provides a potential sales platform for additional products to be sold into China and we are currently working to identify gaps in the local market that we may be able to fill.

Following the Office of Fair Trading report into the Pharmaceutical Price Regulation Scheme (PPRS), published in February 2007, the UK Department of Health announced in August 2007 that it wished to renegotiate the terms of the ongoing 2005 PPRS Agreement only two years into its agreed five-year term. Discussions are expected to conclude in mid-2008, and until then the industry faces an unwelcome period of pricing uncertainty. We continue to lobby that any impact of additional NHS savings should not be borne by older products, such as many of Alliance's, which have already been subjected to several decreases in the past and where their cost to the NHS is usually lower than the prescription charge.

Development business

Development of Isprelor[®], for induction of labour, continues as planned. In July it successfully completed Phase III clinical trials which confirmed that Isprelor[®] has similar effectiveness to the current standard treatment, dinoprostone. It is as well tolerated as the standard treatment, and has the advantages of being less likely to cause nausea and not requiring refrigerated storage.

Following discussions with the regulatory authorities we are currently performing certain studies connected with the formulation of Isprelor[®] which will increase the robustness of our application for registration. As a result, we expect to file in early 2009, with first royalty revenues likely to flow in early 2010. We are currently in advanced discussions with potential distribution partners for Isprelor[®] across the EU.

We remain convinced that Posidorm[®] has considerable potential and we will continue to search vigorously for a route to complete its development cost-effectively.

It remains part of our strategy to seek out late-stage development projects with potential to boost our medium and long term performance over and above the growth of our trading portfolio alone. Our approach to investment will remain cautious for the foreseeable future, and we would be most likely to develop such products in partnership. Additionally we are also discussing some opportunities to act as marketing partner on projects that offer attractive growth prospects.

Outlook

We are greatly encouraged by the speed and effectiveness of the turnaround in the second half of 2007. Modest sales growth can be expected, and the improved balance between sales and costs has enhanced our inherent profitability and the rate of cash generation.

The current year has begun well. Provided that the PPRS review delivers no unexpected setback on pricing, we are confident that the improved profitability achieved in the second half of 2007 will be sustainable through 2008.

Michael Gatenby
Chairman
14 March 2008

John Dawson
Chief Executive
14 March 2008

Financial Review

Turnover

Turnover in 2007 was £18.2m, up 6% on the previous year (2006: £17.3m). This was Alliance's seventh successive year of turnover growth, during which time sales have trebled.

This growth was achieved despite the supply difficulties in the first half of the year costing an estimated £1m of sales. Sales in the second half of the year were £10.4m, up £2.6m on the first half, although the second half was helped by additional sales of Forceval[®] as wholesalers and pharmacies replenished their stocks when supplies became available.

Profit

The gross margin for the year was 49.0%, compared with 53.5% in 2006. Margins were adversely affected in the first half of the year by a number of temporary effects, including a 20% price reduction that was imposed on Nu-Seals[®] in the Republic of Ireland, though this was reversed in July. Margins recovered somewhat in the second half, although they remain below the 2006 level as result of a change in the mix of sales.

Pre-exceptional operating expenses were down 20% year on year. This was partly as a result of reduced activity on the development side of the business following the suspension of activity on Posidorm[®] at the start of the year and partly as a result of the cost reduction programme that was implemented mid-year. This exercise reduced the overhead base by more than £1m per annum at a one-off cost of £0.2m.

Before exceptional items, the operating profit for 2007 was £3.6m, up 39% on 2006, and profit before tax was £0.4m compared with £0.5m in 2006. As a result of improved sales, better margins and reduced overheads, profitability (before exceptional items) was substantially better in the second half of the year, with operating profit at £2.9m for the six months and profit before tax at £1.1m.

	First half 2007 £m	Second half 2007 £m	2007 Year £m	2006 Year £m
Turnover	7.8	10.4	18.2	17.3
Gross profit	3.6 47.1%	5.3 50.4%	8.9 49.0%	9.2 53.5%
Operating expenses*	<u>(2.9)</u>	<u>(2.4)</u>	<u>(5.3)</u>	<u>(6.6)</u>
Operating profit*	0.7	2.9	3.6	2.6
Financing costs*	<u>(1.4)</u>	<u>(1.8)</u>	<u>(3.2)</u>	<u>(2.1)</u>
Profit before tax*	<u>(0.7)</u>	<u>1.1</u>	<u>0.4</u>	<u>0.5</u>
Adjusted basic EPS (annualised)	(0.86p)	1.31p	0.23p	0.32p

*Before exceptional items

Exceptional items

Exceptional items for 2007 comprised a £0.2m charge for the mid-year restructuring programme and a £3.4m non-cash impairment charge in respect of Posidorm[®]. Following our decision to put development of Posidorm[®] on hold until we have a co-development partner, we have concluded that it is no longer appropriate to continue carrying these costs on the balance sheet. We have therefore written these costs off through a one-off £3.4m charge to the profit and loss account. This is an accounting charge only and has no impact on the Group's cash position

Financing costs

Net interest payable increased from £2.2m in 2006 to £2.8m in 2007 as a result of the additional debt used to finance the latest acquisitions and higher interest rates. The weakening of Sterling against the Euro in 2007 led to a £0.22m cost on re-translation of the Euro-denominated debt against a £0.06m gain in 2006. There was a £0.03m charge from movement in the fair value of interest rate hedges compared with a £0.11m credit in 2006. Net financing costs for 2007 were £3.2m (2006: £2.1m).

Earnings per share

The adjusted basic EPS for 2007 was 0.23p (2006: 0.32p), depressed by the weaker first half year performance. Illustrating the step change in performance since the mid-year, the adjusted basic EPS for the second half of the year was 1.31p on an annualised basis.

Cash flow

With the substantially improved pre-exceptional operating profit of £3.6m and a small net working capital inflow, cash flow from operations in 2007 was £4.1m, compared with £1.1m in 2006.

The amount reinvested in development projects during 2007 was £0.8m, down from £1.9m in the previous year following the suspension of work on Posidorm[®].

Intangible assets

The acquisition of Forceval[®] rights in China takes intangible assets in respect of product licences to £35.5m at the year end. In addition, there is £2.6m on the balance sheet for Isprelor[®] development costs.

Funding and risk management

The £2.0m investment in Forceval[®] rights in China was funded by bank debt, taking total bank loans to £23.5m as at 31 December 2007. Over the year there was a net reduction in overdraft of £0.2m.

The Group uses interest rate swaps to reduce the risk arising from changes in interest rates and the Convertible Unsecured Loan Stock is at a fixed coupon. Approximately 65% of the gross debt is now subject to fixed interest rates. A portion of the debt is denominated in Euros as a hedge against the currency risk on revenue from the Republic of Ireland and mainland Europe.

Consolidated Income Statement

For the year ended 31 December 2007

	Note	Year ended 31 December 2007 £000s	Year ended 31 December 2006 £000s
Revenue		18,224	17,253
Cost of sales		(9,291)	(8,022)
Gross profit		8,933	9,231
Operating expenses			
Administration and marketing expense		(5,333)	(6,595)
Share-based employee remuneration		10	(34)
		(5,323)	(6,629)
Operating profit before exceptional items		3,610	2,602
Exceptional items	3	(3,576)	-
Operating profit		34	2,602
Finance costs			
Interest paid		(2,859)	(2,171)
Interest income		17	16
Other finance costs		(372)	(65)
Change in fair value of derivative financial instruments		(30)	110
(Loss)/profit on ordinary activities before taxation		(3,210)	492
Taxation		-	11
(Loss)/profit for the year attributable to equity shareholders		(3,210)	503
(Loss)/profit for the year attributable to equity shareholders		(3,210)	503
Earnings per share			
Basic and diluted (pence)	2	(1.98)	0.32

Consolidated Balance Sheet

For the year ended 31 December 2007

	Note	31 December 2007 £000s	31 December 2006 £000s
Assets			
Non-current assets			
Goodwill		1,144	1,129
Intangible assets			
- Product licences	4	35,457	33,316
- Development costs	4	2,559	5,017
Property, plant and equipment		254	297
		39,414	39,759
Current assets			
Inventories		1,881	2,852
Trade and other receivables	5	4,439	5,224
Cash and cash equivalents		672	232
		6,992	8,308
Total assets		46,406	48,067
Equity			
Ordinary share capital		1,621	1,621
Share premium account		11,275	11,275
Share option reserve		55	65
Reverse takeover reserve		(329)	(329)
Other reserve		(546)	-
Retained earnings		(5,410)	(2,200)
Total equity		6,666	10,432
Liabilities			
Non-current liabilities			
Long term financial liabilities		21,772	18,452
Convertible debt		7,251	7,209
Other liabilities		520	940
Derivative financial instruments		431	-
		29,974	26,601
Current liabilities			
Cash and cash equivalents		3,062	2,839
Financial liabilities		1,716	3,031
Trade and other payables	6	4,873	5,164
Derivative financial instruments		115	-
		9,766	11,034
Total liabilities		39,740	37,635
Total equity and liabilities		46,406	48,067

Consolidated statement of changes in shareholders' equity

For the year ended 31 December 2007

	Share Capital £000s	Share premium £000s	Shares to be issued £000s	Reserves £000s	Other Reserve £000s	Retained earnings £000s	Total equity £000s
Balance at 1 January 2007	1,621	11,275	65	(329)	-	(2,200)	10,432
Interest rate swaps – cash flow hedge	-	-	-	-	(546)	-	(546)
Net expense recognised directly in equity	-	-	-	-	(546)	-	(546)
Loss for the year	-	-	-	-	-	(3,210)	(3,210)
Total recognised income and expense for the year	-	-	(10)	-	-	-	(10)
Balance at 31 December 2007	1,621	11,275	55	(329)	(546)	(5,410)	6,666
Balance at 1 January 2006		1,474	9,031	31	(329)	-	(2,703)
Profit for the year	-	-	-	-	-	503	503
Total recognised income and expense for the year	-	-	-	-	-	503	503
Issue of shares	147	-	-	-	-	-	147
Premium on shares issued	-	2,244	-	-	-	-	2,244
Employee benefits	-	-	34	-	-	-	34
Balance at 31 December 2006	1,621	11,275	65	(329)	-	(2,200)	10,432

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Note	Year ended 31 December 2007 £000s	Year ended 31 December 2006 £000s
Cash flows from operating activities			
Cash generated from operations	7	4,064	1,110
Tax refund		-	11
Cash flows from operating activities		4,064	1,121
Investing activities			
Interest received		106	17
Payment of deferred consideration		(220)	(20)
Development costs capitalised		(776)	(1,941)
Purchase of property, plant and equipment		(100)	(128)
Proceeds from sales of property, plant and equipment		13	12
Purchase of other intangible assets		(2,156)	(6,814)
Net cash used in investing activities		(3,133)	(8,874)
Financing activities			
Net proceeds from the issue of shares		-	2,390
Interest paid and similar charges		(2,361)	(2,030)
Loan issue costs		(303)	(133)
Other finance charges paid		-	(1)
Receipt from borrowings		1,950	6,536
Repayment of borrowings		-	(705)
Finance lease payments		-	(12)
Net cash received from/used in financing activities		(714)	6,045
Net movement in cash and cash equivalents		217	(1,708)
Cash and cash equivalents at the beginning of the period		(2,607)	(899)
Cash and cash equivalents at the end of the period		(2,390)	(2,607)

1. Basis of preparation

The financial information set out in the announcement does not constitute the group's statutory accounts for the years ended 31 December 2007 or 31 December 2006. The financial information for the year ended 31 December 2006 is derived from the statutory accounts for that year which have been delivered to the Registrar of Companies as published on the group's website on 17 April 2007. The auditors reported on those accounts; their report was unqualified and did not contain a statement under s.237(2) or (3) Companies Act 1985. The statutory accounts for the year ended 31 December 2007 will be finalised on the basis of the financial information presented by the directors in this preliminary announcement. They have not yet been delivered to the Registrar of Companies nor have the auditors reported on them.

2. Earnings per share (EPS)

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

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

	Year ended 31 December 2007	Year ended 31 December 2006
For basic EPS calculation	162,061,774	156,662,902
Share options	-	34,664
For diluted EPS calculation	162,061,774	156,697,566

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

	Year ended 31 December 2007	Year ended 31 December 2006
Earnings for basic and diluted EPS	(3,210)	503
Exceptional items	3,576	-
For adjusted earnings per share	366	503

The resulting EPS measures are:

	Year ended 31 December 2007	Year ended 31 December 2006
	Pence	Pence
Basic EPS	(1.98)	0.32
Diluted EPS	(1.98)	0.32
Adjusted basic EPS	0.23	0.32

3. Exceptional items

	Year ended 31 December 2007 £000s	Year ended 31 December 2006 £000s
Posidorm® impairment charge	3,374	-
Restructuring costs	202	-
	3,576	-

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

4. Intangible assets

	Purchased goodwill £ 000s	Technical Know-how £ 000s	Trademarks and distribution rights £ 000s	Subtotal of product licences £ 000s	Development costs £ 000s	Total £ 000s
Cost						
At 1 January 2007	2,669	14,296	16,351	33,316	5,137	38,453
Additions	-	159	1,982	2,141	916	3,057
At 31 December 2007	2,669	14,455	18,333	35,457	6,053	41,510
Amortisation and impairment						
At 1 January 2007	-	-	-	-	120	120
Impairment charge	-	-	-	-	3,374	3,374
At 31 December 2007	-	-	-	-	3,494	3,494
Net book amount						
At 31 December 2007	2,669	14,455	18,333	35,457	2,559	38,016
At 1 January 2006	2,669	14,296	16,351	33,316	5,017	38,333

	Purchased goodwill £ 000s	Technical Know-how £ 000s	Trademarks and distribution rights £ 000s	Subtotal of product licences £ 000s	Development costs £ 000s	Total £ 000s
Cost						
At 1 January 2006	2,669	10,827	12,005	25,501	3,196	28,697
Additions	-	3,469	4,346	7,815	1,941	9,756
At 31 December 2006	2,669	14,296	16,351	33,316	5,137	38,453
Amortisation and impairment						
At 1 January 2006	-	-	-	-	120	120
At 31 December 2006	-	-	-	-	120	120
Net book amount						
At 31 December 2006	2,669	14,296	16,351	33,316	5,017	38,333
At 1 January 2005	2,669	10,827	12,005	25,501	3,076	28,577

5. Trade and other receivables

	31 December 2007	31 December 2006
	£000s	£000s
Trade receivables	4,102	4,671
Other receivables	107	104
Prepayments and accrued income	230	449
	4,439	5,224

6. Trade and other payables – current

	31 December 2007	31 December 2006
	£000s	£000s
Trade payables	2,151	3,298
Other taxes and social security costs	352	496
Accruals and deferred income	1,930	1,150
Amount owed to joint venture	20	-
Other payables	420	220
	4,873	5,164

7. Cash generated from operations

	Year ended 31 December 2007	Year ended 31 December 2006
	£ 000s	£ 000s
Result for the year before tax	(3,210)	492
Interest paid	2,859	2,171
Interest income	(17)	(16)
Other finance costs	372	65
Change in fair value of derivative financial instruments	30	(110)
Depreciation of property, plant and equipment	138	112
Change in inventories	971	(112)
Profit on disposal of fixed assets	(8)	(12)
Change in trade and other receivables	785	(2,189)
Change in trade and other payables	(1,220)	675
Write-off intangible assets	3,374	-
Share options charges	(10)	34
Cash flows from operating activities	4,064	1,110