



Alliance Pharma plc
Interim Report
for the six months ended
30 June 2007

Alliance Pharma is an AIM-listed speciality pharmaceutical company.

Alliance sells a range of 34 branded prescription products which it has acquired or licensed across a variety of therapeutic categories. These products are well established medicines, typically in niche areas where new developments are not being made. In addition Alliance has two in-house development projects to enhance long-term future growth.

Based in the UK, the Group employs 31 people.

HIGHLIGHTS

Start of Forceval® sales in China through new local joint venture

Strategy implemented to increase profitability and cash generation – costs reduced by more than £1 million annually with increased focus on trading and reduced investment in development portfolio

Successful completion of Phase III trial for Isprelor®, with encouraging reaction from potential prescribers

Half year sales of

£7.8^M

(H1 2006: £7.8 million), constrained by temporary supply shortfalls but current trading is buoyant with sales in the three months June to August of £4.8 million

Half-year loss of £0.7 million before reorganisation costs of £0.2 million, with action taken to restore profitability in the full year

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CHAIRMAN'S AND CHIEF EXECUTIVE'S STATEMENT



MICHAEL GATENSBY

Demand for our products has continued to grow satisfactorily but short-term supply problems constrained sales of three products, costing us around £1m in turnover and resulting in disappointing sales performance and a trading loss in the first half.

We have taken action to restore supplies of the affected products and return the business to profit for the full year. More fundamentally, we have evolved our strategy to deliver a rapid increase in profitability and cash generation. As a result, we expect to resume profitable growth in 2008 and beyond.

STRATEGY

At the start of the year we announced that one of our development products, Posidorm[®], was affected by a change in regulatory procedures which closed our planned route of obtaining UK registration as the first stage of the full European registration process. As a consequence, completion of the development will take significantly longer and cost substantially more than originally expected. This has prompted a shift in our strategy to maximise short-term profitability.



JOHN DAWSON

We are now seeking a co-development partner for Posidorm[®], to share the final-stage investment costs. We are making encouraging progress with this, and the product continues to offer the potential for a transformational increase in our revenues. However, we have suspended Posidorm[®] development work until we have a partner in place, though Isprelor[®] development continues.

Given the deferral of prospective income from our development portfolio, and the impact of the supply problems in the first half of 2007, we are increasing our focus on profitability and cash generation in the trading business. We have implemented a cost reduction programme involving a reduction in marketing expenditure, rationalisation of our sales forces and a total of 11 redundancies across our operations.

Our product acquisition strategy has been to seek out brands that come with established demand and cash flows. This means we are well placed to pursue sales growth for individual brands through distribution-type arrangements as an alternative to direct investment in marketing.

We have already agreed one such partnership deal in the UK, where we are working with Pharmexx, Europe's largest contract sales organisation, to develop new sales channels for two of our larger brands, Forceval[®] and Hydromol[®]. This venture is a low-risk way for us to explore the over-the-counter potential of these brands. We are also looking to promote Periostat[®] through distributors in the UK, along the lines that have worked successfully for us overseas.

We continue to support products directly, but with a lower level of activity. While this may result in slower sales growth rates, it will immediately and substantially increase profits and cash generation.

FINANCIAL PERFORMANCE

During the first half we saw continued underlying growth in demand for our products, but were frustrated by supply problems that prevented us from meeting the full demand for three products. This cost us an estimated £1m of sales. As a result, turnover totalled £7.8m, virtually unchanged on the same period in 2006. Periostat[®] grew well and Hydromol[®] sales were up significantly;

CHAIRMAN'S AND CHIEF EXECUTIVE'S STATEMENT CONTINUED

we also received a modest contribution from the first sales of Forceval[®] through a new joint venture in China.

Gross margin rates were adversely affected by a combination of temporary events. The most significant of which was a 20% price reduction that was imposed on Nu-Seals[®] in the Republic of Ireland. We have successfully appealed against the price reduction and it has been reversed from July. As a result we expect margins to recover in the second half.

Costs were well controlled, and were already running below last year's level when we instigated our cost reduction programme. This programme will help to offset the losses resulting from the supply shortfalls, but its main purpose is to drive the Group's profitability over the longer term. It is making us a slimmer, stronger business with overheads at a level that allows us to continue exploiting our markets successfully. The benefits will start to flow in the second half, enabling us to return the business to profitability for 2007 as a whole and reducing our costs by at least £1m a year from 2008 onwards.

The reorganisation has already been completed, and has resulted in an exceptional charge of £0.2m to the first-half accounts. The trading loss for the period before the exceptional charge was £0.7m.

TRADING BUSINESS

The supply shortfalls affected three products: Deltacortril[®], Atarax[®] and Forceval[®].

Deltacortril[®], a product acquired in late 2006, experienced technical problems in the process of being transferred from Pfizer to Alliance, despite extensive cooperation between the technical staff of Pfizer and our own contract manufacturer. These problems are now resolved and, as production rates increase, we expect to meet demand in full from the start of 2008.

Atarax[®] was affected by a fire in March 2007 at the plant that supplies the active ingredient. Production will not restart there until the beginning of 2008. We have located an alternative source of supply, but this requires a reformulation of the product. We are seeking the necessary regulatory clearance, and production of this alternative source is also expected to begin at the start of 2008. At present we are pursuing both options and rationing supplies of our existing stocks to support key customers.

A third product, Forceval[®], was affected when suppliers stopped producing three key ingredients without adequate warning. We had to ration deliveries while arranging regulatory approvals for alternative supplies. Approvals were granted in July and production is now meeting demand again.

In the light of these events we have reviewed our supply management and enhanced our procedures to minimise the risk and impact of similar issues arising in the future.

In 2004 we acquired the rights to sell Forceval[®] everywhere except China. Through a new joint venture with Forceval's[®] existing Chinese distributor, we acquired the Chinese rights in March this year and despatched our first shipments in April. This arrangement enables us to retain the distributor's experience and market knowledge, and provides a platform with wider future potential.

In July the Government announced that it plans to reopen discussions with the industry over the Pharmaceutical Price Regulation Scheme (PPRS), despite having agreed a five year deal only two years ago. It is unclear yet how the Government will approach this, but if they adopt the value-based approach recommended by the Office of Fair Trading, the impact of any price reductions could fall mainly on in-patent brands, as opposed to the patent-expired brands that Alliance holds.

DEVELOPMENT BRANDS

Our development portfolio currently consists of two products: Isprelor[®] for induction of labour, and Posidorm[®], our melatonin treatment for sleep disorders. Our investment in progressing these products has been significantly lower this year than in 2006.

We are in substantive discussions with several potential partners for Posidorm's[®] final phases of development. Until these are complete, which may take some time, no further development is taking place. The final stages of development will take about three years, once we have a partner.

In July we announced that Isprelor® had successfully completed Phase III clinical trials involving more than 600 women. As we expected, these showed that Isprelor® is as effective as the current standard treatment, dinoprostone. Importantly, it is also less likely to cause nausea – a well known side effect of dinoprostone. In other respects it is as well tolerated as the standard treatment, and it has the advantage of not requiring refrigerated storage.

The potential market for Isprelor® is significant – induced labour is required in about one in five pregnancies. Isprelor is a vaginal formulation of misoprostol: the Royal College of Obstetricians and Gynaecologists and other obstetricians worldwide have been calling for such a formulation to be marketed because there is growing unlicensed use of oral misoprostol tablets, which are officially approved only for treating stomach ulcers.

These positive results add impetus to our negotiations to outlicense Isprelor®, and we are on track with our plans to file for European registration of the product in the second half of 2008.

PEOPLE

Two directors stepped down at the AGM in May. Our Director of Acquisition Integration, Sam Madden, left as part of a long planned succession; and Finance Director Maddy Scott left for a new opportunity in the biotechnology sector.

In January we appointed Mark Tomlinson, a highly experienced pharmaceutical physician with an international track record in clinical R&D and medical affairs, as Medical Director.

He has joined the board as an Executive Director and takes over Sam Madden's role as part of his responsibilities.

As Maddy Scott's successor we appointed Richard Wright in June. He brings considerable experience of quoted and private businesses across a variety of sectors. He was previously Finance Director of Great Western Trains and Group Finance Director and Company Secretary of Parragon Books, the world's largest non-fiction publisher.

OUTLOOK

Sales in recent months have increased significantly, with £4.8m recorded in the three months June to August, aided by resolution of the Forceval® supply issues. Taking into account both this and the decisive action on costs already taken this year, we are confident that profitability will improve sharply in the second half – enabling the Group to return to profit for the full year. In 2008 we expect profits to grow to a fundamentally higher level as the last of our supply issues are resolved, delivering higher sales on a much reduced cost base.

MICHAEL GATENBY

Chairman
11 September 2007

JOHN DAWSON

Chief Executive
11 September 2007



CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2007

	NOTE	6 MONTHS TO 30 JUNE 2007 £000s	6 MONTHS TO 30 JUNE 2006 £000s	YEAR TO 31 DECEMBER 2006 £000s
Revenue		7,751	7,801	17,253
Cost of sales		(4,105)	(3,658)	(8,022)
Gross profit		3,646	4,143	9,231
Operating expenses				
Administration and marketing expense		(2,945)	(3,282)	(6,629)
Non-recurring items		(212)	–	–
		(3,157)	(3,282)	(6,629)
Operating profit before non-recurring items		701	861	2,602
Non-recurring items		(212)	–	–
Operating profit after non-recurring items		489	861	2,602
Finance costs				
Interest paid		(1,380)	(1,068)	(2,171)
Interest received		43	10	16
Other finance costs		(70)	(59)	(65)
Change in fair value of derivative financial instruments		8	75	110
		(1,399)	(1,042)	(2,110)
(Loss)/profit on ordinary activities before taxation		(910)	(181)	492
Taxation		–	11	11
(Loss)/profit for the period attributable to equity shareholders	(910)	(170)	503	
Earnings per share				
Basic (pence)	6	(0.56)	(0.11)	0.32
Diluted (pence)	6	(0.56)	(0.11)	0.32

CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2007

	NOTE	30 JUNE 2007 £000s	30 JUNE 2006 £000s	31 DECEMBER 2006 £000s
Assets				
Non-current assets				
Goodwill		1,129	1,129	1,129
Intangible fixed assets				
– Product licences		35,439	29,140	33,316
– Development costs		5,418	3,856	5,017
Property, plant and equipment		291	256	297
		42,277	34,381	39,759
Current assets				
Inventories		2,595	2,537	2,852
Trade and other receivables	4	3,901	3,015	5,224
		6,496	5,552	8,076
Total assets		48,773	39,933	47,835
Equity				
Ordinary share capital		1,621	1,621	1,621
Share premium account		11,275	11,285	11,275
Share option reserve		80	46	65
Reverse takeover reserve		(329)	(329)	(329)
Retained earnings		(3,110)	(2,872)	(2,200)
Total equity		9,537	9,751	10,432
Liabilities				
Non-current				
Long-term financial liabilities	22,393	16,011	18,452	
Convertible debt		7,230	7,188	7,209
Other liabilities		919	179	940
		30,542	23,378	26,601
Current liabilities				
Cash and cash equivalents		3,451	688	2,607
Financial liabilities		771	3,391	3,031
Trade and other payables and provisions	5	4,472	2,725	5,164
		8,694	6,804	10,802
Total liabilities		39,236	30,182	37,403
Total equity and liabilities		48,773	39,933	47,835

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2007

		6 MONTHS TO 30 JUNE 2007 £000s	6 MONTHS TO 30 JUNE 2006 £000s	YEAR TO 31 DECEMBER 2006 £000s
Operating activities				
Result for the period before tax and finance costs	489	861	2,602	
Depreciation of property, plant and equipment		67	56	112
Change in inventories		257	212	(112)
Change in trade and other receivables		1,352	48	(2,189)
Change in trade and other payables		(688)	(1,602)	675
Profit on disposal of property, plant and equipment		–	–	(11)
Tax received		–	11	11
Share options charges		15	15	34
Cash flows from operating activities		1,492	(399)	1,122
Investing activities				
Interest received		9	10	17
Payment of deferred consideration		(20)	–	(20)
Development costs capitalised	(401)	(781)	(1,941)	
Purchase of tangible assets		(62)	(32)	(129)
Investment in subsidiaries		–	(254)	–
Proceeds from sales of property, plant and equipment		–	–	12
Purchase of other intangible assets		(2,122)	(3,378)	(6,815)
Net cash used in investing activities		(2,596)	(4,435)	(8,876)
Financing activities				
Net proceeds from the issue of shares		–	2,401	2,391
Interest paid and similar charges		(1,431)	(1,149)	(2,165)
Other finance charges paid		(255)	–	(1)
Net receipt from borrowings		1,950	3,800	6,536
Repayment of borrowings		–	–	(704)
Finance lease payments		(4)	(7)	(11)
Net cash used in financing activities		260	5,045	6,046
Net movement in cash and cash equivalents		(844)	211	(1,708)
Cash and cash equivalents at start of period		(2,607)	(899)	(899)
Cash and cash equivalents at end of period		(3,451)	(688)	(2,607)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

AT 30 JUNE 2007

	SHARE CAPITAL £000s	SHARE PREMIUM £000s	SHARES TO BE ISSUED £000s	RESERVES £000s	RETAINED EARNINGS £000s	TOTAL EQUITY £000s
Balance 1 January 2006	1,474	9,031	31	(329)	(2,702)	7,505
Issue of shares	147	–	–	–	–	147
Premium on shares issued	–	2,254	–	–	–	2,254
Employee benefits	–	–	15	–	–	15
Profit for the period	–	–	–	–	(170)	(170)
Balance 30 June 2006	1,621	11,285	46	(329)	(2,872)	9,751
Balance 1 January 2006	1,474	9,031	31	(329)	(2,702)	7,505
Issue of shares	147	–	–	–	–	147
Premium on shares issued	–	2,244	–	–	–	2,244
Employee benefits	–	–	34	–	–	34
Profit for the period	–	–	–	–	502	502
Balance 31 December 2006	1,621	11,275	65	(329)	(2,200)	10,432
Balance 1 January 2007	1,621	11,275	65	(329)	(2,200)	10,432
Employee benefits	–	–	15	–	–	15
Loss for the period	–	–	–	–	(910)	(910)
Balance 30 June 2007	1,621	11,275	80	(329)	(3,110)	9,537

NOTES TO THE INTERIM REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2007

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 2006, 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 2007 (including comparatives for the six months ended 30 June 2006) were approved by the Board of Directors on 11 September 2007.

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 2006 Annual Report which is available on the Company's website at www.alliancepharma.co.uk.

4. TRADE AND OTHER RECEIVABLES

	30 JUNE 2007 £000s	30 JUNE 2006 £000s	31 DECEMBER 2006 £000s
Trade receivables	3,379	2,796	4,670
Amounts owed by joint venture	54	–	–
Other receivables	83	72	105
Prepayments and accrued income	385	147	449
	<hr/>	<hr/>	<hr/>
	3,901	3,015	5,224

5. TRADE AND OTHER PAYABLES

		30 JUNE 2007 £000s	30 JUNE 2006 £000s	31 DECEMBER 2006 £000s
Trade payables		2,862	2,017	3,298
Other taxes and social security costs		393	136	496
Accruals and deferred income	997	572	1,150	
Other payables		220	–	220
		4,472	2,725	5,164

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 conversion 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 2007 WEIGHTED AVERAGE NUMBER OF SHARES 000s	6 MONTHS TO 30 JUNE 2006 WEIGHTED AVERAGE NUMBER OF SHARES 000s	YEAR ENDED 31 DECEMBER 2006 WEIGHTED AVERAGE NUMBER OF SHARES 000s
For basic earnings per share		162,062	151,114	156,663
Exercise of options		156	210	35
For diluted earnings per share	162,218	151,324	156,698	

		6 MONTHS TO 30 JUNE 2007 £000s	6 MONTHS TO 30 JUNE 2006 £000s	YEAR ENDED 31 DECEMBER 2006 £000s
Basic (loss)/profit		(910)	(170)	503
For diluted earnings per share	(910)	(170)	503	
Basic earning per share (pence)		(0.56)	(0.11)	0.32
Diluted earnings per share (pence)		(0.56)	(0.11)	0.32

NOTES TO THE INTERIM REPORT CONTINUED

FOR THE SIX MONTHS ENDED 30 JUNE 2007

7. JOINT VENTURE

NAME	PRINCIPAL ACTIVITY	COUNTRY OF INCORPORATION	% OWNED
Unigreg Ltd	Distribution of pharmaceutical products	British Virgin Islands	60.0

The Group considered the existence of substantive participating rights held by the minority shareholder which provide that shareholder with a veto right over the significant financial and operating policies of Unigreg Ltd and determined that, as a result of these rights, the Group does not have control over the financial and operating policies of Unigreg Ltd, despite the Group's 60% ownership interest.

The Company is integrated with proportionate consolidation. The following amounts are included in the balance sheet and the profit and loss account of the Group, being the Group's share of those items. Inter-company transactions are also eliminated proportionally.

	30 JUNE 2007 £000s
Intangible fixed assets	1,950
Current assets	219
Non-current liabilities	1,463
Current liabilities	183
Net assets	523

	6 MONTHS TO 30 JUNE 2007 £000s
Income	219
Cost of sales	120
Administration and marketing expense	33
Interest paid	30
Profit on ordinary activities before taxation	36

INDEPENDENT REVIEW REPORT TO ALLIANCE PHARMA PLC

INTRODUCTION

We have been instructed by the Company to review the financial information for the six months ended 30 June 2007 and related notes 1 to 7. We have read the other information contained in the Interim Report which comprises only the Chairman's and Chief Executive's Statement and considered whether it contains any apparent misstatements or material inconsistencies with the financial information. Our responsibilities do not extend to any other information.

This report is made solely to the Company in accordance with guidance contained in APB Bulletin 1999/4 'Review of Interim Financial Information'. Our review work has been undertaken so that we might state to the Company those matters we are required to state to them in a review 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 for our review work, for this report, or for the conclusion we have formed.

DIRECTORS' RESPONSIBILITIES

The Interim Report including the financial information contained therein is the responsibility of, and has been approved by, the directors. They are responsible for preparing the interim report and ensuring that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

REVIEW WORK PERFORMED

We conducted our review in accordance with guidance contained in Bulletin 1999/4 'Review of Interim Financial Information' issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards of Auditing (UK & Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

REVIEW CONCLUSION

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2007.

GRANT THORNTON UK LLP
CHARTERED ACCOUNTANTS
BRISTOL
11 September 2007

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Richard Wright

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