



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

Interim results for the six months ended 30 June 2008

Alliance Pharma plc (AIM: APH), the speciality pharmaceutical company, is pleased to announce its interim results for the half year ended 30 June 2008.

Highlights in the year to date

- Second successive half-year at a substantially higher level of profitability and cash generation following the strategy shift of mid-2007
- Half-year sales up 28% to £9.9m (H1 2007: £7.8m)
- Half-year profit before tax of £1.0m (H1 2007: £0.9m loss)
- Half year profit after tax of £1.5m (H1 2007: £0.9m loss), boosted by receipt of tax credit
- Cash generation* of £2.3m in 12 months to 30 June 2008
- Acquisition of Pavacol-D® in August 2008 for £0.6m

* Net cash flows before acquisitions and loan movements

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

“We are pleased with another set of strong results following the shift in strategy which we implemented in mid-2007. We are confident that this performance can be sustained through the second half of 2008 and beyond. Accordingly we look forward to a progressive reduction in our debt levels funded by our improving profitability and cash flow.

“Following the period end, we were delighted to announce the acquisition of Pavacol-D®, a niche cough suppressant, which we expect to be earnings enhancing this year.”

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Chairman's and Chief Executive's Statement

The restructuring and strategic changes announced a year ago are delivering the results we anticipated. After two consecutive half years of greatly improved performance, we can report that the Group is in a much stronger position. Our revised strategy is clearly sustainable, and our current performance represents a solid baseline on which we can continue to build.

The Group's underlying financial performance in the first half of 2008 was broadly in line with the second half of last year – our best-ever six-month performance. This year we see continued potential for further growth from Hydromol® in our dermatology range and from expanding sales of Forceval® in China.

Financial performance

In the first half of 2008, sales grew to £9.9m, representing a 28% increase on the £7.8m achieved in the same period last year. Pre-tax profit was £1.0m, compared with a loss of £0.9m for the corresponding period.

These were particularly encouraging results. Sales and profits were close to those in the previous half-year, during which, as we reported at the time, we benefited from additional Forceval sales as wholesalers and pharmacies restocked after production shortfalls earlier in the year.

Gross margins improved slightly on the previous half-year, due largely to changes in the product mix. In general, we expect margins to remain stable at about the present level.

Operating costs remain well controlled. The restructuring in mid-2007, which cut costs across all departments, has successfully taken some £1m a year out of our overheads, and costs in the first half of this year were on a par with those in the second half of 2007.

At £1.5m, net interest payable was higher than the £1.3m incurred in the same period in 2007; this was due to higher interest rates and a small increase in debt to fund our entry into the Chinese market last year. Other finance costs were £0.2m higher than the first half of 2007, caused mainly by a non-cash charge arising from re-translating the small portion of our debt that is euro-denominated. Overall, however, finance costs were similar to those in the second half of 2007.

The £1.5m reported profit after tax included a £0.44m cash receipt from HM Revenue & Customs following our successful claim for tax credits relating to prior year research and development costs.

As a result of the revised strategy we now have a stable business with growth coming from selective promotions and acquisitions. Profitability will increase steadily as we reduce our outstanding debt. The Group has historically been heavily leveraged. However, having returned the Group to profit we began reducing our debt this year, with total repayments of £0.9m in the first half. We expect to accelerate the pace of repayment out of increased profitability and a reducing interest burden.

Strategy

A year ago we shifted the emphasis of our strategy to maximise near-term profitability and cash generation in the trading business. We suspended development of Posidorm® until we have a co-development partner, and implemented a cost reduction programme across the business. This included a targeted reduction in marketing expenditure, principally away from Periostat, which is now being promoted via a marketing partner.

This change of strategy has proved effective. We have been able to focus promotional activity where it will achieve the best returns, particularly from dermatology, where Hydromol[®] is an increasingly strong brand. The remainder of our brands, which were originally selected for their established demand and cash flows, have continued to deliver in a planned and predictable manner.

We were very pleased in August to complete the acquisition of Pavacol-D[®], an opioid cough suppressant especially suitable for use in diabetics. This established brand has annualised sales of around £0.4m, and the purchase price was £0.6m. We have funded the acquisition partly through our existing senior loan facility and partly from the tax rebate already received. Pavacol-D[®] has a stable sales history and so will give a useful boost to our profits and cash generation. We remain alert to opportunities to acquire further brands with growth or strong cash flow potential, where we can do so on the right terms.

Trading business

The Hydromol[®] range of products for eczema and dry skin conditions is growing at an annual rate of 40%. This reflects both continuing promotion into the prescription market and our successful relationship with Pharmexx, Europe's largest contract sales organisation, which is promoting the range for over-the-counter sales in pharmacies. Hydromol products are well liked by both patients and nursing staff, who find them both easy to use and effective.

As expected, demand for our non-promoted products remained steady in the first half.

Our joint venture on Forceval[®] with our local partner in China is also performing well with in-country sales growing at more than 20% per annum. We continue to investigate opportunities for marketing other brands through this channel, although regulatory and competition issues are making this an involved process.

The UK Department of Health and the Association of the British Pharmaceutical Industry have announced the headline results of their re-negotiation of the Pharmaceutical Price Regulation Scheme (PPRS) to run from January 2009. The impact is estimated to be around 2.5% of our NHS sales, or about £0.3m in 2009. The new PPRS is structured to run for five years and, although the cuts are unwelcome, they provide us with a relatively stable basis for planning over the medium term.

Development business

As we announced in May, development of Isprelor[®], for induction of labour, has suffered a regulatory delay. Last year's Phase III clinical trials confirmed that Isprelor[®] has similar effectiveness to the current standard treatment, dinoprostone. However, the regulators have indicated that further work will need to be done. The extent and cost of this work is being evaluated at the moment. As a result of the additional work, the commercial launch of Isprelor[®] is unlikely to take place before 2012.

We continue to believe that Posidorm[®], our melatonin treatment for sleep disorders, has considerable commercial potential. This view has been borne out by the EU launch of a slow-release presentation of melatonin targeting a similar market. We are continuing to talk to several potential development partners.

Outlook

We are confident that the turnaround achieved since mid-2007 can be sustained throughout 2008 and beyond. The Group's performance is largely independent of conditions in the wider economy – most of our products are well established clinical staples in areas where prescribers are driven by the patient's needs rather than budgetary factors – so the economic downturn is unlikely to impede our continued progress.

In the second half of the year we look forward to further steady sales growth, driven primarily by our dermatology products and Forceval[®], together with our new acquisition Pavacol-D[®]. In addition we look forward to a further reduction in our debt levels funded by the improvement in our profitability and cash flow.

Consolidated Income Statement
For the six months ended 30 June 2008

	Note	6 months to 30 June 2008 £ 000s	6 months to 30 June 2007 £ 000s	Year to 31 December 2007 £ 000s
Revenue		9,898	7,751	18,224
Cost of sales		(4,726)	(4,105)	(9,291)
Gross profit		5,172	3,646	8,933
Operating expenses				
Administration and marketing expense		(2,373)	(2,945)	(5,323)
Exceptional items		-	(212)	(3,576)
		(2,373)	(3,157)	(8,899)
Operating profit before exceptional items		2,799	701	3,610
Exceptional operating items		-	(212)	(3,576)
Operating profit		2,799	489	34
Finance costs				
Interest paid		(1,610)	(1,380)	(2,859)
Interest received		75	43	17
Other finance costs		(225)	(70)	(372)
Change in fair value of derivative financial instruments		(17)	8	(30)
		(1,777)	(1,399)	(3,244)
Profit/(loss) on ordinary activities before taxation		1,022	(910)	(3,210)
Taxation – exceptional item		440	-	-
Profit/(loss) for the period attributable to equity shareholders		1,462	(910)	(3,210)
Earnings per share				
Basic (pence)	7	0.90	(0.56)	(1.98)
Diluted (pence)	7	0.90	(0.56)	(1.98)

Consolidated balance sheet
At 30 June 2008

	Note	30 June 2008 £ 000s	30 June 2007 £ 000s	31 December 2007 £ 000s
Assets				
Non-current assets				
Goodwill		1,144	1,129	1,144
Intangible fixed assets				
- Product licences		35,471	35,439	35,457
- Development costs		2,630	5,418	2,559
Property, plant and equipment		205	291	254
		39,450	42,277	39,414
Current assets				
Inventories		2,563	2,595	1,881
Trade and other receivables	5	4,651	3,901	4,439
Cash and cash equivalents		106	-	672
		7,320	6,496	6,992
Total assets		46,770	48,773	46,406
Equity				
Ordinary share capital		1,621	1,621	1,621
Share premium account		11,275	11,275	11,275
Share option reserve		89	80	55
Reverse takeover reserve		(329)	(329)	(329)
Other reserve		(54)	-	(546)
Retained earnings		(3,948)	(3,110)	(5,410)
Total equity		8,654	9,537	6,666
Liabilities				
Non-current				
Long-term financial liabilities		20,901	22,393	21,772
Convertible debt		7,271	7,230	7,251
Other liabilities		503	919	520
Derivative financial instruments		41	-	431
		28,716	30,542	29,974
Current liabilities				
Cash and cash equivalents		2,439	3,451	3,062
Financial liabilities		1,906	771	1,716
Trade and other payables and provisions	6	5,042	4,472	4,873
Derivative financial instruments		13	-	115
		9,400	8,694	9,766
Total liabilities		38,116	39,236	39,740
Total equity and liabilities		46,770	48,773	46,406

Consolidated Statement of Cash Flows
For the six months ended 30 June 2008

	6 months to 30 June 2008 £ 000s	6 months to 30 June 2007 £ 000s	Year to 31 December 2007 £ 000s
Operating activities			
Result for the period before tax and finance costs	2,799	489	34
Depreciation of property, plant and equipment	66	67	138
Change in inventories	(682)	257	971
Change in trade and other receivables	(212)	1,352	785
Change in trade and other payables	141	(688)	(1,220)
Profit on disposal of property, plant and equipment	(3)	-	(8)
Tax received	440	-	-
Write-off intangible assets	-	-	3,374
Share options charge	34	15	(10)
Cash flows from operating activities	2,583	1,492	4,064
Investing activities			
Interest received	75	9	106
Payment of deferred consideration	(20)	(20)	(220)
Development costs capitalised	(71)	(401)	(776)
Purchase of tangible assets	(14)	(62)	(100)
Proceeds from sales of property, plant and equipment	3	-	13
Purchase of other intangible assets	(14)	(2,122)	(2,156)
Net cash used in investing activities	(41)	(2,596)	(3,133)
Financing activities			
Interest paid and similar charges	(1,582)	(1,431)	(2,664)
Other finance charges paid	-	(255)	-
Net receipt from borrowings	-	1,950	1,950
Repayment of borrowings	(938)	-	-
Finance lease payments	-	(4)	-
Net cash used in financing activities	(2,520)	260	(714)
Net movement in cash and cash equivalents	22	(844)	217
Cash and cash equivalents at beginning of period	(2,390)	(2,607)	(2,607)
Exchange gains on cash and cash equivalents	35		
Cash and cash equivalents at end of period	(2,333)	(3,451)	(2,390)

Consolidated Statement of Changes in Equity

At 30 June 2008

	Share capital £ 000s	Share premium £ 000s	Shares to be issued £ 000s	Reserves £ 000s	Other Reserve £ 000s	Retained earnings £ 000s	Total equity £ 000s
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
Balance 1 January 2007	1,621	11,275	65	(329)	-	(2,200)	10,432
Interest rate swaps – cash flow hedge	-	-	-	-	(546)	-	(546)
Employee benefits	-	-	(10)	-	-	-	(10)
(Loss) for the period	-	-	-	-	-	(3,210)	(3,210)
Balance 31 December 2007	1,621	11,275	55	(329)	(546)	(5,410)	6,666
Balance 1 January 2008	1,621	11,275	55	(329)	(546)	(5,410)	6,666
Interest rate swaps – cash flow hedge	-	-	-	-	492	-	492
Employee benefits	-	-	34	-	-	-	34
Profit for the period	-	-	-	-	-	1,462	1,462
Balance 30 June 2008	1,621	11,275	89	(329)	(54)	(3,948)	8,654

Notes to the interim report

For the six months ended 30 June 2008

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 London Stock Exchange, Alternative Investment Market (AIM).

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 2007, 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 2008 (including comparatives for the six months ended 30 June 2007) were approved by the Board of Directors on 9 September 2008.

Based on the risks and returns, the Directors consider that the primary reporting format is by business segment. The Directors consider there is only one business segment, being pharmaceuticals. Therefore, the disclosures for the primary segment have already been given in the financial statements.

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 2007 Annual Report which is available on the company’s website at www.alliancepharma.co.uk.

4 Taxation – exceptional item

A cash refund of £440,000 has been received from the HM Revenue & Customs in respect of a Research & Development Tax Credit claim for the financial year 2006.

5 Trade and other receivables

	30 June 2008 £ 000s	30 June 2007 £ 000s	31 December 2007 £ 000s
Trade receivables	4,252	3,379	4,102
Amounts owed by joint venture	-	54	-
Other receivables	174	83	107
Prepayments and accrued income	225	385	230
	4,651	3,901	4,439

Notes to the interim report (continued)

For the six months ended 30 June 2007

6 Trade and other payables

	30 June 2008	30 June 2007	31 December 2007
	£ 000s	£ 000s	£ 000s
Trade payables	1,718	2,862	2,151
Other taxes and social security costs	450	393	352
Accruals and deferred income	2,400	997	1,930
Amount owed to Joint Venture	54	-	20
Other payables	420	220	420
	5,042	4,472	4,873

7 Earnings per share

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:

	6 months to 30 June 2008	6 months to 30 June 2007	Year ended 31 December 2007
	Weighted average number of shares 000s	Weighted average number of shares 000s	Weighted average number of shares 000s
For basic earnings per share	162,062	162,062	162,062
Exercise of options	-	156	-
For diluted earnings per share	162,062	162,218	162,062

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:

	6 months to 30 June 2008	6 months to 30 June 2007	Year ended 31 December 2007
	£ 000s	£ 000s	£ 000s
Earnings for basic and diluted EPS	1,462	(910)	(3,210)
Exceptional items/tax refund	(440)	212	3,576
Earnings for adjusted EPS	1,022	(698)	366

The resulting EPS measures are:

	6 months to 30 June 2008	6 months to 30 June 2007	Year ended 31 December 2007
	Pence	Pence	Pence
Basic and diluted earning per share (pence)	0.90	(0.56)	(1.98)
Adjusted earnings per share (pence)	0.63	(0.43)	0.23