

## **ALLIANCE PHARMA PLC**

### **INTERIM REPORT FOR THE SIX MONTHS ENDED 31 AUGUST 2004**

#### **Chairman's Statement**

Our results for the half year to 31 August 2004 have been very encouraging and have continued the progress shown in our last year's trading.

Sales for the period of £5,568,333, represent an increase of some 13% over the same period last year of which 9% was due to organic growth while acquisitions accounted for 4%. The two principal promoted brands – Nu-Seals (cardiovascular prevention) and Symmetrel (Parkinson's disease) – showed strong growth; our branded range of dermatology products (including the recently acquired Dermapharm) began to establish itself; and overall, our other brands performed steadily.

Gross profit of £2,910,285 represents a margin of 52.3% of sales, compared with £2,349,044 and 47.6% in the same period in 2003. This encouraging trend is a result of the increasing proportion of our sales contributed by the high growth, high margin brands we are actively marketing.

Marketing and Administration expenses have gone up significantly in line with our budget as we increase the promotional spend on our high margin growth products. This combined with the increased costs we are incurring on our new development products has led to an overall loss position. This is in line with our strategy to promote more of our brands and develop our new generation of products. We are confident that this will result in increased sales and profit, and is our investment in the future of the Company. Operating profit (pre exceptional items) consequently reduced to £512,834 with an overall loss for the period of £391,239. If one excludes the amortisation of intangibles, which in effect are not suffering any impairment, then post-interest profits before amortisation and exceptional items are £316,013.

We continue to make good progress on our two development projects. For APL 202, our intravaginal misoprostol project for labour induction, we have finalised the formulation for the human clinical trials which are on target to commence before the end of the year. We would anticipate the trials lasting for up to six months depending upon the rate of recruitment. For APL 510, our melatonin product for treating sleep disorders, after the very successful phase 1 trials for our formulation, we will be commencing registration trials, and again we are on target to commence those trials before the end of the year. We anticipate these trials will take longer than the trials for APL 202, but we would still anticipate the product being ready for registration in 2006.

The company remains acquisitive, as evidenced by the announcement that has been issued and accompanies this statement. During the period we incurred an exceptional cost of £109,504 as a result of an aborted transaction where the final price paid in a competitive auction was at a level we could not justify.

Looking at the year as a whole, we expect sales of existing brands to continue to make good progress. In addition, resources will be increasingly deployed to progress the development of our two important in-house projects. – misoprostol (for induction of labour) and melatonin (for sleep disorders) – where, in both cases, we expect to commence human clinical trials towards the end of the year.

CHAIRMAN

## CONSOLIDATED SUMMARISED PROFIT AND LOSS ACCOUNT

	Note	6 months to 31 Aug 2004 Unaudited £	6 months to 31 Aug 2003 Unaudited £	12 months to 29 Feb 2004 Audited £
<b>Turnover</b>		5,568,333	4,933,149	10,416,036
Cost of sales		<u>(2,658,048)</u>	<u>(2,584,044)</u>	<u>(5,377,179)</u>
<b>Gross profit</b>		2,910,285	2,349,105	5,038,857
<b>Operating expenses</b>				
Administrative and marketing expenses		(1,799,703)	(875,107)	(2,584,611)
Amortisation of goodwill and intangible assets		(597,748)	(524,036)	(907,074)
Exceptional items	1	<u>(109,504)</u>	<u>-</u>	<u>(843,171)</u>
		(2,506,955)	(1,399,143)	(4,334,856)
<b>Operating profit</b>				
Pre exceptional items		512,834	949,962	1,547,172
Exceptional items		<u>(109,504)</u>	<u>-</u>	<u>(843,171)</u>
Total		403,330	949,962	704,001
<b>Net interest payable and similar charges</b>				
Net interest and similar charges		(717,880)	(745,330)	(1,502,058)
Other finance charges		(76,689)	-	(9,268)
Other exceptional finance charges		-	-	(1,345,181)
		<u>(794,569)</u>	<u>(745,330)</u>	<u>(2,856,507)</u>
<b>(Loss)/profit on ordinary activities before taxation</b>		(391,239)	204,632	(2,152,506)
Tax on loss on ordinary activities		-	-	197,856
<b>(Loss)/profit for the financial period</b>		<u>(391,239)</u>	<u>204,632</u>	<u>(1,954,650)</u>
<b>(Loss)/earnings per share</b>				
Basic (pence)	2	<u>(0.35)</u>	<u>0.28</u>	<u>(2.44)</u>
Adjusted (pence)	2	<u>0.29</u>	<u>1.00</u>	<u>1.18</u>

## CONSOLIDATED SUMMARISED BALANCE SHEET

	Note	6 Months to 31 Aug. 2004 Unaudited £	6 Months to 31 Aug. 2003 Unaudited £	12 Months to 29 Feb. 2004 Audited £
<b>Fixed assets</b>				
Intangible assets		17,564,803	16,634,253	17,987,603
Tangible assets		201,352	182,307	147,853
		<u>17,766,155</u>	<u>16,816,560</u>	<u>18,135,456</u>
<b>Current assets</b>				
Stocks		1,847,401	1,644,737	1,739,516
Debtors		1,752,514	1,927,628	1,984,093
Cash at bank and in hand		3,679,696	-	4,579,197
		<u>7,279,611</u>	<u>3,572,365</u>	<u>8,302,806</u>
<b>Creditors: amounts falling due within one year</b>		<u>(5,518,532)</u>	<u>(5,463,907)</u>	<u>(5,462,778)</u>
Net current assets		<u>1,761,079</u>	<u>(1,891,542)</u>	<u>2,840,028</u>
<b>Total assets less current liabilities</b>		19,527,234	14,925,018	20,975,484
<b>Creditors: amounts falling due after more than one year</b>		(17,687,244)	(14,715,669)	(18,751,378)
<b>Provisions for liabilities &amp; charges (deferred tax)</b>		-	(197,856)	-
		<u>1,839,990</u>	<u>11,493</u>	<u>2,224,106</u>
<b>Capital and reserves</b>				
Called up share capital		1,107,939	281,182	1,107,939
Share premium account		5,221,761	6,818	5,214,638
Other reserves		(329,349)	-	(329,349)
Profit and loss account		(4,160,361)	(276,507)	(3,769,122)
<b>Shareholders' funds</b>		<u>1,839,990</u>	<u>11,493</u>	<u>2,224,106</u>

## CONSOLIDATED CASH FLOW STATEMENT

	6 months to 31 Aug 2004 Unaudited £	6 months to 31 Aug 2003 Unaudited £	12 months to 29 Feb 2004 Audited £
<b>Note</b>			
<b>4</b>			
<b>Net cash inflow from operating activities</b>	<u>941,974</u>	<u>832,678</u>	<u>2,112,318</u>
<b>Returns on investments and servicing of finance</b>			
Interest received	101,703	1,039	35,446
Interest paid and similar charges	(543,341)	(744,946)	(1,562,879)
Loan redemption premiums paid	-	-	(1,185,181)
Finance issue costs paid	(53,549)	-	(416,125)
Other finance charges paid	-	-	(160,000)
Hire purchase interest paid	<u>(1,607)</u>	<u>(1,607)</u>	<u>(2,848)</u>
<b>Net cash (outflow)/inflow for returns on investments and servicing of finance</b>	<u>(496,794)</u>	<u>87,347</u>	<u>(3,291,587)</u>
<b>Taxation</b>	-	-	-
<b>Capital expenditure and financial investment</b>			
Purchase of intangible fixed assets	(170,572)	(320,836)	(928,155)
Purchase of tangible fixed assets	<u>(69,190)</u>	<u>(846)</u>	<u>(16,694)</u>
<b>Net cash outflow for capital expenditure</b>	<u>(239,762)</u>	<u>(321,682)</u>	<u>(944,849)</u>
<b>Acquisitions</b>			
Purchase of subsidiary undertakings	<u>(112,401)</u>	-	(1,233,435)
Net cash acquired with subsidiary undertakings	-	-	<u>2,213,664</u>
<b>Net cash (outflow)/inflow from acquisitions</b>	<u>(112,401)</u>	-	<u>980,229</u>
<b>Financing</b>			
Issue of shares	-	-	3,309,514
Warrant buy-back	-	-	(1,333,333)
Receipt from borrowings	-	-	9,960,000
Repayment of guaranteed loan notes	(978,526)	(813,491)	(6,393,312)
Capital element of hire purchase contracts	<u>(13,992)</u>	<u>(12,982)</u>	<u>(25,965)</u>
<b>Net cash (outflow)/inflow from financing</b>	<u>(992,518)</u>	<u>(826,473)</u>	<u>5,516,904</u>
<b>(Decrease)/increase in cash</b>	<u>(899,501)</u>	<u>(1,060,808)</u>	<u>4,373,015</u>

## NOTES TO THE INTERIM REPORT

### 1 EXCEPTIONAL ITEMS

Exceptional items comprise the following:

	6 months to 31 Aug 2004	6 months to 31 Aug 2003	12 months to 29 Feb 2004
	£	£	£
Professional costs in relation to unsuccessful acquisition	109,504	-	-
Impairment of reverse takeover goodwill	-	-	843,171
	<u>109,504</u>	<u>-</u>	<u>843,171</u>

### 2 EARNINGS / (LOSS) PER SHARE

The basic loss per share is based on equity losses of £391,239 (31 August 2003: profit of £204,632; 29 February 2004: loss of £1,954,650) and 110,793,903 (31 August 2003: 72,916,667; 29 February 2004: 79,973,248) ordinary shares of 1p each, being the average number of shares in issue during the period.

The weighted average number of ordinary shares for the six months ended 31 August 2003 and the year ended 29 February 2004 assumes that the 72,916,667 ordinary shares issued in relation to the reverse acquisition of Alliance Pharma plc (formerly Peerless Technology Group plc) existed for the entire period. Alliance Pharma plc shares have been included since 23 December 2003, the date of the reverse takeover, and all other shares have been included in the computation based on the weighted average number of days since issuance.

There is no dilutive effect of share options on the basic loss per share.

An adjusted earnings per share has been disclosed in order to show performance undistorted by amortisation, costs incurred on an unsuccessful acquisition, one-off finance charges and a reversal of deferred tax. The adjusted earnings per share is based on equity earnings of £316,013 (31 August 2003: £728,668; 29 February 2004: 942,920).

### 3 PUBLICATION OF NON-STATUTORY ACCOUNTS

The financial information set out above does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. The figures for the period ended 29 February 2004 have been extracted from the statutory financial statements, which have been filed with the Registrar of Companies. The auditors' report on those financial statements was unqualified.

#### 4 NET CASH INFLOW FROM OPERATING ACTIVITIES

	31 Aug. 2004 £	31 Aug. 2003 £	29 Feb.2004 £
Operating profit	403,330	949,962	704,001
Amortisation	597,747	524,036	1,750,245
Depreciation	43,691	32,948	83,250
Increase in stocks	(107,885)	283,443	213,361
Increase/(decrease) in debtors	238,702	(297,981)	(260,649)
Increase in creditors	(233,611)	(659,730)	(377,890)
<b>Net cash inflow from operating activities</b>	<u>941,974</u>	<u>832,678</u>	<u>2,112,318</u>

#### 5 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	31 Aug. 2004 £	31 Aug. 2003 £	29 Feb.2004 £
(Decrease)/increase in cash in the period	<b>(899,501)</b>	(1,060,808)	4,373,015
Net cash outflow/(inflow) from financing	<b>978,526</b>	813,491	(3,566,688)
Cash outflow from loan issue costs paid	-	-	416,125
Cash outflow in respect of finance leases & hire purchase	<b>13,992</b>	12,982	25,965
Change in net debt resulting from cash flows	<b>93,017</b>	(234,335)	1,248,417
Non-cash movements	<b>(23,442)</b>	-	158,955
Movement in net debt in the period	<b>69,575</b>	(234,335)	1,407,372
Net debt at 1 March 2004	<b>(16,002,224)</b>	(17,409,596)	(17,409,596)
<b>Net debt at 31 August 2004</b>	<u><b>(15,932,649)</b></u>	<u>(17,643,931)</u>	<u>(16,002,224)</u>

#### 7 ANALYSIS OF CHANGES IN NET DEBT

	At 1 Mar. 2004 £	Cash flows £	Other changes £	At 31 Aug. 2004 £
Net cash:				
Cash at bank and in hand	4,579,197	(899,501)	-	<b>3,679,696</b>
Debt				
Bank loans within one year	(2,002,300)	(81,050)	-	<b>(2,083,350)</b>
Bank loans due after one year	(11,460,568)	1,059,576	25,365	<b>(10,375,627)</b>
Convertible unsecured loan stock due after one year	(7,090,810)	-	(20,807)	<b>(7,111,617)</b>
Finance leases and hire purchase agreements	(27,743)	13,992	(28,000)	<b>(41,751)</b>
	<u>(20,581,421)</u>	<u>992,518</u>	<u>(23,442)</u>	<u><b>(19,612,345)</b></u>
Net debt	<u>(16,002,224)</u>	<u>93,017</u>	<u>(23,442)</u>	<u><b>(15,932,649)</b></u>

## **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 31 August 2004, which comprises the consolidated summarised profit and loss account, the consolidated summarised balance sheet, the consolidated summarised cash flow statement and notes 1 to 7. We have read the other information contained in the interim report, which comprises only the chairman'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 it 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 conclusions 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 are 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 United Kingdom auditing standards 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 31 August 2004.

**GRANT THORNTON UK LLP**  
**CHARTERED ACCOUNTANTS**