

Company Registration No. 3250064 (England and Wales)

ALLIANCE PHARMACEUTICALS LIMITED
ANNUAL REPORT
FOR THE YEAR ENDED 28 FEBRUARY 2003

ALLIANCE PHARMACEUTICALS LIMITED

DIRECTORS AND ADVISERS

Directors	J Dawson A R Booley S A Dawson R Trevillion	(Appointed 1 March 2003)
Secretary	M E Scott	
Company number	3250064	
Registered office	Avonbridge House Bath Road Chippenham Wiltshire SN15 2BB	
Registered auditors	Robson Taylor Charter House The Square Lower Bristol Road Bath BA2 3BH	
Bankers	Bank of Scotland Beauclerc House 3 Queens Road Reading RG1 4AR	

ALLIANCE PHARMACEUTICALS LIMITED

CONTENTS

	Page
Directors' report	1 - 2
Auditors' report	3
Consolidated profit and loss account	4
Balance sheets	5
Consolidated cash flow statement	6
Notes to the consolidated cash flow statement	7 - 8
Notes to the financial statements	9 - 24

ALLIANCE PHARMACEUTICALS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 28 FEBRUARY 2003

The directors present their report and financial statements for the year ended 28 February 2003.

Directors

The following directors have held office since 1 March 2002:

J Dawson

A R Booley

S A Dawson

R Trevillion

(Appointed 1 March 2003)

Principal activities and review of the business

The principal activity of the company remains the development, marketing and distribution of pharmaceutical products.

The year ended 28 February 2003 was an important one in the company's progress. Profits before tax, amortisation of intangibles and exchange differences rose from £590k to £1m, an increase of 69%. The reported profit before tax has been depressed by the revaluation of a loan denominated in Euros, against which is hedged ongoing and future income in Euros which should considerably outweigh the loss incurred by the revaluation. Whilst the accounting policy adopted is a correct application of the relevant accounting and financial reporting standards, it does not enable us to present the expected benefit to the company of its Euro performing assets balanced by its Euro denominated financing.

During the year our product portfolio was enhanced further by the acquisition of two dermatological brands, Alphaderm® and Aquadrate® from Procter & Gamble and by the acquisition of Nu-Seals®, a low-dose aspirin product for cardiovascular protection from Eli Lilly and Co.

Following indifferent results with our workplace influenza protection business in Alliance Health Ltd we have decided to return that company to a dormant status. Our influenza antiviral, Lysovir®, remains available for the prescription market.

We continued to make progress with our late stage development projects and have established a good strategic relationship on the in-licensing front which could deliver a pipeline of several innovative products between 2004 and 2008.

Results and dividends

The consolidated profit and loss account for the year is set out on page 4.

Directors' interests

The directors' interests in the shares of the company and other group companies were as stated below:

Alliance Pharmaceuticals Limited

	Ordinary shares of 1p each	
	28 February 2003	1 March 2002
J Dawson	-	20,250,000
A R Booley	-	1,118,182
S A Dawson	-	6,750,000

	A Ordinary shares of 1p each	
	28 February 2003	1 March 2002
J Dawson	-	-
A R Booley	-	-
S A Dawson	-	-

ALLIANCE PHARMACEUTICALS LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 28 FEBRUARY 2003

	B Ordinary shares of 1p each		
	28 February 2003	1 March 2002	
J Dawson	20,250,000	-	-
A R Booley	1,118,182	-	-
S A Dawson	6,750,000	-	-

The directors held no beneficial interests in Alliance Generics Limited, Alliance Consumer Health Limited, Alliance Healthcare Limited or Alliance Health Limited, at 1 March 2002 or at 28 February 2003.

On 31 May 2002 A R Booley was granted options to purchase 7,170 1p ordinary shares at an exercise price of 2.2p per share. As at 28 February 2003 A R Booley held a total of 1,895,818 options to purchase 1p ordinary shares at an exercise price of 2.2p per share.

Auditors

In accordance with section 385 of the Companies Act 1985, a resolution proposing that Robson Taylor be reappointed as auditors of the company will be put to the Annual General Meeting.

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the board

M E Scott
Secretary
22 July 2003

ALLIANCE PHARMACEUTICALS LIMITED

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ALLIANCE PHARMACEUTICALS LIMITED

We have audited the financial statements of Alliance Pharmaceuticals Limited on pages 4 to 24 for the year ended 28 February 2003. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's 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 and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities on page 2 the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's and the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's and the group's affairs as at 28 February 2003 and of the group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Robson Taylor

22 July 2003

Chartered Accountants
Registered Auditor

Charter House
The Square
Lower Bristol Road
Bath
BA2 3BH

ALLIANCE PHARMACEUTICALS LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 28 FEBRUARY 2003

	Notes	2003 £	2002 £
Turnover	2	8,327,497	6,342,421
Cost of sales		(6,086,988) AAAAAAAA	(4,800,219) AAAAAAAA
Gross profit		2,240,509	1,542,202
Administrative expenses		(1,553,283) AAAAAAAA	(1,181,128) AAAAAAAA
Operating profit	3	687,226	361,074
Other interest receivable and similar income		4,352	464
Interest payable and similar charges	4	(1,422,791) AAAAAAAA	(187,114) AAAAAAAA
(Loss)/profit on ordinary activities before taxation	3	(731,213)	174,424
Tax on (loss)/profit on ordinary activities	5	(992) AAAAAAAA	(230,041) AAAAAAAA
Loss on ordinary activities after taxation		(732,205) TTTTTTTT	(55,617) TTTTTTTT

The profit and loss account has been prepared on the basis that all operations are continuing operations.

There are no recognised gains and losses other than those passing through the profit and loss account.

ALLIANCE PHARMACEUTICALS LIMITED

BALANCE SHEETS AS AT 28 FEBRUARY 2003

	Notes	Group 2003 £	2002 £	Company 2003 £	2002 £
Fixed assets					
Intangible assets	7	16,837,453	6,102,827	16,837,453	6,102,827
Tangible assets	8	214,409	138,198	214,409	138,198
Investments	9	-	-	8	8
		ÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄ
		17,051,862	6,241,025	17,051,870	6,241,033
		ÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄ
Current assets					
Stocks	10	1,928,180	1,674,308	1,928,180	1,622,986
Debtors	11	1,629,647	909,357	1,629,647	978,800
Cash at bank and in hand		206,182	-	206,182	-
		ÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄ
		3,764,009	2,583,665	3,764,009	2,601,786
Creditors: amounts falling due within one year					
	12	(5,136,259)	(3,461,728)	(5,136,267)	(3,426,948)
		ÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄ
Net current liabilities					
		(1,372,250)	(878,063)	(1,372,258)	(825,162)
		ÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄ
Total assets less current liabilities					
		15,679,612	5,362,962	15,679,612	5,415,871
Creditors: amounts falling due after more than one year					
	13	(15,674,895)	(4,679,855)	(15,674,895)	(4,679,855)
Provisions for liabilities and charges					
	14	(197,856)	(144,041)	(197,856)	(144,041)
		ÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄ
		(193,139)	539,066	(193,139)	591,975
		ÍÍÍÍÍÍÍ	ÍÍÍÍÍÍÍ	ÍÍÍÍÍÍÍ	ÍÍÍÍÍÍÍ
Capital and reserves					
Called up share capital	16	281,182	281,182	281,182	281,182
Share premium account	17	6,818	6,818	6,818	6,818
Profit and loss account	17	(481,139)	251,066	(481,139)	303,975
		ÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄ
Shareholders' funds - equity interests					
	18	(193,139)	539,066	(193,139)	591,975
		ÍÍÍÍÍÍÍ	ÍÍÍÍÍÍÍ	ÍÍÍÍÍÍÍ	ÍÍÍÍÍÍÍ

The financial statements were approved by the board on 22 July 2003

J Dawson
Director

S A Dawson
Director

ALLIANCE PHARMACEUTICALS LIMITED

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2003

	2003		2002	
	£	£	£	£
Net cash inflow/(outflow) from operating activities		1,750,286		(505,359)
Returns on investments and servicing of finance				
Interest received	4,352		464	
Interest paid and similar charges	(1,083,826)		(187,114)	
	ÄÄÄÄÄÄÄ		ÄÄÄÄÄÄÄ	
Net cash outflow for returns on investments and servicing of finance		(1,079,474)		(186,650)
Taxation		(33,177)		-
Capital expenditure				
Payments to acquire intangible assets	(12,134,688)		(4,865,220)	
Payments to acquire tangible assets	(101,703)		(31,397)	
Receipts from sales of tangible assets	7,499		2,305	
	ÄÄÄÄÄÄÄ		ÄÄÄÄÄÄÄ	
Net cash outflow for capital expenditure		(12,228,892)		(4,894,312)
		ÄÄÄÄÄÄÄ		ÄÄÄÄÄÄÄ
Net cash outflow before management of liquid resources and financing		(11,591,257)		(5,586,321)
Financing				
New long term bank loan	14,297,520		5,365,000	
Repayment of long term bank loan	(2,100,450)		-	
Repayment of other long term loans	(15,000)		(46,272)	
Capital element of hire purchase contracts	(24,873)		(11,786)	
Capital element of finance lease contracts	-		(808)	
	ÄÄÄÄÄÄÄ		ÄÄÄÄÄÄÄ	
Increase in debt	12,157,197		5,306,134	
	ÄÄÄÄÄÄÄ		ÄÄÄÄÄÄÄ	
Net cash inflow from financing		12,157,197		5,304,745
		ÄÄÄÄÄÄÄ		ÄÄÄÄÄÄÄ
Increase/(decrease) in cash in the year		565,940		(280,187)
		ÍÍÍÍÍÍÍ		ÍÍÍÍÍÍÍ

ALLIANCE PHARMACEUTICALS LIMITED

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2003

1 Reconciliation of operating profit to net cash inflow/(outflow) from operating activities		2003	2002	
		£	£	
Operating profit		687,226	361,074	
Depreciation of tangible assets		67,205	56,677	
Amortisation of intangible assets		1,400,062	415,393	
Profit on disposal of tangible assets		(1,729)	(2,305)	
Increase in stocks		(253,872)	(240,609)	
Increase in debtors		(720,290)	(142,437)	
Increase/(decrease) in creditors within one year		910,649	(953,152)	
Exchange loss on long term bank loan		(338,965)	-	
		AAAAAAAA	AAAAAAAA	
Net cash inflow/(outflow) from operating activities		1,750,286	(505,359)	
		TTTTTTTT	TTTTTTTT	
2 Analysis of net debt	1 March 2002	Cash flow	Other non-cash changes	28 February 2003
	£	£	£	£
Net cash:				
Cash at bank and in hand	-	206,182	-	206,182
Bank overdrafts	(359,758)	359,758	-	-
	AAAAAAAA	AAAAAAAA	AAAAAAAA	AAAAAAAA
	(359,758)	565,940	-	206,182
	AAAAAAAA	AAAAAAAA	AAAAAAAA	AAAAAAAA
Finance leases	(31,098)	(22,610)	-	(53,708)
Debts falling due within one year	(715,450)	(1,142,460)	(57,007)	(1,914,917)
Debts falling due after one year	(4,664,550)	(10,700,645)	(281,958)	(15,647,153)
	AAAAAAAA	AAAAAAAA	AAAAAAAA	AAAAAAAA
	(5,411,098)	(11,865,715)	(338,965)	(17,615,778)
	AAAAAAAA	AAAAAAAA	AAAAAAAA	AAAAAAAA
Net debt	(5,770,856)	(11,299,775)	(338,965)	(17,409,596)
	TTTTTTTT	TTTTTTTT	TTTTTTTT	TTTTTTTT
3 Reconciliation of net cash flow to movement in net debt	2003	2002		
	£	£		
Increase/(decrease) in cash in the year	565,940	(280,187)		
Cash inflow from increase in debt	(12,204,680)	(5,336,795)		
	AAAAAAAA	AAAAAAAA		
Movement in net debt in the year	(11,638,740)	(5,616,982)		
Opening net debt	(5,770,856)	(153,874)		
	AAAAAAAA	AAAAAAAA		
Closing net debt	(17,409,596)	(5,770,856)		
	TTTTTTTT	TTTTTTTT		

ALLIANCE PHARMACEUTICALS LIMITED

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED) *FOR THE YEAR ENDED 28 FEBRUARY 2003*

4 Major non-cash transactions

During the year, the company took out a long term euro loan with the bank as stated in note 13 to the accounts. Translation of the outstanding balance at the year end has given rise to an exchange loss of £338,965 as shown above.

ALLIANCE PHARMACEUTICALS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 28 FEBRUARY 2003

1 Accounting policies

1.1 Accounting convention

The financial statements are prepared under the historical cost convention.

1.2 Compliance with accounting standards

The financial statements are prepared in accordance with applicable accounting standards.

1.3 Basis of consolidation

The consolidated profit and loss account and balance sheet include the financial statements of the company and its subsidiary undertakings made up to 28 February 2003. The results of subsidiaries sold or acquired are included in the profit and loss account up to, or from the date control passes. Intra-group sales and profits are eliminated fully on consolidation.

1.4 Turnover

Turnover represents amounts receivable for goods and services net of VAT and trade discounts.

1.5 Goodwill

Acquired goodwill is written off in equal annual instalments over its estimated useful economic life of 10 years.

1.6 Technical Know How

Technical Know How and Trade Marks are valued at cost less accumulated amortisation. Amortisation is calculated to write off the cost in equal annual instalments over their estimated useful lives of 10 years.

1.7 Research and development

Research expenditure is written off to the profit and loss account in the year in which it is incurred. Development expenditure is written off in the same way unless the directors are satisfied as to the technical, commercial and financial viability of individual projects. In this situation, the expenditure is deferred and amortised over the period during which the company is expected to benefit.

1.8 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Computer equipment	33.3% straight line
Fixtures, fittings & equipment	20% and 25% straight line
Motor vehicles	25% straight line

1.9 Leasing

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible assets and depreciated over the shorter of the lease term and their useful lives. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the profit and loss account so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

ALLIANCE PHARMACEUTICALS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 28 FEBRUARY 2003

1 Accounting policies (continued)

1.10 Investments

Fixed asset investments are stated at cost less provision for diminution in value.

1.11 Stock

Stock is valued at the lower of cost and net realisable value.

1.12 Pensions

The pension costs charged in the financial statements represent the contributions payable by the company during the year in accordance with FRS 17.

1.13 Deferred taxation

Deferred tax is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. The deferred tax balance has not been discounted.

1.14 Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to profit and loss account.

2 Turnover

The total turnover of the group for the year has been derived from its principal activity.

Segmental analysis by geographical area

The analysis by geographical area of the group's turnover is set out as below:

	2003	2002
	£	£
Geographical segment		
United Kingdom	7,149,047	6,265,276
Rest of European Union	1,178,450	77,145
	AAAAAAAA	AAAAAAAA
	8,327,497	6,342,421
	TTTTTTTT	TTTTTTTT

ALLIANCE PHARMACEUTICALS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 28 FEBRUARY 2003

3 Operating profit	2003	2002
	£	£
Operating profit is stated after charging:		
Amortisation of intangible assets	1,400,062	415,393
Depreciation of tangible assets	67,205	56,677
Loss on foreign exchange transactions	-	305
Operating lease rentals	41,469	38,514
Auditors' remuneration (company £10,000 ; 2002 : £9,000)	10,000	9,000
Remuneration of auditors for non-audit work	17,974	16,398
and after crediting:		
Profit on disposal of tangible assets	(1,729)	(2,305)
Profit on foreign exchange transactions	(13,881)	-
	↑↑↑↑↑↑↑↑	↑↑↑↑↑↑↑↑
4 Interest payable and similar charges	2003	2002
	£	£
Exchange loss on long term loan	338,965	-
On bank loans and overdrafts	8,139	2,197
On other loans wholly repayable within 5 years	694,018	-
On loans repayable after 5 years	377,791	158,536
Lease finance charges	3,203	2,060
On amounts payable to factors	-	21,078
Other interest	675	3,243
	AAAAAAAA	AAAAAAAA
	1,422,791	187,114
	↑↑↑↑↑↑↑↑	↑↑↑↑↑↑↑↑

During the year, the company took out a long term euro loan with the bank as stated in note 13 to the accounts. Translation of the outstanding balance at the year end has given rise to an exchange loss of £338,965 as shown above.

ALLIANCE PHARMACEUTICALS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 28 FEBRUARY 2003

5 Taxation

	£	£
Domestic current year tax		
Adjustment for prior years	(52,823)	86,000
	ÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄ
Current tax charge	(52,823)	86,000
Deferred tax		
Deferred tax charge/credit current year	11,147	144,041
Deferred tax adjust re previous year	42,668	-
	ÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄ
	992	230,041
	ÍÍÍÍÍÍÍ	ÍÍÍÍÍÍÍ
Factors affecting the tax charge for the year		
(Loss)/profit on ordinary activities before taxation	(731,213)	174,424
	ÍÍÍÍÍÍÍ	ÍÍÍÍÍÍÍ
(Loss)/profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30.00 % (2002 : 20.00 %)	(219,364)	34,885
	ÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄ
Effects of:		
Non deductible expenses	128,448	2,063
Depreciation add back	291,044	94,414
Capital allowances	(284,001)	(173,493)
Adjustments to previous periods	(52,823)	86,000
Chargeable disposals	(519)	(461)
Other tax adjustments	84,392	42,592
	ÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄ
	166,541	51,115
	ÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄ
Current tax charge	(52,823)	86,000
	ÍÍÍÍÍÍÍ	ÍÍÍÍÍÍÍ

The company has estimated losses of £ 334,216 (2002 : £ nil) available for carry forward against future trading profits.

In view of the tax losses available to the group, no provision for taxation is considered necessary.

6 Loss for the financial year

As permitted by section 230 of the Companies Act 1985, the holding company's profit and loss account has not been included in these financial statements. The loss for the financial year is made up as follows:

	2003 £	2002 £
Holding company's loss for the financial year	(785,114)	(13,149)
	ÍÍÍÍÍÍÍ	ÍÍÍÍÍÍÍ

ALLIANCE PHARMACEUTICALS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 28 FEBRUARY 2003

7 Intangible fixed assets

Group

	Technical Know How £	Goodwill £	Trade Marks £	Total £
Cost				
At 1 March 2002	3,778,400	2,091,532	1,083,288	6,953,220
Additions	8,618,856	1,436,782	2,079,050	12,134,688
	AAAAAAAA	AAAAAAAA	AAAAAAAA	AAAAAAAA
At 28 February 2003	12,397,256	3,528,314	3,162,338	19,087,908
	AAAAAAAA	AAAAAAAA	AAAAAAAA	AAAAAAAA
Amortisation				
At 1 March 2002	383,600	421,656	45,137	850,393
Charge for the year	851,251	293,782	255,029	1,400,062
	AAAAAAAA	AAAAAAAA	AAAAAAAA	AAAAAAAA
At 28 February 2003	1,234,851	715,438	300,166	2,250,455
	AAAAAAAA	AAAAAAAA	AAAAAAAA	AAAAAAAA
Net book value				
At 28 February 2003	11,162,405	2,812,876	2,862,172	16,837,453
	TTTTTTTT	TTTTTTTT	TTTTTTTT	TTTTTTTT
At 28 February 2002	3,394,800	1,669,876	1,038,151	6,102,827
	TTTTTTTT	TTTTTTTT	TTTTTTTT	TTTTTTTT

Intangible fixed assets (continued)

Company

	Technical Know How £	Goodwill £	Trade Marks £	Total £
Cost				
At 1 March 2002	3,778,400	2,091,532	1,083,288	6,953,220
Additions	8,618,856	1,436,782	2,079,050	12,134,688
	AAAAAAAA	AAAAAAAA	AAAAAAAA	AAAAAAAA
At 28 February 2003	12,397,256	3,528,314	3,162,338	19,087,908
	AAAAAAAA	AAAAAAAA	AAAAAAAA	AAAAAAAA
Amortisation				
At 1 March 2002	383,600	421,656	45,137	850,393
Charge for the year	851,251	293,782	255,029	1,400,062
	AAAAAAAA	AAAAAAAA	AAAAAAAA	AAAAAAAA
At 28 February 2003	1,234,851	715,438	300,166	2,250,455
	AAAAAAAA	AAAAAAAA	AAAAAAAA	AAAAAAAA
Net book value				
At 28 February 2003	11,162,405	2,812,876	2,862,172	16,837,453
	TTTTTTTT	TTTTTTTT	TTTTTTTT	TTTTTTTT
At 28 February 2002	3,394,800	1,669,876	1,038,151	6,102,827
	TTTTTTTT	TTTTTTTT	TTTTTTTT	TTTTTTTT

ALLIANCE PHARMACEUTICALS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 28 FEBRUARY 2003

8 Tangible fixed assets Group

	Computer equipment	Fixtures, fittings & equipment	Motor vehicles	Total
	£	£	£	£
Cost				
At 1 March 2002	80,795	132,014	61,638	274,447
Additions	22,951	68,127	58,108	149,186
Disposals	-	-	(27,700)	(27,700)
	AAAAAAAA	AAAAAAAA	AAAAAAAA	AAAAAAAA
At 28 February 2003	103,746	200,141	92,046	395,933
	AAAAAAAA	AAAAAAAA	AAAAAAAA	AAAAAAAA
Depreciation				
At 1 March 2002	60,781	47,484	27,984	136,249
On disposals	-	-	(21,930)	(21,930)
Charge for the year	20,914	27,630	18,661	67,205
	AAAAAAAA	AAAAAAAA	AAAAAAAA	AAAAAAAA
At 28 February 2003	81,695	75,114	24,715	181,524
	AAAAAAAA	AAAAAAAA	AAAAAAAA	AAAAAAAA
Net book value				
At 28 February 2003	22,051	125,027	67,331	214,409
	TTTTTTTT	TTTTTTTT	TTTTTTTT	TTTTTTTT
At 28 February 2002	20,014	84,530	33,654	138,198
	TTTTTTTT	TTTTTTTT	TTTTTTTT	TTTTTTTT

Included above are assets held under finance leases or hire purchase contracts as follows:

	Computer equipment	Fixtures, fittings & equipment	Motor vehicles	Total
	£	£	£	£
Net book values				
At 28 February 2003	-	-	67,331	67,331
At 28 February 2002	-	-	33,654	33,654
	TTTTTTTT	TTTTTTTT	TTTTTTTT	TTTTTTTT
Depreciation charge for the year				
28 February 2003	-	-	18,661	18,661
28 February 2002	-	-	11,167	11,167
	TTTTTTTT	TTTTTTTT	TTTTTTTT	TTTTTTTT

ALLIANCE PHARMACEUTICALS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 28 FEBRUARY 2003

8 Tangible fixed assets (continued)

Company

	Computer equipment	Fixtures, fittings & equipment	Motor vehicles	Total
	£	£	£	£
Cost				
At 1 March 2002	80,795	132,014	61,638	274,447
Additions	22,951	68,127	58,108	149,186
Disposals	-	-	(27,700)	(27,700)
	AAAAAAAA	AAAAAAAA	AAAAAAAA	AAAAAAAA
At 28 February 2003	103,746	200,141	92,046	395,933
	AAAAAAAA	AAAAAAAA	AAAAAAAA	AAAAAAAA
Depreciation				
At 1 March 2002	60,781	47,484	27,984	136,249
On disposals	-	-	(21,930)	(21,930)
Charge for the year	20,914	27,630	18,661	67,205
	AAAAAAAA	AAAAAAAA	AAAAAAAA	AAAAAAAA
At 28 February 2003	81,695	75,114	24,715	181,524
	AAAAAAAA	AAAAAAAA	AAAAAAAA	AAAAAAAA
Net book value				
At 28 February 2003	22,051	125,027	67,331	214,409
	TTTTTTTT	TTTTTTTT	TTTTTTTT	TTTTTTTT
At 28 February 2002	20,014	84,530	33,654	138,198
	TTTTTTTT	TTTTTTTT	TTTTTTTT	TTTTTTTT

Included above are assets held under finance leases or hire purchase contracts as follows:

	Computer equipment	Fixtures, fittings & equipment	Motor vehicles	Total
	£	£	£	£
Net book values				
At 28 February 2003	-	-	67,331	67,331
At 28 February 2002	-	-	33,654	33,654
	TTTTTTTT	TTTTTTTT	TTTTTTTT	TTTTTTTT
Depreciation charge for the year				
28 February 2003	-	-	18,661	18,661
28 February 2002	-	-	11,167	11,167
	TTTTTTTT	TTTTTTTT	TTTTTTTT	TTTTTTTT

ALLIANCE PHARMACEUTICALS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 28 FEBRUARY 2003

9 Fixed asset investments

Company

	Shares in group undertakings £
Cost	
At 1 March 2002 & at 28 February 2003	8 ÄÄÄÄÄÄÄ
At 28 February 2002	8 ËËËËËËË

In the opinion of the directors, the aggregate value of the company's investment in subsidiary undertakings is not less than the amount included in the balance sheet.

Holdings of more than 20%

The company holds more than 20% of the share capital of the following companies:

Company	Country of registration or incorporation	Shares held	
		Class	%
Subsidiary undertakings			
Alliance Health Limited	United Kingdom	Ordinary	100
Alliance Consumer Health Limited	England & Wales	Ordinary	100
Alliance Generics Limited	England & Wales	Ordinary	100
Alliance Healthcare Limited	England & Wales	Ordinary	100

The principal activity of these undertakings for the last relevant financial year was as follows:

	Principal activity
Alliance Health Limited	Provision of healthcare services
Alliance Consumer Health Limited	Dormant
Alliance Generics Limited	Dormant
Alliance Healthcare Limited	Dormant

10 Stocks

	Group		Company	
	2003	2002	2003	2002
	£	£	£	£
Finished goods and goods for resale	1,928,180 ËËËËËËË	1,674,308 ËËËËËËË	1,928,180 ËËËËËËË	1,622,986 ËËËËËËË

ALLIANCE PHARMACEUTICALS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 28 FEBRUARY 2003

11 Debtors

	Group		Company	
	2003	2002	2003	2002
	£	£	£	£
Trade debtors	1,510,218	747,678	1,510,218	723,153
Amounts owed by group undertakings	-	-	-	94,221
Other debtors	36,250	36,250	36,250	36,250
Prepayments and accrued income	83,179	125,429	83,179	125,176
	AAAAAAAA	AAAAAAAA	AAAAAAAA	AAAAAAAA
	1,629,647	909,357	1,629,647	978,800
	↑↑↑↑↑↑↑↑	↑↑↑↑↑↑↑↑	↑↑↑↑↑↑↑↑	↑↑↑↑↑↑↑↑

12 Creditors : amounts falling due within one year

	Group		Company	
	2003	2002	2003	2002
	£	£	£	£
Bank loans and overdrafts	1,914,917	1,075,208	1,914,917	1,075,208
Net obligations under finance lease and hire purchase contracts	25,966	15,793	25,966	15,793
Trade creditors	2,846,785	2,124,871	2,846,785	2,116,789
Amounts owed to group undertakings	-	-	8	6
Corporation tax	-	86,000	-	86,000
Taxes and social security costs	168,266	64,041	168,266	49,966
Directors current accounts	-	785	-	785
Accruals and deferred income	180,325	95,030	180,325	82,401
	AAAAAAAA	AAAAAAAA	AAAAAAAA	AAAAAAAA
	5,136,259	3,461,728	5,136,267	3,426,948
	↑↑↑↑↑↑↑↑	↑↑↑↑↑↑↑↑	↑↑↑↑↑↑↑↑	↑↑↑↑↑↑↑↑

The bank loan and overdraft are secured by a fixed and floating charge over the assets of the company.

ALLIANCE PHARMACEUTICALS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 28 FEBRUARY 2003

13 Creditors : amounts falling due after more than one year

	Group		Company	
	2003 £	2002 £	2003 £	2002 £
Bank loans	15,647,153	4,649,550	15,647,153	4,649,550
Other loans	-	15,000	-	15,000
Net obligations under finance leases and hire purchase agreements	27,742	15,305	27,742	15,305
	AAAAAAAA	AAAAAAAA	AAAAAAAA	AAAAAAAA
	15,674,895	4,679,855	15,674,895	4,679,855
	TTTTTTTT	TTTTTTTT	TTTTTTTT	TTTTTTTT
Analysis of loans				
Not wholly repayable within five years by instalments:				
Instalments not due within five years	6,058,555	-	6,058,555	-
Wholly repayable within five years	11,503,515	5,380,000	11,503,515	5,380,000
	AAAAAAAA	AAAAAAAA	AAAAAAAA	AAAAAAAA
	17,562,070	5,380,000	17,562,070	5,380,000
Included in current liabilities	(1,914,917)	(715,450)	(1,914,917)	(715,450)
	AAAAAAAA	AAAAAAAA	AAAAAAAA	AAAAAAAA
	15,647,153	4,664,550	15,647,153	4,664,550
	TTTTTTTT	TTTTTTTT	TTTTTTTT	TTTTTTTT
Loan maturity analysis				
In more than one year but not more than two years	2,100,703	932,910	2,100,703	932,910
In more than two years but not more than five years	7,487,895	2,798,730	7,487,895	2,798,730
In more than five years	6,058,555	932,910	6,058,555	932,910
	TTTTTTTT	TTTTTTTT	TTTTTTTT	TTTTTTTT
Net obligations under finance leases and hire purchase contracts				
Repayable within one year	25,966	15,793	25,966	15,793
Repayable between one and five years	27,742	15,305	27,742	15,305
	AAAAAAAA	AAAAAAAA	AAAAAAAA	AAAAAAAA
	53,708	31,098	53,708	31,098
Included in liabilities falling due within one year	(25,966)	(15,793)	(25,966)	(15,793)
	AAAAAAAA	AAAAAAAA	AAAAAAAA	AAAAAAAA
	27,742	15,305	27,742	15,305
	TTTTTTTT	TTTTTTTT	TTTTTTTT	TTTTTTTT

ALLIANCE PHARMACEUTICALS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 28 FEBRUARY 2003

13 Creditors : amounts falling due after more than one year

(continued)

Bank loans above are made up of:

Senior loan £10,164,550

This consists of 3 tranches, Tranche A of £2,604,550, Tranche B of £2,060,000 and Tranche C of £1,500,000 and €6,344,000. Tranches A and B are repayable by October 2007 and Tranche C is repayable by February 2008. Interest on Tranches A and B is payable quarterly at the bank's annual rate, being LIBOR plus a given margin, currently 2.5% and 3.5% respectively. Interest on the Sterling loan within Tranche C is payable quarterly at the bank's annual rate, being LIBOR plus a given margin, currently 2.5%. Interest on the Euro loan within Tranche C is payable quarterly at the bank's annual rate, being EURIBOR plus a given margin, currently 2.5%.

Mezzanine loan £2,500,000

This is repayable by February 2009. Interest is payable quarterly at the bank's annual rate, being LIBOR plus a given margin, currently 6%.

Subordinate loan £4,500,000

This is repayable by February 2010. Interest is payable quarterly at the bank's annual rate, being LIBOR plus a given margin, currently 9%. In addition roll up interest is accrued. This is capitalised and added to the principal amount outstanding and is payable in February 2010. Capitalised interest at the balance sheet date is £58,555.

ALLIANCE PHARMACEUTICALS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 28 FEBRUARY 2003

14 Provisions for liabilities and charges

Group

	Deferred taxation £
Balance at 1 March 2002	144,041
Profit and loss account	53,815
	AAAAAAAA
Balance at 28 February 2003	197,856
	TTTTTTTT

Company

Balance at 1 March 2002	144,041
Profit and loss account	53,815
	AAAAAAAA
Balance at 28 February 2003	197,856
	TTTTTTTT

The deferred tax liability is made up as follows:

	Group		Company	
	2003 £	2002 £	2003 £	2002 £
Accelerated capital allowances	399,810	186,709	399,810	186,709
Tax losses available	(201,954)	(42,668)	(201,954)	(42,668)
	AAAAAAAA	AAAAAAAA	AAAAAAAA	AAAAAAAA
	197,856	144,041	197,856	144,041
	TTTTTTTT	TTTTTTTT	TTTTTTTT	TTTTTTTT

15 Pension costs

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund.

Defined contribution

	2003 £	2002 £
Contributions payable by the company for the year	38,188	23,341
	TTTTTTTT	TTTTTTTT

ALLIANCE PHARMACEUTICALS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 28 FEBRUARY 2003

16 Share capital	2003	2002
	£	£
Authorised		
100,000,000 Ordinary Shares of 1p each	-	1,000,000
20,000,000 A Ordinary shares of 1p each	200,000	-
80,000,000 B Ordinary shares of 1p each	800,000	-
	AAAAAAAA	AAAAAAAA
	1,000,000	1,000,000
Allotted, called up and fully paid		
28,118,200 Ordinary shares of 1p each	-	281,182
28,118,200 B Ordinary shares of 1p each	281,182	-
	AAAAAAAA	AAAAAAAA
	281,182	281,182

On 20 September 2002 the authorised share capital of 100,000,000 Ordinary shares of 1p each was converted to 20,000,000 A Ordinary shares and 80,000,000 B Ordinary shares. The 28,118,182 Ordinary shares in issue were converted to B Ordinary shares.

In accordance with the Subordinated loan made to the company warrants have been issued which entitle the warrant holder to subscribe for a maximum of 20,000,000 A Ordinary shares. Subject to the company sending exit notifications, the subscription rights of the warrant holder must be exercised within 80 years from September 2002 or within 45 days of any exit notification received. The warrants are redeemable at 1 pence per A Ordinary share.

A Ordinary shares rank parri passu with B Ordinary shares. Each class of shares have equal voting rights, equal dividend rights and equal priority on amounts receivable on any winding up. A Ordinary shares however are also stated as:

- 1) Being redeemable.
- 2) Having the right to nominate a non-executive director at any time (so long as the warrants remain unexercised and/or an investor shall hold any Ordinary A shares and/or be the provider of the subordinated Loan).
- 3) Where an approved offer in so far as it is made to the holders of A Ordinary shares and/or warrant shall contain the right for such holders to elect for cash consideration equivalent to any cash consideration offered and incorporate an undertaking by the buyer to discharge all outstanding liabilities of the company under common terms agreement including the repayment of all monies advanced to the company by way of a loan and then outstanding together with all interest and other charges down to the date of actual payment.

ALLIANCE PHARMACEUTICALS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 28 FEBRUARY 2003

17 Statement of movements on reserves

Group

	Share premium account £	Profit and loss account £
Balance at 1 March 2002	6,818	251,066
Retained loss for the year	-	(732,205)
	AAAAAAAA	AAAAAAAA
Balance at 28 February 2003	6,818	(481,139)
	TTTTTTTT	TTTTTTTT

Company

	Share premium account £	Profit and loss account £
Balance at 1 March 2002	6,818	303,975
Retained loss for the year	-	(785,114)
	AAAAAAAA	AAAAAAAA
Balance at 28 February 2003	6,818	(481,139)
	TTTTTTTT	TTTTTTTT

18 Reconciliation of movements in shareholders' funds

Group

	2003 £	2002 £
Loss for the financial year	(732,205)	(55,617)
	AAAAAAAA	AAAAAAAA
Net depletion in shareholders' funds	(732,205)	(55,617)
Opening shareholders' funds	539,066	594,683
	AAAAAAAA	AAAAAAAA
Closing shareholders' funds	(193,139)	539,066
	TTTTTTTT	TTTTTTTT

Company

	2003 £	2002 £
Loss for the financial year	(785,114)	(13,149)
	AAAAAAAA	AAAAAAAA
Net depletion in shareholders' funds	(785,114)	(13,149)
Opening shareholders' funds	591,975	605,124
	AAAAAAAA	AAAAAAAA
Closing shareholders' funds	(193,139)	591,975
	TTTTTTTT	TTTTTTTT

ALLIANCE PHARMACEUTICALS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 28 FEBRUARY 2003

19 Contingent liabilities

Group

There is a contingent liability in respect of a cross guarantees given by the company in favour of the Bank of Scotland relating to the indebtedness of all group companies.

20 Financial commitments

At 28 February 2003 the group had annual commitments under non-cancellable operating leases as follows:

	Land and buildings	
	2003	2002
	£	£
Expiry date:		
In over five years	41,500	41,500
	↑↑↑↑↑↑↑↑	↑↑↑↑↑↑↑↑

At 28 February 2003 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings	
	2003	2002
	£	£
Expiry date:		
In over five years	41,500	41,500
	↑↑↑↑↑↑↑↑	↑↑↑↑↑↑↑↑

21 Directors' emoluments

	2003	2002
	£	£
Emoluments for qualifying services	228,354	192,389
Company pension contributions to money purchase schemes	17,665	6,858
	AAAAAAAA	AAAAAAAA
	246,019	199,247
	↑↑↑↑↑↑↑↑	↑↑↑↑↑↑↑↑

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 1 (2002 - 1).

Emoluments disclosed above include the following amounts paid to the highest paid director:

Emoluments for qualifying services	117,706	104,555
Company pension contributions to money purchase schemes	10,000	-
	↑↑↑↑↑↑↑↑	↑↑↑↑↑↑↑↑

ALLIANCE PHARMACEUTICALS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 28 FEBRUARY 2003

22 Employees

Number of employees

The average monthly number of employees (including directors) during the year was:

	2003 Number	2002 Number
Management and administration	11	11

Employment costs

	£	£
Wages and salaries	470,468	371,869
Social security costs	54,081	36,334
Other pension costs	38,188	23,341
	ÄÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄÄ
	562,737	431,544

23 Control

The ultimate controlling party is J Dawson a director of the company. J Dawson owns over 70% of the issued share capital.

24 Related party transactions

Group

The company has taken advantage of the exemption in Financial Reporting Standard Number 8 from the requirement to disclose transactions with group companies on the grounds that consolidated financial statements are prepared by the ultimate parent company.

Company

During the year the company paid £44,340 (2002 : £68,880) for consultancy services to Madden Associates Limited, a company of which S A Dawson is also a director.