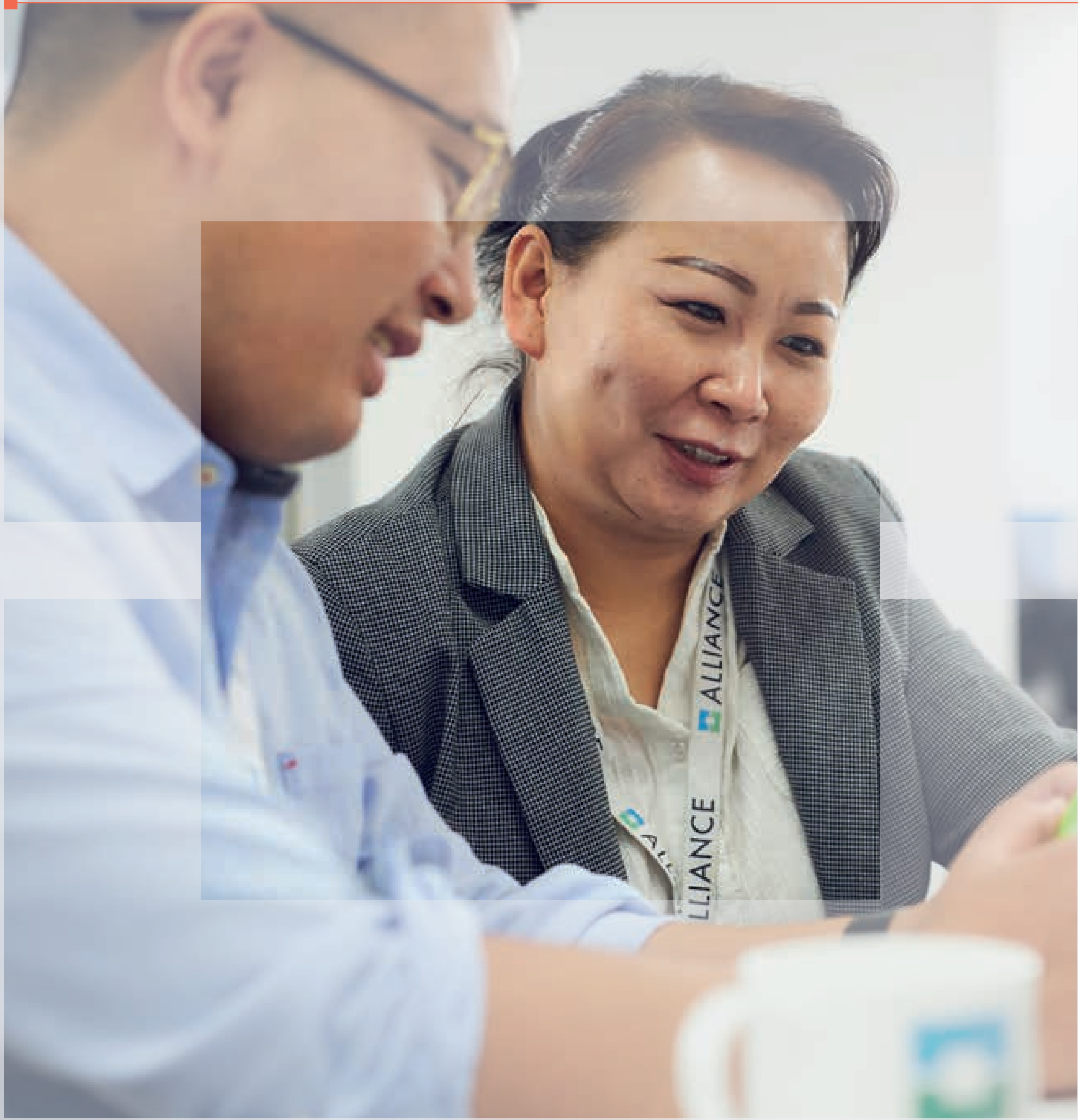


Financial Statements

Independent auditor's report

to the members of Alliance Pharma plc

1. Our opinion is unmodified

We have audited the financial statements of Alliance Pharma plc (the "Company") for the year ended 31 December 2021 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Statement of Changes in Equity, Company Statement of Changes in Equity, Consolidated and Company cash flow statements and the related notes, including the accounting policies in note 2.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent Company financial statements have been properly prepared in accordance with UK-adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Overview		
Materiality: group financial statements as a whole	£1.5m (2020: £1.5m) 4.7% (2020: 4.7%) of normalised Group profit before tax	
Coverage	96% (2020: 92%) of group profit before tax	
Key audit matters vs 2020		
Recurring risks	Impairment of intangible brand assets	◀▶
	Recoverability of parent company's investment in subsidiaries	◀▶
Event driven	**New:** CMA infringement decision	▲
	New: Accounting treatment of costs related to cloud-based software arrangements	▲

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows:

Independent auditor's report continued

2. Key audit matters: our assessment of risks of material misstatement continued

	The risk	Our response
Impairment of Intangible Brand Assets (£368.8 million; 2020: £381.6 million) Refer to page 63 (Audit Committee Report), page 105 (accounting policy) and page 115 (financial disclosures.	**Forecast-based assessment:** The estimated recoverable amount of intangible assets (excluding Goodwill and Computer Software) is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows. This assessment is based on assumptions (such as forecast cash flows, discount rates and, in the case of finite life assets, the period over which management have forecast cashflows), which are inherently highly judgemental. The Group has a total of 53 CGUs, from which our risk has been identified in respect of 3, which hold an aggregate value of £10.8 million. Given the quantum of the balance in relation to our materiality and the inherent estimation uncertainty, we concluded this to be our most significant Key Audit Matter. The affect of these matters is that, as part of our risk assessment, we determined that the value in use across the portfolio has a high degree of estimation uncertainty with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (Note 11) disclose the range/sensitivity estimated by the Group.	For all CGUs, we held discussions with the directors, commercial, regulatory and financial management and considered information about the products available in the public domain. For higher risk CGUs our procedures included: › **Benchmarking assumptions:** Using our own valuations specialist, we challenged the Group's selection of discount and growth rates by comparing those used to externally derived data. In addition, we assessed whether the forecasts (including growth rate) were consistent with current business strategies in place and information about the products available in the public domain, and that the selected useful economic lives for finite life assets were appropriate; › **Sensitivity analysis:** We performed our own analysis to assess the sensitivity of the impairment reviews to changes in the key assumptions, including the discount rate, growth rate, useful economic lives, and the forecast cash flows; › **Historical comparisons:** We compared the previously forecast cash flows to actual results to assess the historical accuracy of forecasting; › **Assessing transparency:** We assessed the adequacy of the Group's disclosures in respect of the sensitivity to changes in key assumptions. For CGUs which we determined were not higher risk, we performed historical comparisons and sensitivity analysis to ensure our risk assessment was appropriate. We performed the tests above rather than seeking to rely on any of the group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.

	The risk	Our response
CMA infringement decision (£7.9 million; 2020: £Nil) Refer to page 63 (Audit Committee Report), page 102 (accounting policy) and page 124 (financial disclosures).	**Dispute outcome:** As explained in note 20, the Group received an infringement decision and fine of £7.9 million from the Competition and Markets Authority (the "CMA") on 3 February 2022 relating to suspected anti-competitive agreements in relation to Prochlorperazine, which covered the period from June 2013 to July 2018. The amounts involved are significant, and the application of accounting standards to determine the amount to be provided as a liability, is inherently subjective. The provision of £7.9 million recognised could be released in entirety if the Group is successful at appeal, or a lower amount agreed by the appeal. Following the issuance of an infringement notice by the CMA, this risk has increased. We have identified this matter as a risk of error and a risk of fraud due to perceived impact on the Group's share price.	Our procedures included: › **Enquiry of lawyers**: Discussions with and inquires of the Group's in-house and external legal advisors, the directors and management; › **Our compliance expertise:** Using our own forensic and compliance specialists, critically assessed the judgements taken by the Directors, and monitored external sources of information; › **Assessing transparency:** Assessing whether the Group's disclosures detailing the regulatory proceedings adequately disclose the potential liabilities of the Group; › **Accounting analysis:** Assessing the directors analysis of whether the receipt of the infringement decision was an adjusting or non-adjusting subsequent event. We performed the tests above rather than seeking to rely on any of the group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.

Independent auditor's report continued

2. Key audit matters: our assessment of risks of material misstatement continued

	The risk	Our response
Accounting treatment of costs related to cloud-based software arrangements (£15.0 million; 2020: £11.0 million) Refer to page 63 (Audit Committee Report), page 103 (accounting policy) and page 115 (financial disclosures).	**Accounting treatment:** The Group has capitalised internal and external costs in respect of cloud-based software arrangements. In April 2021 the IFRS Interpretations Committee ('IFRIC') published an agenda decision on accounting for cloud computing costs. This IFRIC decision has been considered by the Group and the Group have concluded that no change in respect of the capitalisation of certain costs associated with their Enterprise Resource Planning (ERP) system is required. In assessing whether a change in accounting policy is required, the Group has exercised significant judgement in reaching a conclusion. The risk is that a potential change in accounting policy has not appropriately been identified and applied to both the current and prior years.	Our procedures included: › **Accounting clarity:** We assessed the accounting clarification of the IFRIC April 2021 decision against the Group's treatment of capitalised ERP costs, including reviewing contractual documentation; › **Our IT expertise:** In conjunction with the IT auditors, the audit team sought input from ERP implementation professionals on the practical and technical aspects of transferring the ERP from the cloud onto the company's servers; › **Assessing transparency:** We assessed the adequacy of the Group's related disclosures in respect of the judgements taken by management. We performed the tests above rather than seeking to rely on any of the group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.

	The risk	Our response
Recoverability of parent company's investment in subsidiaries (£199.3 million; 2020: £199.8 million) Refer to page 63 (Audit Committee Report), page 108 (accounting policy) and page 121 (financial disclosures).	**Low risk, high value:** The carrying amount of the parent company's investments in subsidiaries represents 99.9% (2020: 99.9%) of the company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent company financial statements, this is considered to be the area that had the greatest effect on our overall parent company audit.	Our procedures included: › **Test of detail:** We compared the carrying amount of 100% of the investments with the net asset value of the respective subsidiaries, being an approximation that their minimum recoverable amount, to identify whether the net asset values were in excess of the carrying amounts and assessed whether those subsidiaries have historically been profit making. The Group audit team performs the statutory audit of all material investments; We performed the test above rather than seeking to rely on any of the group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedure described.

We continue to perform procedures over the selection of useful economic lives for intangible assets. However, following a consistent application of accounting policy in the current year, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

We also continue to perform procedures over Goodwill, however, due to the absence of significant acquisitions in the current year and the significant levels of headroom present, we have not included it within this risk in our report this year

We also continue to consider the need for procedures over Business combinations: valuation of identified intangible assets. However, due to no business combinations having occurred in the current year, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

Independent auditor's report continued

3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £1.5m (2020: £1.5m), determined with reference to a benchmark of Group profit before tax, normalised to exclude the impairment of intangible assets, as disclosed in note 5, of £6.15m and the CMA provision, also disclosed in note 5, of £7.9m (2020: normalised to exclude the impairment and amortisation of intangible assets, as disclosed in note 5, of £19.2m), of which it represents 4.7% (2020: 4.7%)

Materiality for the parent Company financial statements as a whole was set at £0.9m (2020: £1.4m), determined with reference to a benchmark of Company total assets, of which it represents 0.5% (2020: 0.7%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 75% (2020: 75%) of materiality for the financial statements as a whole, which equates to £1.125m (2020: £1.125m) for the Group and £0.675m (2020: £1.05m) for the parent Company. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk

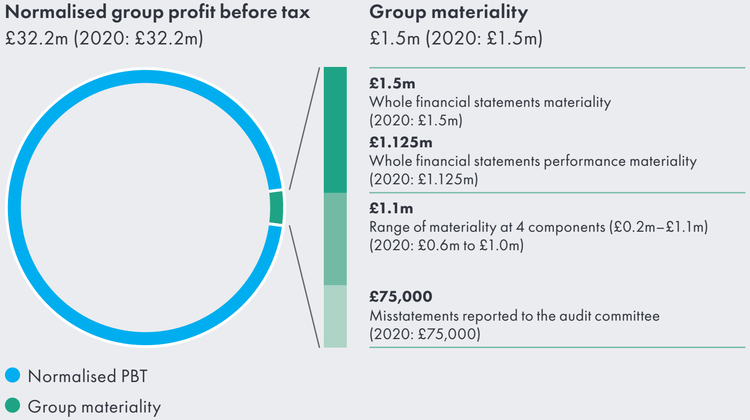
We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £75,000 (2020: £75,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 17 (2020: 19) reporting components, we subjected 3 (2020: 3) to full scope audits for group purposes and 1 (2020: 0) to an audit of account balances over revenue, trade receivables and cash and cash equivalents. The component for which we performed an audit of account balances was not individually significant but was included in the scope of our group reporting work in order to provide further coverage over the group's results.

The scope of the audit work performed was fully substantive as we did not rely upon the Group's internal control over financial reporting.

The components within the scope of our work accounted for the percentages illustrated opposite.

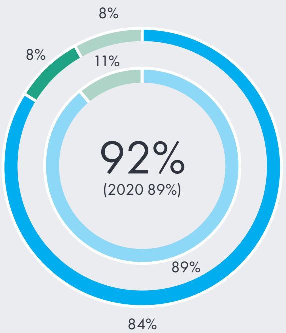
The remaining 8% (2020: 11%) of total Group revenue, 4% (2020: 8%) of Group profit before tax and 11% (2020: 2%) of total Group assets is represented by 13 (2020: 14) of reporting components, none of which individually represented more than 10% (2020: 10%) of any of total Group revenue, Group profit before tax or total Group assets. For these components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.



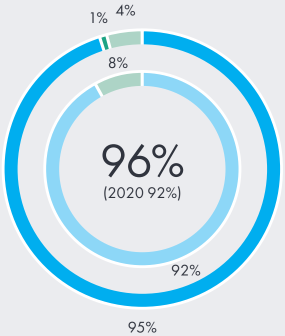
Independent auditor's report continued

3. Our application of materiality and an overview of the scope of our audit continued

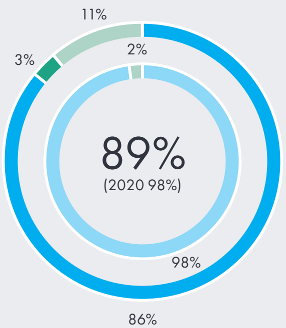
Group revenue



Group profit before tax



Group total assets



- Full scope for group audit purposes 2021
- Audit of account balances 2021
- Full scope for group audit purposes 2020
- Residual components

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from £0.2m to £1.1m (2020: £0.6m to £1.0m), having regard to the mix of size and risk profile of the Group across the components. The work on 1 of the 4 components (2020: 1 of the 4 components) was performed by component auditors and the rest, including the audit of the parent Company, was performed by the Group team. The Group team performed procedures on the items excluded from normalised Group profit before tax.

Other than the UK, the Group team visited one component location in the USA (2020: nil) during the year to perform audit procedures. Video and telephone conference meetings were also held with the component auditor for the component that was not physically visited. At these meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

4. Going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources and/or metrics relevant to debt covenants over this period were:

› The impact on customer confidence as a result of a slowdown in the Global economy;

› Constraints on supply chain, sourcing or logistics and the impact it could have on the Group's key products;

› The impact that changes in product regulation could have on the ability to sell new or existing products; and

› The impact of the settlement of the penalty relating to the CMA infringement decision.

4. Going concern continued

We considered whether these risks could plausibly affect the liquidity or covenant compliance in the going concern period by comparing severe, but plausible downside scenarios that could arise from these risks individually and collectively against the level of available financial resources and covenants indicated by the Group's financial forecasts.

Our procedures also included a critical assessment of the assumptions in the Group's base case and downside scenarios, in particular in relation to the recent geopolitical instability and the ongoing COVID-19 pandemic on the economic situation worldwide (and its impact on the Group), and our knowledge of the entity and the sector in which it operates.

We considered whether the going concern disclosure in note 2.18 to the financial statements gives a full and accurate description of the directors' assessment of going concern, including the identified risks.

Our conclusions based on this work:

- We consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- We have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period; and
- We found the going concern disclosure in note 2.18 to be acceptable.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group will continue in operation.

5. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, and the audit committee, and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud;
- Reading Board and Audit Committee meeting minutes;
- Considering remuneration incentive schemes and performance targets for management and the directors;
- Using analytical procedures to identify any unusual or unexpected relationships; and
- Using our own forensic specialists to assist us in identifying fraud risks based on discussions of the circumstances of the Group.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the Group audit team to component audit teams of relevant fraud risks identified at the Group level and a request to full scope component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at the Group level.

As required by auditing standards, and taking into account possible pressures to meet profit targets, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular:

- The risk that Group and component management may be in a position to make inappropriate accounting entries; and
- The risk that revenue is overstated through recording of revenues in the wrong period

5. Fraud and breaches of laws and regulations – ability to detect continued

Identifying and responding to risks of material misstatement due to fraud continued

We also identified a fraud risk related to the CMA infringement decision, in response to a perceived impact on the Group's share price. Further detail in respect of the CMA infringement decision is set out in the key audit matter disclosures in section 2 of this report.

We performed procedures including:

- Identifying journal entries and other adjustments to test for all full scope components based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unusual accounts, and journal descriptions containing specific key words;
- Evaluating the business purpose of significant unusual transactions; and
- Assessing significant accounting estimates for bias

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors (as required by auditing standards), and discussed with the directors the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group to component audit teams of relevant laws and regulations identified at the Group level, and a request for component auditors to report to the group team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at group.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation, and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, competition laws, employment law, product regulation and certain aspects of company legislation recognising the nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Further detail in respect of CMA infringement decision is set out in the key audit matter disclosures in section 2 of this report.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

7. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 84, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Independent auditor's report continued

9. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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.

Huw Brown
(Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
66 Queen Square,
Bristol,
BS1 4BE

30 March 2022

Consolidated Income Statement

	Note	Year ended 31 December 2021 Underlying £000s	Year ended 31 December 2021 Non-underlying £000s (Note 5)	Year ended 31 December 2021 Total £000s	Year ended 31 December 2020 Underlying £000s	Year ended 31 December 2020 Non-underlying £000s (Note 5)	Year ended 31 December 2020 Total £000s
Revenue	3,34	**163,207**	**–**	**163,207**	129,801	–	129,801
Cost of sales		**(53,757)**	**–**	**(53,757)**	(46,985)	–	(46,985)
Gross profit		**109,450**	**–**	**109,450**	82,816	–	82,816
Operating expenses							
Administration and marketing expenses	5	**(60,202)**	**(2,843)**	**(63,045)**	(44,614)	(1,300)	(45,914)
Amortisation of intangible assets	5	**(1,362)**	**(7,168)**	**(8,530)**	–	(7,155)	(7,155)
Impairment of goodwill and intangible assets	5	**–**	**(6,150)**	**(6,150)**	–	(12,057)	(12,057)
CMA provision	20	**–**	**(7,900)**	**(7,900)**	–	–	–
Share-based employee remuneration	7, 24	**(2,250)**	**–**	**(2,250)**	(1,374)	–	(1,374)
Operating profit		**45,636**	**(24,061)**	**21,575**	36,828	(20,512)	16,316
Finance costs							
Interest payable and similar charges	6	**(3,646)**	**–**	**(3,646)**	(2,657)	–	(2,657)
Finance income/(costs)	6	**228**	**–**	**228**	(643)	–	(643)
		(3,418)	**–**	**(3,418)**	(3,300)	–	(3,300)
Profit before taxation	4	**42,218**	**(24,061)**	**18,157**	33,528	(20,512)	13,016
Taxation	8	**(8,033)**	**(2,805)**	**(10,838)**	(6,372)	1,383	(4,989)
Profit for the period attributable to equity shareholders		**34,185**	**(26,866)**	**7,319**	27,156	(19,129)	8,027
Earnings per share							
Basic (pence)	10	**6.39**		**1.37**	5.11		1.51
Diluted (pence)	10	**6.30**		**1.35**	5.05		1.49

All of the activities of the Group are classed as continuing.

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

	Year ended 31 December 2021 £000s	Year ended 31 December 2020 £000s
Profit for the year	**7,319**	8,027
Other comprehensive income		
Items that may be reclassified to profit or loss		
Foreign exchange translation differences (net of deferred tax)	**636**	(1,051)
Foreign exchange forward contracts – cash flow hedge (net of deferred tax)	**(191)**	(250)
Interest rate swaps – cash flow hedge (net of deferred tax)	**–**	27
Total comprehensive income for the year	**7,764**	6,753

Consolidated Balance Sheet

	Note	31 December 2021 £000s	31 December 2020 £000s
Assets			
Non-current assets			
Goodwill and intangible assets	11	**413,744**	412,872
Property, plant and equipment	12	**4,826**	15,921
Deferred tax asset	22	**3,526**	2,139
Other non-current assets		**371**	682
		422,467	431,614
Current assets			
Inventories	14	**21,075**	22,917
Trade and other receivables	15	**30,821**	25,114
Derivative financial instruments	21	**64**	310
Cash and cash equivalents	16	**29,061**	28,898
		81,021	77,239
Total assets		**503,488**	508,853
Equity			
Ordinary share capital	23	**5,382**	5,329
Share premium account		**151,328**	150,645
Share option reserve		**10,058**	8,426
Other reserve		**(329)**	(329)
Cash flow hedging reserve		**48**	239
Translation reserve		**(419)**	(1,055)
Retained earnings		**116,418**	117,703
Total equity		**282,486**	280,958

	Note	31 December 2021 £000s	31 December 2020 £000s
Liabilities			
Non-current liabilities			
Loans and borrowings	18	**116,060**	138,328
Other liabilities	19	**2,637**	3,200
Deferred tax liability	22	**61,728**	56,181
		180,425	197,709
Current liabilities			
Corporation tax		**1,178**	1,435
Trade and other payables	17	**29,930**	28,736
Provisions	20	**9,469**	–
Derivative financial instruments	21	**–**	15
		40,577	30,186
Total liabilities		**221,002**	227,895
Total equity and liabilities		**503,488**	508,853

The financial statements were approved by the Board of Directors on 30 March 2022.

Peter Butterfield
Director

Andrew Franklin
Director

The accompanying accounting policies and notes form an integral part of these financial statements.

Company number 04241478

Company Balance Sheet

	Note	31 December 2021 £000s	31 December 2020 £000s
Assets			
Non-current assets			
Investment and loans to subsidiaries	13	**199,348**	199,776
Current assets			
Trade and other receivables	15	**39**	36
Cash and cash equivalents	16	**141**	297
		180	333
Total assets		**199,528**	200,109
Equity			
Ordinary share capital	23	**5,382**	5,329
Share premium account		**151,328**	150,645
Share option reserve		**8,962**	7,955
Retained earnings		**33,064**	34,912
Total equity		**198,736**	198,841
Liabilities			
Current liabilities			
Trade and other payables	17	**368**	306
Corporation tax		**424**	962
Total liabilities		**792**	1,268
Total equity and liabilities		**199,528**	200,109

The Company's profit for the year was £6,756,000 (2020: £5,433,000).

As permitted by section 408 of the Companies Act 2006, no separate Income Statement is presented in respect of the Parent Company.

The financial statements were approved by the Board of Directors on 30 March 2022.

Peter Butterfield
Director

Andrew Franklin
Director

The accompanying accounting policies and notes form an integral part of these financial statements.

Company number 04241478

Consolidated Statement of Changes in Equity

	Ordinary share capital £000s	Share premium account £000s	Other reserve £000s	Cash flow hedging reserve £000s	Translation reserve £000s	Share option reserve £000s	Retained earnings £000s	Total equity £000s
Balance 1 January 2020	5,294	149,036	(329)	462	(4)	7,208	112,513	274,180
Issue of shares	35	1,609	–	–	–	–	–	1,644
Dividend paid	–	–	–	–	–	–	(2,837)	(2,837)
Share options charge (including deferred tax)	–	–	–	–	–	1,218	–	1,218
Transactions with owners	35	1,609	–	–	–	1,218	(2,837)	25
Profit for the year	–	–	–	–	–	–	8,027	8,027
Other comprehensive income								
Foreign exchange forward contracts – cash flow hedge (net of deferred tax)	–	–	–	(250)	–	–	–	(250)
Interest rate swaps – cash flow hedge (net of deferred tax)	–	–	–	27	–	–	–	27
Foreign exchange translation differences (net of deferred tax)	–	–	–	–	(1,051)	–	–	(1,051)
Total comprehensive income for the year	–	–	–	(223)	(1,051)	–	8,027	6,753
Balance 31 December 2020	5,329	150,645	(329)	239	(1,055)	8,426	117,703	280,958

	Ordinary share capital £000s	Share premium account £000s	Other reserve £000s	Cash flow hedging reserve £000s	Translation reserve £000s	Share option reserve £000s	Retained earnings £000s	Total equity £000s
Balance 1 January 2021	**5,329**	**150,645**	**(329)**	**239**	**(1,055)**	**8,426**	**117,703**	**280,958**
Issue of shares	**53**	**683**	**–**	**–**	**–**	**–**	**–**	**736**
Dividend paid	**–**	**–**	**–**	**–**	**–**	**–**	**(8,604)**	**(8,604)**
Share options charge (including deferred tax)	**–**	**–**	**–**	**–**	**–**	**1,632**	**–**	**1,632**
Transactions with owners	**53**	**683**	**–**	**–**	**–**	**1,632**	**(8,604)**	**(6,236)**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**7,319**	**7,319**
Other comprehensive income								
Foreign exchange forward contracts – cash flow hedge (net of deferred tax)	**–**	**–**	**–**	**(191)**	**–**	**–**	**–**	**(191)**
Foreign exchange translation differences (net of deferred tax)	**–**	**–**	**–**	**–**	**636**	**–**	**–**	**636**
Total comprehensive income for the year	**–**	**–**	**–**	**(191)**	**636**	**–**	**7,319**	**7,764**
Balance 31 December 2021	**5,382**	**151,328**	**(329)**	**48**	**(419)**	**10,058**	**116,418**	**282,486**

Company Statement of Changes in Equity

	Ordinary share capital £000s	Share premium account £000s	Share option reserve £000s	Retained earnings £000s	Total equity £000s
Balance 1 January 2020	5,294	149,036	6,846	32,316	193,492
Issue of shares	35	1,609	–	–	1,644
Dividend paid	–	–	–	(2,837)	(2,837)
Share options charge (including deferred tax)	–	–	1,109	–	1,109
Transactions with owners	35	1,609	1,109	(2,837)	(84)
Profit for the period and total comprehensive income	–	–	–	5,433	5,433
Balance 31 December 2020	5,329	150,645	7,955	34,912	198,841

	Ordinary share capital £000s	Share premium account £000s	Share option reserve £000s	Retained earnings £000s	Total equity £000s
Balance 1 January 2021	**5,329**	**150,645**	**7,955**	**34,912**	**198,841**
Issue of shares	**53**	**683**	**–**	**–**	**736**
Dividend paid	**–**	**–**	**–**	**(8,604)**	**(8,604)**
Share options charge (including deferred tax)	**–**	**–**	**1,007**	**–**	**1,007**
Transactions with owners	**53**	**683**	**1,007**	**(8,604)**	**(6,862)**
Profit for the period and total comprehensive income	**–**	**–**	**–**	**6,756**	**6,756**
Balance 31 December 2021	**5,382**	**151,328**	**8,962**	**33,064**	**198,736**

Consolidated and Company Cash Flow Statements

	Note	Group Year ended 31 December 2021 £000s	Group Year ended 31 December 2020 £000s	Company Year ended 31 December 2021 £000s	Company Year ended 31 December 2020 £000s
Cash flows from operating activities					
Cash generated from operations	25	**44,919**	46,405	**(961)**	(2,133)
Tax paid		**(6,260)**	(4,838)	**(1,484)**	(1,012)
Cash flows from/(used in) operating activities		**38,659**	41,567	**(2,445)**	(3,145)
Investing activities					
Interest received		**–**	10	**–**	–
Dividend received		**–**	–	**2,600**	2,800
Acquisition of Biogix Inc	31	**183**	(82,667)	**–**	–
Purchase of intangible assets	11	**(4,006)**	–	**–**	–
Purchase of property, plant and equipment	12	**(1,526)**	(4,612)	**–**	–
Proceeds from disposal of intangibles		**750**	1,405	**–**	–
Net cash (used in)/from investing activities		**(4,599)**	(85,864)	**2,600**	2,800
Financing activities					
Interest paid and similar charges		**(2,965)**	(2,866)	**–**	–
Loan issue costs		**–**	(362)	**–**	–
Capital lease payments		**(924)**	(884)	**–**	–
Contribution from/(investment in) subsidiary	13	**–**	–	**7,557**	1,738
Proceeds from exercise of share options		**736**	1,644	**736**	1,644
Dividend paid	9	**(8,604)**	(2,837)	**(8,604)**	(2,837)
Proceeds from borrowings	21	**–**	82,595	**–**	–
Repayment of borrowings	21	**(22,587)**	(21,541)	**–**	–
Net cash provided by/(used in) financing activities		**(34,344)**	55,749	**(311)**	(545)
Net movement in cash and cash equivalents		**(284)**	11,452	**(156)**	200
Cash and cash equivalents at 1 January		**28,898**	17,830	**297**	97
Exchange gains/(losses) on cash and cash equivalents		**447**	(384)	**–**	–
Cash and cash equivalents at 31 December	16	**29,061**	28,898	**141**	297

The accompanying accounting policies and notes form an integral part of these financial statements.

Notes to the Financial Statements

1. General information

Alliance Pharma plc ('the Company') and its subsidiaries (together 'the Group') acquire, market and distribute consumer healthcare products and prescription medicines. The Company is a public limited company, limited by shares, registered, incorporated and domiciled in England and Wales in the UK. The address of its registered office is Avonbridge House, Bath Road, Chippenham, Wiltshire, SN15 2BB. The Company is listed on the AIM stock exchange.

These consolidated financial statements have been approved for issue by the Board of Directors on 30 March 2022.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 Basis of preparation

These financial statements have been prepared and approved by the Directors in accordance with UK-adopted international accounting standards ('UK-adopted IFRS').

The financial statements have been prepared under the historical cost convention, with the exception of derivatives which are included at fair value.

2.2 Consolidation

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the 'Group') and equity account the Group's interest in Joint Ventures. The parent Company financial statements present information about the Company as a separate entity and not about the Group.

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Joint ventures

An entity is treated as a joint venture where the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities. Joint ventures are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The consolidated financial statements include the Group's share of the total comprehensive income and equity movements of equity accounted investees, from the date that joint control commences until the date that joint control ceases.

Transactions eliminated on consolidation

Intra-Group balances and transactions, and any unrealised income and expenses arising from intra-Group transactions, are eliminated.

2.3 Judgements and estimates

The preparation of the consolidated financial statements requires the Directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the relevant circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed by the Directors on an ongoing basis.

Judgements

The following are the critical judgements, apart from those involving estimates (which are dealt with separately below), that the Directors have made in the process of applying the Group's accounting policies that have the most significant effect on the amounts recognised in the Group's financial statements.

These are as follows:

- Assessment of cloud-based software costs in relation to the Group's cloud hosted ERP system.
- Determining the treatment of payment to customers in significant contracts. This is considered a critical judgement, but the impact is immaterial for the current year.
- Identification and presentation of non-underlying items (note 5).
- Assessment of the Infringement Decision announced by the UK's Competition and Markets Authority ('CMA') (note 20).

2. Summary of significant accounting policies continued

2.3 Judgements and estimates continued

Intangible assets – cloud-based software costs

The determination of whether a cloud-based software arrangement represents a pure Software as a Service solution, or a right to take possession of, and to use, the software requires judgement.

In light of the recent IFRIC agenda decision regarding cloud-based software, the Group has reviewed its service agreements in respect of its cloud-based ERP system and has considered several factors to conclude on the appropriate accounting treatment. These factors include the nature and key terms of licence arrangements, ownership of intellectual property rights, ability to restrict access to systems and the feasibility of removing software applications from the cloud environment and running them within the Group's own IT environment instead, taking into account the associated costs and potential change in functionality.

Having considered these factors the Group concluded that it does have substantive control over the ERP system and has therefore recognised it as an intangible asset in line with the guidance under IAS 38. Had the Group concluded that it does not have control, a proportion of the costs would have been expensed in the Income Statement in the current year.

Identification and presentation of non-underlying items

In 2020 the Group updated its classification policy for non-underlying items (note 5). Following the update all amortisation and impairment charges for acquired intangible assets are included as non-underlying items, in line with the majority of peer companies of the Group. Significant restructuring costs (for example, relating to office or business closures), the CMA provision and the revaluation of deferred tax balances following substantial tax legislation changes are also included as non-underlying items.

The Directors believe that this classification of underlying and non-underlying items, when considered together with total statutory results, provides investors, analysts and other stakeholders with helpful complementary information to understand better the financial performance and position of the Group from period to period, and allows the Group's performance to be more easily compared against the majority of its peer companies. These measures are also used by management for planning and reporting purposes. They may not be directly comparable with similarly described measures used by other companies.

Estimates

IAS 1 requires the disclosure of assumptions and estimates at the end of the current reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

The Directors consider these estimates to be as follows:

› Key assumptions used in discounted cash flow projections for impairment testing of certain intangible assets (note 11).

2.4 Revenue recognition

Identification of performance obligations

Revenue comprises consideration received or receivable for the sale of goods in the ordinary course of the Group's activities, namely the distribution of pharmaceutical products. The Group has assessed the performance obligations as being each unit of good sold by the Group.

The Group receives royalties in relation to certain agreements with distributors in exchange for the licensed use of intellectual property and trademarks owned by the Group, which are generally based on sales volumes. The Group also receives product margin generated by third parties on its behalf under certain transitional arrangements. The Group has assessed the performance obligations as being each unit of good sold by the third parties.

Transaction price

The transaction price for each performance obligation comprises the stand-alone selling price for the product excluding value-added tax and net of rebates and discounts. Intra-Group sales are eliminated in the consolidated financial statements.

Royalty income and the deductions relating to rebates and discounts are based on the Group's contractual obligations. Certain of the rebate arrangements also include elements of variable consideration. The Group does not consider these elements to be significant, however an estimate of variable consideration is included where appropriate. The IFRS 15 exemption from estimating variable consideration has been applied to the Group's sales-based royalties.

The Group has considered whether it is an 'agent' or 'principal' under IFRS 15 for each commercial arrangement and accounted for these accordingly. The Group is considered the 'principal' for all key commercial relationships relating to sale of goods, except the relationship with certain supply partners as described in full under 'Specific revenue streams'. This is because the Group controls each specified good before transfer to customers.

2. Summary of significant accounting policies continued

2.4 Revenue recognition continued

Where consideration is payable to a customer, this is evaluated by the Group to determine whether the amount represents a reduction of the transaction price, a payment for distinct goods or services or a combination of the two. The fair value of the good or service is also evaluated to assess whether the payment should be accounted for as a payment to suppliers or a reduction in transaction price.

Timing of recognition

Under IFRS 15 an entity recognises revenue when it satisfies a performance obligation by transferring a good to a customer. An entity transfers a good to a customer when the customer obtains control of that good. Control may be transferred either at a point in time or over time. For the Group, revenue is recognised at a point in time when customers have control of the sold goods, or on an appropriate basis where royalty or other arrangements are in place with third parties. To determine the point in time control is transferred for sale of goods the Group considers all relevant indicators. Revenue is recognised net of a provision for the expected level of returns.

Specific revenue streams

The Group has the following recognition policies for different commercial arrangements:

(i) Pharmaceutical product sales – ex-works terms: Recognition at a point in time when each unit of pharmaceutical product is available to the customer for collection. At this point in time the customer has an obligation to pay for the goods, legal title and significant risks and rewards of ownership.

(ii) Pharmaceutical product sales – dispatch terms and delivery at place: Recognition at a point in time when each unit of pharmaceutical product is dispatched to the customer or reaches the designated place. At this point in time the customer has an obligation to pay for the goods, legal title and significant risks and rewards of ownership. This revenue recognition policy covers the cross border e-commerce stream as referred to in the strategic report.

(iii) Pharmaceutical product royalties receivable: Recognition at a point in time when the third party makes pharmaceutical product sales subject to a royalty agreement with the Group.

(iv) Pharmaceutical product rebates, discounts and payments to customers: Recognition as a deduction from revenue when the third party makes pharmaceutical product sales subject to a rebate agreement with the Group or when sales are made in the scope of the VPAS Voluntary Scheme.

VPAS applies to branded, licensed medicines which are available on NHS prescription. Under the scheme, a fixed percentage of measured sales is due to the Department of Health and Social Care and the rebate is calculated and paid on a quarterly basis. For medium-sized companies, the VPAS scheme includes an exemption where total measured sales are less than £5.0m per year. As the Group's total measured sales in 2021 were under this threshold, the Group was exempt from any VPAS payments and, as a result, no amounts were deducted from revenue (2020: no deduction).

For transactions with variable consideration, such as coupons, this is recognised at the point of sale to the customer.

Payments to customers are accounted for as a reduction of revenue unless they are linked to a distinct service, in which case they are classified as an operating expense.

(v) Pharmaceutical product transitional agreements: Recognition of a point in time when the third party makes pharmaceutical product sales subject to a transitional agreement with the Group.

The amounts recognised in statutory revenue represent the product margin generated by the third party on behalf of the Group. Related transitional agreement fees are recognised within administrative expenses.

This is relevant to Nizoral (note 34) where the Group has transitional agreements with certain supply partners. Under the terms of the agreements, the Group receives the benefit of the net profit on sales of Nizoral from the date of acquisition up until the product licences in the Asia-Pacific territories transfer to Alliance. The Group has determined it is an 'agent' in these relationships as it does not control the sale of goods to third party customers.

The Group does not consider that judgements made in evaluating when customers obtain control of a promised good to have significantly influenced the timing of revenue recognition in the year.

2.5 Foreign currency

The consolidated financial statements are presented in Sterling, which is the presentational currency of the Group and the functional currency of the Company. Foreign currency transactions by Group companies are booked at the exchange rate ruling on the date of the transaction. Foreign currency monetary assets and liabilities are retranslated into Sterling at the rate of exchange ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in the Income Statement except for differences arising on the retranslation of a financial liability designated as a hedge of the net investment in a foreign operation that is effective, or qualifying cash flow hedges, which are recognised directly in other comprehensive income.

2. Summary of significant accounting policies continued

2.5 Foreign currency continued

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the Group's presentational currency, Sterling, at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions. Exchange differences arising from translation of foreign operations are reported in other comprehensive income and accumulated in the translation reserve. Foreign currency differences arising on the retranslation of a hedge of a net investment in a foreign operation are reported in other comprehensive income and accumulated in the translation reserve, to the extent that the hedge is effective.

2.6 Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's Chief Operating Decision Maker ('CODM'). The Group's Board of Directors ('the Board') is the Group's Chief Operating Decision Maker ('CODM'), as defined by IFRS 8, and all significant operating decisions are taken by the Board.

2.7 Property, plant and equipment

Computer equipment, fixtures, fittings and equipment, plant and machinery and motor vehicles are stated at the cost of purchase less any provisions for depreciation and impairment. Depreciation of an asset starts when the asset is available for use. The rates generally applicable are:

Computer equipment
20% – 33.3% per annum, straight line

Fixtures, fittings and equipment
20% – 25% per annum, straight line

Plant and machinery
20% – 25% per annum, straight line

2.8 Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. The lease payments are discounted using the Group's incremental borrowing rate.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the Income Statement. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment.

2.9 Intangible assets and goodwill

Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment.

Acquired intangible assets

(i) Brands

Separately acquired brands are shown at cost less accumulated amortisation and impairment. Brands acquired as part of a business combination are recognised at fair value at the acquisition date, where they are separately identifiable. Brands are amortised over their useful economic life, except when their life is determined as being indefinite.

Applying indefinite lives to certain acquired brands is appropriate due to the stable long-term nature of the business and the enduring nature of the brands. Indefinite life brands are tested at least annually for impairment.

A review of the useful economic life of brands is performed annually, to ensure that these lives are still appropriate. If a brand is considered to have a finite life, its carrying value is amortised over that period.

(ii) Patents

Where an acquired intangible asset includes a definite period of patent protection and the value attributed to the patent is considered material, the Group has accounted for the value of the patent separate to the underlying brand. The patent is amortised over the period to patent expiry.

Notes to the Financial Statements continued

2. Summary of significant accounting policies continued

2.9 Intangible assets and goodwill continued

(iii) Distribution rights

Payments made in respect of product registration and distribution rights are capitalised where the rights comply with the above requirements for recognition of acquired brands. If the registration or distribution rights are for a defined time period, the intangible asset is amortised over that period. If no time period is defined, the intangible asset is treated in the same way as acquired brands with an indefinite life. If the licence period can be extended the useful life of the intangible asset shall include the renewal period only if there is evidence to support renewal by the entity without disproportionate cost.

(iv) Computer software

Computer software comprises software purchased from third parties as well as the cost of internally developed software. Computer software licences are capitalised on the basis of the costs incurred to acquire and bring into use the specific software. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and are probable of producing future economic benefits, are recognised as intangible assets. Direct costs of software development include employee costs and directly attributable overheads. Software integral to an item of hardware equipment is classified as property, plant and equipment. Costs associated with maintaining software programs are recognised as an expense when they are incurred. Amortisation is charged to the Income Statement on a straight-line basis over the estimated useful life from the date the software is available for use, generally eight years. In bringing the asset into use, the Directors have determined that the asset related to the ERP system should be reclassified from property, plant and equipment to intangible assets. The Directors have considered the impact on the prior period and have considered this not material.

Development costs

Research expenditure is charged to the Income Statement in the period in which it is incurred. Development expenditure is capitalised when it can be reliably measured and the project it is attributable to is separately identifiable, technically feasible, demonstrates future economic benefit, and will be used or sold by the Group once completed.

The capitalised cost is amortised over the period during which the Group is expected to benefit and begins when the asset is ready for use.

Development costs are reviewed at least annually for impairment by assessing the recoverable amount of each cash-generating unit, to which the development costs relate.

The recoverable amount is the higher of fair value less costs to sell and value in use. Development costs not meeting the recognition criteria are expensed as incurred.

Impairment

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. For intangible assets with an indefinite life, assets with a finite life that show indicators of impairment, and goodwill this includes estimation of the recoverable amount.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the 'cash-generating unit'). The Directors have determined that the cash-generating units are at product-group level.

The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units, or ('CGU'). For the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2. Summary of significant accounting policies continued

2.10 Inventories

Inventories are included at the lower of cost, less any provision for impairment, or net realisable value. Except for the Biogix entity, which recognises inventory on an average cost basis, inventory cost for the Group is determined on a first-in-first-out basis. Inventory provisions have been made for slow-moving and obsolete stock. These provisions are estimates and the actual costs and timing of future cash flows are dependent on future events. The difference between expectations and the actual future liability will be accounted for in the period when such determination is made.

2.11 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and differences relating to investment and loans to subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

2.12 Derivative financial instruments and hedging activities

The Group holds derivative financial instruments to hedge its foreign currency risk exposures. Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised in profit or loss unless designated as cash flow hedges.

The Group designates certain derivatives as hedging instruments to hedge the variability in cash flows associated with highly probable forecast transactions arising from changes in foreign exchange rates.

At inception of designated hedging relationships, the Group documents the risk management objective and strategy for undertaking the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

Cash flow hedges

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and accumulated in the cash flow hedging reserve. The effective portion of changes in the fair value of the derivative that is recognised in other comprehensive income is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument is sold, expires, is terminated or is exercised, then hedge accounting is discontinued prospectively.

When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the cash flow hedging reserve remains in equity until it is reclassified to profit or loss in the same period or periods as the hedged expected future cash flows affect profit or loss.

If the hedged future cash flows are no longer expected to occur, then the amounts that have been accumulated in the cash flow hedging reserve and the cost of hedging reserve are immediately reclassified to profit or loss.

Translation risk

Exchange differences arising from the translation of the net investment in foreign operations are reported in other comprehensive income and accumulated in the translation reserve. Gains and losses on those hedging instruments designated as hedges of the net investment in foreign operations, are recognised to the extent that the hedging relationship is effective; these amounts are included in exchange differences on translation of foreign operations as stated in the statement of comprehensive income. Gains and losses relating to hedge ineffectiveness are recognised immediately in the Income Statement for the period. Gains and losses accumulated in the translation reserve are reclassified to the Income Statement when the foreign investment is disposed of.

2. Summary of significant accounting policies continued

2.13 Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Modifications of financial instruments (including loans and borrowings) are reviewed quantitatively and qualitatively to determine if the modification is 'substantial'. Substantial modification of a financial liability results in derecognition of the original balance, and recognition of a new financial liability at fair value. The difference between the carrying amount of the original financial liability and the fair value of the new financial liability is charged to the Income Statement. A non-substantial modification of financial liability does not result in the derecognition of the original balance, however it may also result in a gain or loss recognised in the income statement.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. The Group's trade receivables are subject to the IFRS 9 expected credit loss model. The Group has applied the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance based on historic default rates. The expected credit loss rate varies depending on whether and the extent to which settlement of the trade receivables is overdue.

Accrued income represents amounts owed unconditionally to the Group which have not been invoiced at the year end. For these assets, only the passage of time is required before payment becomes due.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement. Dividends and interest received are included in investing activities. Dividends and interest paid are included in financing activities.

Investments in debt and equity securities

The Company's investment and loans to subsidiaries is stated at amortised cost less impairment.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method.

2.14 Employee benefits – Share-based payment transactions

Employees (including Executive Directors) of the Group receive part of their remuneration in the form of share-based payments, whereby, depending on the scheme, employees render services in exchange for rights over shares ('equity-settled transactions') or entitlement to a future cash payment ('cash-settled transactions'), the amount of which is determined with reference to the Company's share price.

The cost of equity-settled transactions with employees is measured, where appropriate, with reference to the fair value at the date on which they are granted. Where options need to be valued an appropriate valuation model is applied. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of exercise restrictions and behavioural considerations. The cost of equity-settled transactions is fully recharged to subsidiaries.

The cost of cash-settled transactions is measured with reference to the fair value of the liability, which is taken to be the closing price of the Company's shares. Until the liability is settled it is remeasured at the end of each reporting period and at the date of settlement, with any changes in the fair value being recognised in the Income Statement.

The cost of equity-settled transactions is recognised, along with a corresponding increase in equity, over the years in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date'). The cost of cash-settled transactions is recognised, along with a provision for expected cash settlement, over the vesting period.

At each reporting date, the cumulative expense recognised for equity-settled transactions reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of management, will ultimately vest. Management's estimates are based on the best available information at that date. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Notes to the Financial Statements continued

2. Summary of significant accounting policies continued

2.15 Equity

The provision of shares to satisfy certain of the Group's share option schemes can be facilitated by purchases of own shares by the Group's Employee Benefit Trust. The costs of operating the Trust is borne by the Group but is not material. To date, no shares have been purchased by the Trust for satisfaction of outstanding or future share option awards.

The Employee Benefit Trust is considered to be controlled by the Group. The activities of the Trust are conducted on behalf of the Group according to its specific business needs in order to obtain benefits from its operation and, on this basis, the assets held by the Trust are consolidated into the Group's financial statements.

'Share capital' represents the nominal value of equity shares.

'Share premium' represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.

'Share option reserve' represents equity-settled share-based employee remuneration.

'Retained earnings' represents retained profit.

'Other reserve' represents the difference between the fair value and nominal value of shares issued on a reverse takeover.

'Cash flow hedging reserve' represents the fair value of derivative financial instruments at the balance sheet date that are designated as cash flow hedges, net of deferred tax, less amounts reclassified through other comprehensive income.

'Translation reserve' represents gains and losses arising on translation of the net assets of overseas operations into the Group's presentation currency of Sterling.

2.16 Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of a past event, for which it is probable that a transfer of economic benefits will be required for settlement and where a reliable estimate can be made of the amount of the obligation. Where material, provisions have been discounted to their present value.

2.17 Business combinations

Business combinations are accounted for using the acquisition accounting method. Identifiable assets and liabilities acquired are measured at fair value at acquisition date. Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred. Any contingent consideration payable is recognised at fair value at the acquisition date.

If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss. The Group also engages in acquisitions of product-specific assets (such as brands – set out in note 2.9). Where elements of the consideration paid are variable and based on future revenues, the cost of the intangible asset recognised is based on the agreed minimum payments and any additional payments are expensed as the related sales occur.

2.18 Going concern

The Group is in a net current asset position of £40.4m (2020: £47.1m). The Group's debt funding is provided by a £165m Revolving Credit Facility ('RCF'), together with a £50m accordion facility, with a syndicate of lenders. This facility is available until July 2024.

The Directors have prepared cash flow forecasts for a period of more than 12 months from the date of approval of these financial statements (the going concern period). These indicate that the Group will have sufficient funds, given the RCF financing available, to meet its liabilities as they fall due for that period.

Also, the Directors have considered the sensitivity of cash flow forecasts to severe downside scenarios, including the potential impact of the timing of the payment in relation to the CMA decision, detailed further in note 20.

The Directors considered a reverse stress test scenario which indicates that a decline in EBITDA against forecast of over 40% would be needed to result in a breach of loan covenants. The Directors consider this remote.

The RCF is drawn in short to medium-term tranches of debt which are repayable within 12 months of draw-down. These tranches of debt can be rolled over provided certain conditions are met, including covenant compliance. The Group considers that it is highly unlikely it would be unable to exercise its right to roll-over the debt based on the forecast covenant compliance in the severe downside modelled above. There are mitigating actions (within the control of the Group) it could take to maintain compliance with these conditions, including future covenant requirements. The Directors therefore believe that the Group has the ability and the intent to roll-over the drawn RCF amounts when due and consequently has presented the RCF as a non-current liability.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and have therefore determined it is appropriate to adopt the going concern basis in preparing the financial statements.

2. Summary of significant accounting policies continued

2.19 Alternative performance measures

The performance of the Group is assessed using Alternative Performance Measures ('APMs'). The Group's results are presented both before and after non-underlying items. Adjusted profitability measures are presented excluding non-underlying items as we believe this provides both management and investors with useful additional information about the Group's performance and aids effective comparison of the Group's trading performance from one period to the next and with similar businesses.

In addition, the Group's results are described using certain other measures that are not defined under IFRS and are therefore considered to be APMs. These measures are used by management to monitor ongoing business performance against both shorter-term budgets and forecasts but also against the Group's longer-term strategic plans. APMs are presented in note 34.

The Group does not consider adjusted profitability measures or APMs to be a substitute for, or superior to, IFRS measures.

3. Revenue and segmental information

The Group's reportable segments are the strategic business units that represent different parts of the overall product portfolio, these being Consumer Healthcare brands and Prescription Medicines. The business units are managed separately as each portfolio requires different expertise to deliver the corresponding product offering as a result of the inherently different characteristics of these product types.

Operating segments reflect the way in which information is presented to and reviewed by the CODM for the purposes of making strategic decisions and assessing Group-wide performance. The Group's Board of Directors ('the Board') is the Group's CODM. The Group evaluates performance of the operational segments on the basis of revenue and gross profit. Other than intangible assets, disclosed in note 11, assets and liabilities are reported to the Board at Group level and are not separated segmentally.

Revenue

Revenue information by brand	Year ended 31 December 2021 £000s	Year ended 31 December 2020 £000s
Consumer Healthcare brands:		
Kelo-cote	**48,845**	34,748
Amberen	**19,233**	–
Nizoral*	**14,189**	13,260
MacuShield	**8,829**	6,751
Aloclair	**5,773**	7,601
Vamousse	**4,110**	5,626
Other Consumer Healthcare brands	**14,397**	17,354
Total revenue – Consumer Healthcare brands:	**115,376**	85,340
Prescription Medicines:		
Hydromol	**7,009**	6,304
Flamma Franchise	**6,610**	5,897
Forceval	**5,685**	4,893
Other prescription medicines	**28,527**	27,367
Total revenue – Prescription Medicines	**47,831**	44,461
Total revenue	**163,207**	129,801

* Nizoral statutory revenue includes revenue generated on an agency basis. Nizoral revenue presented on a see-through Income Statement basis is included as an alternative performance measure in note 34.

Notes to the Financial Statements continued

3. Revenue and segmental information continued

Revenue information by geography

Classification by geography is based on customer location.

	Year ended 31 December 2021 £000s	Year ended 31 December 2020 £000s
Europe, Middle East and Africa (EMEA)	**89,188**	93,769
Asia Pacific and China (APAC)	**48,030**	29,309
Americas (AMER)	**25,989**	6,723
Total revenue	**163,207**	129,801

Operating segment results

	Year ended 31 December 2021		
	Consumer Healthcare £000s	Prescription Medicines £000s	Total £000s
Revenue	**115,376**	**47,831**	**163,207**
Cost of sales	**(31,545)**	**(22,212)**	**(53,757)**
Gross profit	**83,831**	**25,619**	**109,450**

	Year ended 31 December 2020		
	Consumer Healthcare £000s	Prescription Medicines £000s	Total £000s
Revenue	85,340	44,461	129,801
Cost of sales	(26,199)	(20,786)	(46,985)
Gross profit	59,141	23,675	82,816

Major customers

The revenues from the Group's largest customers are as follows. No customers separately comprised 10% or more of revenue (2020: two). Major customer 1 is a multinational organisation with sales in both EMEA and AMER regions.

	Year ended 31 December 2021 £000s	Year ended 31 December 2020 £000s
Major customer 1 (Consumer Healthcare and Prescription Medicines sales in EMEA and AMER)	**13,723**	17,345
Major customer 2 (Consumer Healthcare sales in EMEA)	**12,014**	16,646

4. Profit before taxation

Profit before taxation is stated after charging/(crediting):	Year ended 31 December 2021 £000s	Year ended 31 December 2020 £000s
Amounts receivable by the Company's auditor and its associates in respect of:		
– The audit of these financial statements	**96**	48
– The audit of the financial statements of subsidiaries	**326**	198
– Other assurance services	**5**	5
Amortisation of intangible assets	**8,530**	7,155
Impairment of intangible assets	**6,150**	12,057
CMA provision	**7,900**	–
Losses on disposals	**–**	308
Share options charge	**2,250**	1,374
Depreciation of plant, property and equipment	**1,575**	1,753
(Gain)/loss on foreign exchange transactions	**(205)**	653

5. Non-underlying items

The Group presents a number of non-IFRS measures which exclude the impact of significant non-underlying items. This is to allow investors to understand the underlying trading performance of the Group, and can exclude items such as: amortisation and impairment of acquired intangible assets; restructuring costs; significant gains or losses on disposal; remeasurement and accounting for the passage of time in respect of contingent considerations; and the revaluation of deferred tax balances following substantial tax legislation changes. This assessment requires judgement to be applied by the Directors as to which transactions are non-underlying and whether this classification enhances the understanding of the users of the financial statements.

	Year ended 31 December 2021 £000s	Year ended 31 December 2020 £000s
Amortisation of acquired intangible assets	**(7,168)**	(7,155)
Impairment of goodwill and intangible assets	**(6,150)**	(12,057)
Biogix acquisition costs	**–**	(1,300)
CMA provision	**(7,900)**	–
Restructuring costs	**(2,420)**	–
Other	**(423)**	–
Total non-underlying items before taxation	**(24,061)**	(20,512)
Taxation on non-underlying items	**2,167**	3,194
Impact of UK tax rate change from 17% to 19%	**–**	(1,811)
Impact of UK tax rate change from 19% to 25%	**(4,972)**	–
Non-underlying taxation	**(2,805)**	1,383
Total non-underlying items after taxation	**(26,866)**	(19,129)

Amortisation of intangible assets

The amortisation costs of acquired intangible assets are a significant item considered unrelated to trading performance, and as such have been presented as non-underlying. This classification is in line with the majority of peer companies of the Group.

Impairment of goodwill and intangible assets

The impairment reviews for the Group's intangible assets resulted in impairment losses as the carrying value of certain cash-generating units exceeded estimated recoverable amounts. Further details are provided in note 11. The impairment losses are significant items resulting from changes in assumptions for future recoverable amounts. As such they are considered unrelated to 2021 trading performance, and have been presented as non-underlying.

Biogix acquisition costs

Legal and professional fees related to the purchase of Biogix Inc in 2020 (note 31) were £1.3m. These acquisition costs are a significant item considered unrelated to 2020 trading performance, and as such have been presented as non-underlying.

CMA provision

The CMA provision of £7.9m relates to the CMA Infringement Decision which is detailed further in note 20. This is considered unrelated to trading performance, and as such has been presented as non-underlying.

Restructuring costs

Costs of Group restructuring in the year ended 31 December 2021 relating to the closure of the Milan and Los Angeles offices were £2.4m (2020: £Nil). These costs are a significant item considered unrelated to 2021 trading performance, and as such have been presented as non-underlying.

Impact of UK tax rate change from 17% to 19%

The taxation charge for the year ended 31 December 2020 includes the impact on deferred tax of the main rate of UK corporation tax from 17% to 19%, following the abandonment of the proposed reduction to 17% in the March 2020 Budget. The change in tax rate is a significant item that relates only to deferred tax, principally on intangibles, and is unrelated to trading performance. As such, the rate change impact has been presented as non-underlying.

Impact of UK tax rate change from 19% to 25%

In the Budget on 3 March 2021, a further change to UK corporation tax rates was announced, increasing the main rate from 19% to 25% with effect from 1 April 2023. The impact on deferred tax of this further rate increase is included in these financial statements as a non-underlying item.

Notes to the Financial Statements continued

6. Finance costs

	Year ended 31 December 2021 £000s	Year ended 31 December 2020 £000s
Interest payable and similar charges		
On loans and overdrafts	**(2,904)**	(1,988)
Amortised finance issue costs	**(639)**	(581)
Interest on lease liabilities	**(103)**	(88)
	(3,646)	(2,657)
Finance income		
Interest income	**23**	10
Net exchange gains/(losses)	**205**	(653)
	228	(643)
Finance costs – net	**(3,418)**	(3,300)

7. Directors and employees

Employee benefit expenses for the Group (including Executive Directors) during the year were as follows:

	Year ended 31 December 2021 £000s	Year ended 31 December 2020 £000s
Wages and salaries	**18,886**	16,437
Social security costs	**2,077**	1,958
Other pension costs (note 28)	**1,306**	994
Share-based employee remuneration (note 24)	**2,250**	1,374
	24,519	20,763

The average number of employees of the Group (including Directors) during the year was:

	Year ended 31 December 2021 Number	Year ended 31 December 2020 Number
Management and administration	**255**	221

Key management of the Group is the Board of Directors (including Non-executive Directors) and the Senior Leadership Team (SLT). Benefit expenses in respect of the key management were as follows:

	Year ended 31 December 2021 £000s	Year ended 31 December 2020 £000s
Key management remuneration	**3,442**	2,380
Pension contributions	**121**	112
	3,563	2,492

During the year contributions were paid to defined contribution schemes for two Executive Directors (2020: two).

Gain on share options exercised by Executive Directors during the year was £363,000 (2020: £54,000). The notional non-cash IFRS 2 share-based payment expense in respect of Directors was £256,000 (2020: £217,000).

The amounts set out above include remuneration in respect of the highest paid Director as follows:

	Year ended 31 December 2021 £000s	Year ended 31 December 2020 £000s
Emoluments for qualifying services	**587**	531
Pension contributions	**29**	27
	616	558

The notional non-cash IFRS 2 share-based payment expense in respect of the highest paid Director was £177,000 (2020: £156,000).

Average number of members of the Board of Directors (including Non-executive Directors) for the year ended 31 December 2021 was six (2020: six).

Notes to the Financial Statements continued

8. Taxation

Analysis of the charge for the period is as follows:

	Year ended 31 December 2021 £000s	Year ended 31 December 2020 £000s
Corporation tax		
In respect of current period	**6,069**	4,417
Adjustment in respect of prior periods	**(65)**	(123)
	6,004	4,294
Deferred tax (see note 22)		
Origination and reversal of temporary differences	**4,471**	705
Adjustment in respect of prior periods	**363**	(10)
Taxation	**10,838**	4,989

The difference between the total tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	Year ended 31 December 2021 £000s	Year ended 31 December 2020 £000s
Profit before taxation	**18,157**	13,016
Profit before taxation multiplied by standard rate of corporation tax in the United Kingdom of 19.00% (2019: 19.00%)	**3,449**	2,473
Effect of:		
Non-deductible expenses	**1,888**	614
Non-taxable income	**(4)**	(18)
Adjustment in respect of prior periods	**298**	(132)
Differences between current and deferred tax rates	**4,972**	1,811
Differing tax rates on overseas earnings	**114**	40
Unrecognised losses	**246**	–
Foreign exchange	**96**	–
Share options	**(352)**	(7)
Movement in other tax provisions	**131**	208
Total taxation	**10,838**	4,989

The taxation charge for the year ended 31 December 2020 included the impact on deferred tax of the increase in the main rate of UK tax from 17% to 19%, following the abandonment of the proposed reduction to 17% in the Budget on 11 March 2020.

A further change to UK corporation tax was announced in the Budget on 3 March 2021, increasing the main rate of UK corporation tax from 19% to 25% with effect from 1 April 2023. The taxation charge for the year ended 31 December 2021 includes the impact on deferred tax of this increase.

The Group has calculated 'underlying effective tax rate' as an alternative performance measure in note 34.

9. Dividends

An interim dividend of 0.563p per share for the 2021 financial year was paid on 7 January 2022. The Board is proposing a final dividend payment of 1.128p per share for 2021, taking the total dividend payment for the year to 1.691p (2020: 1.610p).

	Year ended 31 December 2021	
	Pence/share	£000s
Amounts recognised as distributions to owners in 2021		
Interim dividend for the 2020 financial year	**0.536**	**2,857**
Final dividend for the 2020 financial year	**1.074**	**5,747**
Total dividend	**1.610**	**8,604**

The interim dividend for 2020 was paid on 7 January 2021. The final dividend for 2020 was paid on 8 July 2021.

	Year ended 31 December 2020	
	Pence/share	£000s
Amounts recognised as distributions to owners in 2020		
Interim dividend for the 2019 financial year	0.536	2,837

Notes to the Financial Statements continued

10. Earnings per share (EPS)

Basic EPS is calculated by dividing the earnings attributable to Ordinary shareholders by the weighted average number of Ordinary shares in issue 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. There are no differences in earnings used to calculate each measure as a result of the dilutive employee share options.

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

	Year ended 31 December 2021	Year ended 31 December 2020
Basic EPS calculation	**535,295,583**	531,062,798
Employee share options	**7,039,113**	6,256,040
Diluted EPS calculation	**542,334,696**	537,318,838

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

	Year ended 31 December 2021 £000s	Year ended 31 December 2020 £000s
Earnings for basic and diluted EPS	**7,319**	8,027
Non-underlying items (note 5)	**26,866**	19,129
Earnings for underlying basic and diluted EPS	**34,185**	27,156

The resulting EPS measures are:

	Year ended 31 December 2021 Pence	Year ended 31 December 2020 Pence
Basic EPS	**1.37**	1.51
Diluted EPS	**1.35**	1.49
Underlying basic EPS	**6.39**	5.11
Underlying diluted EPS	**6.30**	5.05

11. Goodwill and intangible assets

The Group	Goodwill £000s	Consumer Healthcare brands and distribution rights £000s	Prescription Medicines brands and distribution rights £000s	Computer software £000s	Total £000s
Cost					
At 1 January 2021	**32,404**	**258,203**	**152,890**	**–**	**443,497**
Transfer from property, plant and equipment	**–**	**–**	**–**	**11,037**	**11,037**
Additions	**–**	**–**	**–**	**4,006**	**4,006**
Acquisition (note 31)	**(183)**	**–**	**–**	**–**	**(183)**
Exchange adjustments	**161**	**1,877**	**(1,346)**	**–**	**692**
At 31 December 2021	**32,382**	**260,080**	**151,544**	**15,043**	**459,049**
Amortisation and impairment					
At 1 January 2021	**1,144**	**6,459**	**23,022**	**–**	**30,625**
Non-underlying impairment for the year	**–**	**1,500**	**4,650**	**–**	**6,150**
Non-underlying amortisation for the year	**–**	**226**	**6,942**	**–**	**7,168**
Underlying amortisation for the year	**–**	**–**	**–**	**1,362**	**1,362**
At 31 December 2021	**1,144**	**8,185**	**34,614**	**1,362**	**45,305**
Net book amount					
At 31 December 2021	**31,238**	**251,895**	**116,930**	**13,681**	**413,744**
At 1 January 2021	31,260	251,744	129,868	–	412,872

Notes to the Financial Statements continued

11. Goodwill and intangible assets continued

The Group	Goodwill £000s	Consumer Healthcare brands and distribution rights £000s	Prescription Medicines brands and distribution rights £000s	Total £000s
Cost				
At 1 January 2020	16,532	171,102	152,439	340,073
Acquisition (note 31)	15,427	89,990	–	105,417
Disposals	–	–	(714)	(714)
Exchange adjustments	445	(2,889)	1,165	(1,279)
At 31 December 2020	32,404	258,203	152,890	443,497
Amortisation and impairment				
At 1 January 2020	–	4,226	7,187	11,413
Non-underlying impairment for the year	1,144	2,007	8,906	12,057
Non-underlying amortisation for the year	–	226	6,929	7,155
At 31 December 2020	1,144	6,459	23,022	30,625
Net book amount				
At 31 December 2020	31,260	251,744	129,868	412,872
At 1 January 2020	16,532	166,876	145,252	328,660

Computer software
The addition of the computer software intangible asset is explained in note 2.3 judgements and estimates.

Prior year acquisitions
On 29 December 2020 the Group completed the acquisition of 100% of the share capital of Biogix Inc, a privately held, US-based consumer healthcare company. The acquisition brings into the Group a highly successful and fast-growing brand, Amberen, with significant near-term growth potential. As part of this acquisition an intangible brand asset with fair value of $121.0m (£90.0m) for the product Amberen, and goodwill of $20.8m (£15.4m), have been recognised (note 31). During the year ended 31 December 2021, there was a reduction in the working capital adjustment paid in cash by $0.2m (£0.2m).

Useful economic lives
As a result of the 2020 Strategic Review, the Group segregated its portfolio of assets into two areas: Consumer Healthcare brands and Prescription Medicines. Following this determination the Directors considered the continuing appropriateness of indefinite useful lives which have previously been adopted across the intangible brand asset portfolio. This is in the context of the focus on growing Consumer Healthcare brands, their increasing dominance of the portfolio and the roll-out of Digital Excellence programmes, as further detailed in the Strategic Report. Prescription Medicines have been considered in the context of more limited requirement for promotional investment, and potential exposure to other market factors detailed further below.

For the majority of Consumer Healthcare brand assets, indefinite useful lives have been judged to remain appropriate. This is due to the expected long-term growth profile of the Consumer Healthcare business and the enduring nature of the brands, which are supported by continuing marketing spend.

For Prescription Medicines brand assets, finite useful lives of up to 20 years were adopted prospectively from 1 January 2020. The determination of this lifespan has taken into account all relevant factors for each individual asset, including typical pharmaceutical asset life cycles and the potential development of alternative treatments over time.

11. Goodwill and intangible assets continued

Useful economic lives continued

Certain brands were acquired with patent protection, which lasts for a finite period of time. It is the opinion of the Directors that these patents do not provide any incremental value to the value of the brand and therefore no separate value has been placed on these patents. This assessment is based on a view of future profitability after patent expiry and past experience with similar brands.

It is the opinion of the Directors that the indefinite life assets meet the criteria set out in IAS 38. This assessment is made on an asset-by-asset basis taking into account:

› how long the brand has been established in the market and subsequent resilience to economic and social changes;
› stability of the industry in which the brand is used;
› potential obsolescence or erosion of sales;
› barriers to entry;
› whether sufficient marketing and promotional resourcing is available; and
› dependency on other assets with defined useful economic lives.

The Prescription Medicines brand assets have a weighted average remaining life of 18 years at 31 December 2021 (2020: 19 years).

The net book value of intangible assets and goodwill which are considered to have indefinite useful lives are allocated to CGUs in the following table. Goodwill relating to the acquisition of certain assets and businesses from Sinclair IS Pharma plc is allocated to the group of related Consumer Healthcare and Prescription Medicines product CGUs. Other goodwill amounts are allocated to the product CGU with which they were originally acquired. Intangible assets that are considered to have indefinite lives all relate to the Consumer Healthcare segment, except for Sinclair Prescription Medicines goodwill.

	31 December 2021		
	Goodwill £000s	Consumer healthcare brands and distribution rights £000s	Total £000s
Amberen	15,179	89,629	104,808
Nizoral	–	60,307	60,307
Vamousse	–	11,596	11,596
MacuShield	1,748	8,740	10,488
Ashton and Parsons	–	1,562	1,562
Lefuzhi	–	1,514	1,514
Anbesol	–	987	987
Aiweidi	–	212	212
Opus range	1,849	–	1,849
Cambridge intangibles	598	–	598
Products acquired from Sinclair			
Kelo-cote (non EU, excluding US)	–	40,842	40,842
Kelo-cote (EU)	–	17,800	17,800
Aloclair	–	14,000	14,000
Atopiclair	–	2,300	2,300
Goodwill – Sinclair Prescription Medicines	1,347	–	1,347
Goodwill – Sinclair Consumer Healthcare	10,517	–	10,517
	31,238	249,489	280,727

The difference in Amberen values in the table compared to note 31 are the result of foreign exchange retranslation of these US Dollar denominated assets.

11. Goodwill and intangible assets continued

Impairment

As explained in note 2.9, all intangible assets are stated at the lower of cost less accumulated amortisation and impairment or the recoverable amount.

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. For intangible assets with an indefinite life, assets with a finite life that show indicators of impairment, and goodwill this includes estimation of the recoverable amount. These assets are tested at CGU level (or at group of CGUs level in the case of goodwill relating to the acquisition of certain assets and businesses) as the Directors believe these CGUs generate largely independent cash inflows.

The impairment test involves determining the recoverable amount of the relevant cash-generating unit, which corresponds to the higher of the fair value less costs to sell or its value in use.

The value in use calculation uses cash flow projections based on financial forecasts for up to the next five years extrapolated to perpetuity. Financial forecasts for the following year are based on the approved annual budget. Financial forecasts for years two to five are based on the approved long range plan. Margins are based on past experience and cost estimates.

As a result of the impairment review for the Year Ended 31 December 2021, the following impairment charges were identified:

- Haemopressin, a prescription medicine brand and distribution rights asset, impaired by £3.9m due to market factors.
- Other prescription medicine brand and distribution rights assets impaired by £0.8m due to increasing costs resulting from changes in the regulatory framework.
- Consumer healthcare brand and distribution rights assets impaired by £1.5m due to viability of future sales in the current market.

Key source of estimation uncertainty – value in use assumptions

For the year end impairment review, key assumptions on which cash flow projections depend are as follows (including our assessment of the estimation uncertainty arising):

Discount rates

- Methodology: Cash flows are discounted at an appropriate rate, based on the Group's post-tax Weighted Average Cost of Capital (WACC) adjusted where appropriate for country-specific risks, of between 6.3%–8.6%, or pre-tax 7.9%–10.8% (2020: 6.7%–11.0%, or pre-tax 8.4%–13.8%). The Group's WACC has remained consistent overall, but the range of discount rates for individual brands is lower due to changes in the country profile of the individual brands. The Group risk-free rate has increased due to changes in government bond yields, the small stock premium has reduced to recognise the Group's growth in market capitalisation and the equity beta has remained consistent based on sector market data. The risk premium to recognise the impact of COVID-19 remains consistent with the prior year.
- Estimation uncertainty: The assumptions included in the compilation of the CGU specific discount rates are designed to approximate the discount rate that a potential market participant would adopt. Given the nature of the Group's business model, the discount rate necessarily includes estimation uncertainty.

Forecast cash flows

- Methodology: Approved budgets and forecasts for up to five years, based on management's best estimate of cash flows by individual CGU. These forecasts are then uplifted for the CGU's remaining useful economic life, or to perpetuity for assets with indefinite useful lives, using growth rates between -2.5% to 2.0% (2020: -3.0% to 2.0%) based on the Group's long-term projections.
- Estimation uncertainty: The growth rates assumed in the Group's budgets and forecasts inherently include estimation uncertainty relating to the achievement of commercial initiatives and external factors such as competition.

Sensitivity analysis

The Group has conducted sensitivity analysis on the impairment tests. The valuations generally indicate sufficient headroom, and the Group does not consider that any reasonably possible change in key assumptions could result in an impairment for the majority of intangible assets.

11. Goodwill and intangible assets continued

Management have identified a specific source of estimation uncertainty in relation to the Haemopressin asset. The value of the asset is currently supported by projected future cash flows in relation to a third-party licence agreement which is awaiting regulatory approval. It is considered likely that this approval will be granted, and the resulting cash flows are expected to support the carrying value of the asset. However, if approval is not granted, this would result in an additional impairment charge of £4.7m, the carrying value post impairment.

As there is uncertainty in relation to the projected cash flows in relation to this CGU if the licence is granted, additional risk has been factored into the value in use calculation. Based on data from existing markets, the resulting value in use calculations are considered to reflect the appropriate level of risk. The following table shows the key assumptions made.

		Value in use calculation assumptions	
	Remaining UEL years	**Pre-tax discount rate %**	**Risk-related reduction of projected cash flows**
Haemopressin	7 years from date of approval	8.9%	25%

The following table shows the potential impact of reasonably possible changes to the key assumptions made.

	Decrease in CGU recoverable amount £000s	
	2.0% increase in pre-tax discount rate	**Further reduction in projected cash flows (50% reduction)**
Haemopressin	**(602)**	**(1,784)**

Management have identified that for certain prescription medicines brands and distribution rights assets with lower headroom ('Brand 1' and 'Brand 2'), a reasonably possible change in two key assumptions could cause the carrying amount to exceed the recoverable amount. These assumptions are detailed as follows.

The cash flow projections included specific estimates for five years and a terminal growth rate thereafter. The terminal growth rates are determined based on management's estimate of the long-term prospects for each product.

		Value in use calculation assumptions		Individual assumptions required for the estimated recoverable amount to equal to the carrying amount	
	Remaining UEL years	**Pre-tax discount rate %**	**Terminal margin growth rate %**	**Pre-tax discount rate %**	**Terminal margin growth rate %**
Brand 1	18	9.2	0.0	10.8	(2.8)
Brand 2	18	8.0	2.0	9.2	(0.5)

The following table shows the potential impact of reasonably possible changes to individual assumptions on the estimated recoverable amount of the CGUs.

		Decrease in CGU recoverable amount £000s	
	Headroom	**2.0% increase in pre-tax discount rate**	**2.0% reduction in terminal margin growth rate**
Brand 1	**355**	**(579)**	**(350)**
Brand 2	**122**	**(168)**	**(140)**

Notes to the Financial Statements continued

12. Property, plant and equipment

The Group	Computer software and equipment £000s	Fixtures, fittings & equipment £000s	Plant & machinery £000s	Right of use lease assets £000s	Total £000s
Cost					
At 1 January 2021	**13,048**	**2,511**	**32**	**6,739**	**22,330**
Additions	**162**	**1,323**	**41**	**275**	**1,801**
Transfer to intangible assets	**(11,037)**	**–**	**–**	**–**	**(11,037)**
Disposals	**(136)**	**(104)**	**–**	**(708)**	**(948)**
At 31 December 2021	**2,037**	**3,730**	**73**	**6,306**	**12,146**
Depreciation					
At 1 January 2021	**1,620**	**1,408**	**8**	**3,373**	**6,409**
Provided in the year	**186**	**446**	**28**	**915**	**1,575**
Effect of movements in exchange rates	**–**	**(9)**	**–**	**–**	**(9)**
Disposals	**(136)**	**(104)**	**–**	**(415)**	**(655)**
At 31 December 2021	**1,670**	**1,741**	**36**	**3,873**	**7,320**
Net book amount					
At 31 December 2021	**367**	**1,989**	**37**	**2,433**	**4,826**
At 1 January 2021	11,428	1,103	24	3,366	15,921

The Group	Computer software and equipment £000s	Fixtures, fittings & equipment £000s	Plant & machinery £000s	Right of use assets £000s	Total £000s
Cost					
At 1 January 2020	8,511	2,699	14	5,293	16,517
Additions	4,562	50	–	1,125	5,737
Acquisition (note 31)	–	–	18	294	312
Effect of movements in exchange rates	29	(3)	–	27	53
Disposals	(54)	(235)	–	–	(289)
At 31 December 2020	13,048	2,511	32	6,739	22,330
Depreciation					
At 1 January 2020	1,172	1,200	4	2,587	4,963
Provided in the year	504	444	4	801	1,753
Effect of movements in exchange rates	(2)	(1)	–	(15)	(18)
Disposals	(54)	(235)	–	–	(289)
At 31 December 2020	1,620	1,408	8	3,373	6,409
Net book amount					
At 31 December 2020	11,428	1,103	24	3,366	15,921
At 1 January 2020	7,339	1,499	10	2,706	11,554

Property, plant and equipment of £4.1m is located within the United Kingdom (2020: £14.4m). The balance is located in France, China, Singapore, Spain, Germany and the United States of America. Right of use assets relate to the Group's leased offices.

Notes to the Financial Statements continued

13. Investments

The Company	Investment and loans to subsidiary undertakings £000s
Cost	
At 1 January 2021	**199,776**
Net movements	**(428)**
At 31 December 2021	**199,348**
At 1 January 2020	194,630
Net movements	5,146
At 31 December 2020	199,776

The investment balance includes outstanding intercompany debt due from subsidiaries of £176.1m (note 29). The Directors do not consider that this amount will be demanded by the Company and therefore it has been classified as an investment. No provision has been recognised for estimated credit losses on loans to subsidiaries, as it is considered these would be immaterial.

The net movement for the year ended 31 December 2021 included interest charged of £6.1m (2020: £5.8m), the recharge of the share option charge £1.1m (2020: £1.1m), the dividend received of £2.6m (2020: £2.8m) and payments received to reduce the loan.

The subsidiary and associated undertakings where the Group held 20% or more of the equity share capital at 31 December 2021 are shown below:

Company	Country of registration or incorporation	% owned	Nature of business
Advanced Bio-Technologies Inc.	USA	100	Pharmaceutical sales
Alliance Pharma France SAS	France	100	Pharmaceutical sales
Alliance Pharma (Singapore) Private Limited*	Singapore	100	Pharmaceutical sales
Alliance Pharma S.r.l.	Italy	100	Pharmaceutical sales
Alliance Pharmaceuticals Limited*	England & Wales	100	Pharmaceutical sales
Alliance Pharmaceuticals (Asia) Limited*	Hong Kong	100	Pharmaceutical sales
Alliance Lifescience Technology (Shanghai) Co.,Limited	China	100	Pharmaceutical sales
Alliance Pharmaceuticals Spain SL*	Spain	100	Pharmaceutical sales
Alliance Pharma Inc.	USA	100	Pharmaceutical sales
Alliance Pharmaceuticals (Thailand) Co., Ltd	Thailand	100	Pharmaceutical sales
Alliance Pharmaceuticals (Philippines) Corporation	Philippines	100	Pharmaceutical sales
Alliance CHC (India) Private Limited	India	100	Pharmaceutical sales
Biogix Inc.	USA	100	Pharmaceutical sales
Maelor Laboratories Limited	England & Wales	100	Non-trading
Alliance Pharmaceuticals GmbH*	Germany	100	Non-trading
Alliance Pharmaceuticals GmbH* – Swiss Branch	Switzerland	100	Non-trading
Alliance Pharmaceuticals SAS*	France	100	Non-trading
Opus Healthcare Limited	Republic of Ireland	100	Non-trading
Alliance Pharma (Ireland) Limited	Republic of Ireland	100	Non-trading
Alliance Consumer Health Limited	England & Wales	100	Dormant
Alliance Generics Limited	England & Wales	100	Dormant
Alliance Health Limited	England & Wales	100	Dormant
Alliance Healthcare Limited	England & Wales	100	Dormant
Caraderm Limited	Northern Ireland	100	Dormant
Dermapharm Limited	England & Wales	100	Dormant
MacuVision Europe Limited	England & Wales	100	Dormant
Opus Group Holdings Limited	England & Wales	100	Dormant
Opus Healthcare Limited	England & Wales	100	Dormant

* Investments held directly by Alliance Pharma plc.

Notes to the Financial Statements continued

13. Investments continued

The registered address in each country is as follows:

Territory	Company	Registered Office Address
USA	Advanced Bio-Technologies Inc.	One Urban Center, 4830 West Kennedy Blvd, Suite 600, Tampa FL 33609, United States
	Alliance Pharma Inc.	11000 Regency Pkwy, Ste 106, Cary NC 27518, United States
	Biogix Inc.	201 Continental Blvd., Suite 230, El Segundo, California 90245, United States
France	Alliance Pharmaceuticals SAS	35 rue d'Artois Paris 75008, France
	Alliance Pharma France SAS	35 rue d'Artois Paris 75008, France
China	Alliance Pharmaceuticals Lifescience Technology (Shanghai) Co.,Limited	Suite 1004, NanFung Tower, No. 1568, Road Huashan, Shanghai, 200030, P.R.China
Germany	Alliance Pharmaceuticals GmbH	Hanseatic Trade Center, Am Sandtorkai 41, D-20457 Hamburg, Germany
Hong Kong	Alliance Pharmaceuticals (Asia) Limited	Room 2105, 21/F Office Tower, Langham Place, 8 Argyle Street, Mongkok, Kowloon, Hong Kong
Italy	Alliance Pharma S.r.l.	Viale Francesco Restelli 5, 20124, Milano, Italy
Republic of Ireland	Alliance Pharma (Ireland) Limited	6th Floor, South Bank House, Barrow Street, Dublin 4
	Opus Healthcare Limited	6th Floor, South Bank House, Barrow Street, Dublin 4
Singapore	Alliance Pharma (Singapore) Private Limited	1 Scotts Road, Shaw Centre 22-06, 228208, Singapore
Spain	Alliance Pharmaceuticals Spain SL	Regus Business Center Torre de Cristal, Paseo de la Casstellana, 259 C Planta 18, Cuatro Torres Business area 28046, Madrid, Spain
Switzerland (Branch)	Alliance Pharmaceuticals GmbH Düsseldorf	Bahnhofstrasse 37, Postfach 2818, CH-8021 Zürich, Switzerland

Territory	Company	Registered Office Address
Thailand	Alliance Pharmaceuticals (Thailand) Co., Ltd	No. 444 Olympia Thai Tower, 8th Floor, Ratchadapisek Road, Samsennok Sub-district, Huaykwang District, Bangkok, Thailand
England & Wales	All Companies	Avonbridge House, Bath Road, Chippenham, Wiltshire, SN15 2BB
Northern Ireland	Caraderm Limited	6 Trevor Hill, Newry, County Down, BT34 1DN
Philippines	Alliance Pharmaceuticals (Philippines) Corporation	30/F 88 Corporate Center Sedeno Cor.Valero STS., BEL-AIR 1209, City of Makati NCR, Fourth District, Philippines
India	Alliance CHC (India) Private Limited	314, Bhaveshwar Arcade Annexe, LBS Marg, Opp. Shreyas Cimema, Ghatkopar West Mumbai, Bandra Suburban, MH 400086 IN

Unless otherwise stated, the share capital comprises Ordinary shares and the ownership percentage is provided for each undertaking. All subsidiary undertakings prepare accounts to 31 December.

Maelor Laboratories Limited is exempt from the Companies Act 2006 requirement relating to the audit of its individual accounts by virtue of Section 479A of the Act as the company has guaranteed the subsidiary company under Section 479C of the Act.

14. Inventories

The Group	31 December 2021 £000s	31 December 2020 £000s
Finished goods and materials	**24,311**	25,916
Inventory provision	**(3,236)**	(2,999)
	21,075	22,917

Inventory costs expensed through the Income Statement during the year were £52,932,000 (2020: £39,636,000). During the year £534,000 (2020: £1,284,000) was recognised as an expense relating to the write-down of inventories to net realisable value.

Notes to the Financial Statements continued

15. Trade and other receivables

	The Group		The Company	
	31 December 2021 £000s	31 December 2020 £000s	31 December 2021 £000s	31 December 2020 £000s
Trade receivables	**23,929**	19,834	**–**	–
Other receivables	**1,953**	1,544	**31**	25
Prepayments	**3,102**	898	**8**	11
Accrued income	**1,837**	2,838	**–**	–
	30,821	25,114	**39**	36

Accrued income, which is all classified as not past due, represents amounts owed unconditionally to the Group which have not been invoiced at the year end. For these assets, only the passage of time is required before payment becomes due.

The ageing of trade receivables of the Group as at 31 December is detailed below:

Trade receivables, net of estimated allowances for expected credit losses	31 December 2021 £000s	31 December 2020 £000s
Not past due	**20,405**	15,764
1–30 days past due	**2,573**	2,550
31–60 days past due	**633**	1,520
61–90 days past due	**318**	–
Past 91 days	**–**	–
	23,929	19,834

Trade receivables, gross of estimated allowances for expected credit losses	31 December 2021 £000s	31 December 2020 £000s
Not past due	**20,405**	15,764
1–30 days past due	**2,573**	2,550
31–60 days past due	**633**	1,606
61–90 days past due	**389**	31
Past 91 days	**780**	524
	24,780	20,475

As at 31 December 2021, trade and other receivables of £851,000 (2020: £641,000) were past due and impaired.

To manage credit risk customers are required to pay in accordance with agreed terms. Our settlement terms are generally due within 30 or 60 days from the end of the month of sale.

16. Cash and cash equivalents

	The Group		The Company	
	31 December 2021 £000s	31 December 2020 £000s	31 December 2021 £000s	31 December 2020 £000s
Sterling	**17,541**	15,842	**141**	297
Euros	**3,862**	2,039	**–**	–
US Dollars	**2,427**	7,495	**–**	–
Thai Baht	**3,060**	2,637	**–**	–
Other currencies	**2,171**	885	**–**	–
Cash at bank and in hand	**29,061**	28,898	**141**	297

Notes to the Financial Statements continued

17. Trade and other payables

	The Group		The Company	
	31 December 2021 £000s	31 December 2020 £000s	31 December 2021 £000s	31 December 2020 £000s
Trade payables	**8,341**	11,275	**–**	16
Other taxes and social security costs	**2,773**	2,440	**–**	–
Accruals	**17,512**	13,639	**368**	290
Other payables	**848**	418	**–**	–
Lease liabilities	**456**	964	**–**	–
	29,930	28,736	**368**	306

18. Loans and borrowings

The Group has a £165m fully Revolving Credit Facility ('RCF'), together with a £50m accordion facility, with a syndicate of lenders. This facility is available until July 2024. This has been classified as a non-current liability (note 2.18). The bank facility is secured by a fixed and floating charge over the Company's and Group's assets registered with Companies House.

	The Group		The Company	
Non-current	31 December 2021 £000s	31 December 2020 £000s	31 December 2021 £000s	31 December 2020 £000s
Bank loans:				
Secured	**117,025**	139,920	**–**	–
Finance issue costs	**(965)**	(1,592)	**–**	–
	116,060	138,328	**–**	–

Movement in loans and borrowings	31 December 2021 £000s	31 December 2020 £000s
At 1 January	**138,328**	77,040
Net (payments)/receipts from borrowing	**(22,587)**	61,054
Additional prepaid arrangement fees	**–**	(362)
Amortisation of prepaid arrangement fees	**628**	578
Exchange movements*	**(309)**	18
At 31 December	**116,060**	138,328

* Exchange movements on loans and borrowings with effective net investment hedges are reported in other comprehensive income and accumulated in the translation reserve.

19. Other non-current liabilities

	The Group		The Company	
	31 December 2021 £000s	31 December 2020 £000s	31 December 2021 £000s	31 December 2020 £000s
Lease liabilities	**2,426**	2,731	**–**	–
Other non-current liabilities	**211**	469	**–**	–
	2,637	3,200	**–**	–

20. Provisions

	CMA provision (£000s)	Restructuring provision (£000s)	Total (£000s)
At 1 January 2021	**–**	**–**	**–**
Charge to Income Statement	**7,900**	**1,869**	**9,769**
Provisions utilised during the year	**–**	**(259)**	**(259)**
Exchange differences	**–**	**(41)**	**(41)**
At 31 December 2021	**7,900**	**1,569**	**9,469**

20. Provisions continued

On 23 May 2019 the UK's Competition and Markets Authority ('CMA') issued a Statement of Objection alleging anti-competitive agreement involving the Group and certain other pharmaceutical companies in relation to the sale of prescription prochlorperazine. Prochlorperazine is one of the Group's smaller products and had peak sales in 2015 of £1.9m and sales of £0.7m in 2021.

On 3 February 2022, the CMA announced its finding that four companies, including Alliance, had infringed competition law (the 'Infringement Decision'). The Directors fundamentally disagree with the CMA's finding.

The Group believes that it has a strong case and will be appealing the CMA's decision, and the proposed fine of £7.9m, at the Competition Appeal Tribunal which is expected to be heard in late 2022/early 2023, although the timing may be extended due to the current workload pressures within the court system. Historically, the Group's assessment was that there were no matters for which a provision was required, however the Infringement Decision has caused the Group to revisit this assessment.

Despite the Group's intention to appeal, the Directors believe that, as a result of the Infringement Decision, a provision of £7.9m should be recorded at 31 December 2021 (2020: £Nil)

This reflects the amount of the proposed fine communicated by the CMA, and therefore, notwithstanding the Directors belief as to the merits of the grounds on which it will be appealing the CMA decision, the Directors consider this to be the appropriate position given that, in the event that the Group's appeal proves to be unsuccessful, the ultimate level of the fine cannot be greater than this. In addition, in the event the Group's appeal were to prove to be unsuccessful, the Directors consider that there are strong grounds upon which the amount of the fine could be reduced. However, as this is a matter which cannot be predicted with certainty at this time the Directors believe that the most appropriate course of action is to include the maximum potential amount of the fine.

If the appeal is unsuccessful, the Group may also be liable for a proportion of the legal costs of the CMA relating to the appeal. The Group has not recorded a provision in relation to these potential litigation costs as these costs relate to the decision to appeal which was taken after the year end and their amount cannot be reliably estimated.

In accordance with IAS 37.92, the Group does not provide further information on the grounds that this could seriously prejudice the outcome of the appeal.

The restructuring provision of £1.6m at 31 December 2021 (2020: £Nil) relates to the balance of restructuring costs in relation to the closure of the Milan office following a change to the operating model for our direct-to-market business in Italy. The related outflows are expected to occur in the year ended 31 December 2022.

21 Financial instruments

The Group uses financial instruments comprising borrowings, derivatives, cash and liquid resources, and various items such as trade receivables and trade payables that arise directly from its operations. The main risks arising from the Group's financial instruments are liquidity risk, interest rate risk, foreign currency risk and credit risk. The Board is responsible for risk management policies on managing each of these, which are summarised below, except credit risk which is detailed in note 15.

Liquidity risk

The Group's operations are financed by retained earnings and bank borrowings, with additional equity being raised on a periodic basis to finance larger acquisitions. Borrowings are denominated in Sterling, Euro and US Dollars. The purpose of Euro and US Dollar borrowings are to manage the currency exposure arising from the Group's operations.

The Group has a £165m fully Revolving Credit Facility ('RCF'), together with a £50m accordion facility, with a syndicate of lenders. This facility is available until July 2024.

The RCF is drawn in short to medium-term tranches of debt which are repayable within 12 months of draw-down. These tranches of debt can be rolled over provided certain conditions are met, including covenant compliance. The Group considers that it is highly unlikely it would be unable to exercise its right to roll-over the debt. This is due to mitigating actions it could take to maintain compliance with these conditions, including future covenant requirements, even in downside scenarios. The Directors therefore believe that the Group has the ability and the intent to roll-over the drawn RCF amounts when due and consequently has presented the RCF as a non-current liability.

21 Financial instruments continued

Liquidity risk continued

The Group also has access to an overdraft facility of £2.0m.

The maturity profile of the Group's financial gross (capital and interest) liabilities, except forward foreign exchange contracts for which maturity is disclosed separately, at the year-end is as follows:

	31 December 2021				
	In one year or less £000s	In more than one year, but not more than two £000s	In more than two years, but not more than five £000s	In more than five years £000s	Total £000s
Trade and other payables	**36,166**	**–**	**–**	**–**	**36,166**
Bank loans*	**117,057**	**–**	**–**	**–**	**117,057**
Lease liabilities	**539**	**391**	**900**	**1,244**	**3,074**
	153,762	**391**	**900**	**1,244**	**156,297**

* Includes an amount of £117.1m (2020: £140.0m) in respect of gross contractual cash flows payable under the RCF; these are shown as due within one year or less to reflect the contractual maturity of the tranches drawn down at 31 December 2021. The RCF is classified as a non-current liability as the Directors have assessed that the Group has the ability and the intent to roll-over the drawn RCF amounts when due.

	31 December 2020				
	In one year or less £000s	In more than one year, but not more than two £000s	In more than two years, but not more than five £000s	In more than five years £000s	Total £000s
Trade and other payables	27,220	–	–	–	27,220
Bank loans*	139,995	–	–	–	139,995
Lease liabilities	964	544	1,086	1,521	4,115
	168,179	544	1,086	1,521	171,330

The maturity profile of the Company's financial gross liabilities (capital and interest) at the year end is as follows:

	31 December 2021 In one year or less £000s	31 December 2020 In one year or less £000s
Trade and other payables	**368**	306

Interest rate risk

The Group's debt is provided on a floating interest rate basis.

The interest rate exposure of the financial liabilities of the Group at the period end was:

Floating rate interest exposure	31 December 2021 £000s	31 December 2020 £000s
At 31 December 2021		
Bank loans – Sterling denominated	**96,817**	105,317
Bank loans – Euro denominated	**7,895**	9,281
Bank loans – US Dollar denominated	**12,313**	25,322
Total financial liabilities	**117,025**	139,920
Unamortised issue costs	**(965)**	(1,592)
Net book value of financial liabilities	**116,060**	138,328

The Sterling floating rate borrowings bear interest at a rate based on LIBOR for the year ended 31 December 2021. From 1 January 2022 the Sterling floating rate borrowings will bear interest at a rate based on SONIA. This is not expected to have a significant impact on the Group's financial instruments and associated risks. The Euro floating rate borrowings bear interest at a rate based on EURIBOR. The US Dollar floating rate borrowings bear interest at a benchmark rate (US Dollar LIBOR).

A 0.5% increase in LIBOR would have reduced pre-tax profits by approximately £0.5m in 2021. A 0.5% decrease would have the opposite effect.

21 Financial instruments continued

Interest rate risk continued

A 0.5% increase in EURIBOR would have reduced pre-tax profits by approximately £0.1m in 2021. A 0.5% decrease would have no effect on profit as the Group's Euro denominated borrowings have an interest rate floor.

A 0.5% increase in US LIBOR would have reduced pre-tax profits by approximately £0.1m in 2020. A 0.5% decrease would have the opposite effect.

Currency risk

The Group is exposed to transactional foreign currency risk to the extent that there is a mismatch between the currencies in which sales, purchases, receivables and borrowings are denominated and the respective functional currencies of Group companies. The functional currencies of Group companies are primarily Sterling, Euro, US Dollars and Hong Kong Dollars.

Approximately 23% of the Group's sales are invoiced in Euro, 32% invoiced in US Dollar and 9% invoiced in Hong Kong Dollar. The majority of other Group sales are invoiced in Sterling.

The Group's risk management policy is to hedge up to 75% of its estimated net foreign currency exposure in respect of forecast sales and purchases for up to the next 18 months at any point in time. The Group uses forward foreign exchange contracts to hedge its currency risk. These contracts are generally designated as cash flow hedges.

After the impacts of hedging, 5% weakening or strengthening of Sterling against the Euro would have resulted in £0.3m gain or loss to EBITDA (note 34) in 2021. On the same basis, 5% weakening or strengthening of Sterling against the US Dollar would have resulted in a £0.3m gain or loss to EBITDA in 2021. On the same basis, 5% weakening or strengthening of Sterling against the Hong Kong Dollar would have had no impact on EBITDA in 2021.

Net investment hedges

The Group uses currency denominated borrowings to hedge the exposure of a portion of its net investment in overseas operations against changes in value due to changes in foreign exchange rates. The net investment hedge was tested for effectiveness during the year and found to be effective. As the Group repays its foreign denominated borrowings the hedged portion of the net investment is reduced.

Fair value measurement

The Group has adopted IFRS 13 for financial instruments that are measured in the Group balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

› quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
› inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2); and
› inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The Group's financial instruments held at fair value (or for which fair value is disclosed) in the scope of IFRS 13 are as follows:

	Level	31 December 2021 Carrying value £000s	31 December 2020 Carrying value £000s
Forward foreign exchange contracts	2	**64**	295
		64	295

For the other financial assets and liabilities, the carrying amount is a reasonable approximation of fair value and therefore no further disclosure is provided. The valuation techniques used for instruments categorised in Level 2 are described below:

Forward foreign exchange contracts (Level 2)

The Group's currency rate swaps are not traded in active markets. These have been fair valued using observable currency rates. The effects of non-observable inputs are not significant for currency rate swaps.

Counterparty banks perform valuations of currency rate swaps for financial reporting purposes, determined by discounting the future cash flows at rates determined by year end spot and forward rate. The valuation processes and fair value changes are discussed by the Audit and Risk Committee and the Finance team at least every half year, in line with the Group's reporting dates.

21 Financial instruments continued

Forward foreign exchange contracts (Level 2) continued

Forward foreign exchange contract assets and liabilities are presented in 'Derivative financial instruments' (either as asset or as liabilities) within the statement of financial position.

At 31 December 2021, the Group held the following forward exchange contracts to hedge exposures to changes in foreign currency rates:

	Maturity		
	1–6 months	**6–12 months**	**More than one year**
Forward exchange contracts			
Net exposure (£000s)	**54**	**10**	**–**
Average GBP:USD forward contract rate	**1.370**	**1.367**	**–**
Average GBP:EUR forward contract rate	**1.138**	**–**	**–**
Average GBP:HKD forward contract rate	**10.508**	**10.488**	**–**

At 31 December 2020, the Group held the following forward exchange contracts to hedge exposures to changes in foreign currency rates:

	Maturity		
	1–6 months	**6–12 months**	**More than one year**
Forward exchange contracts			
Net exposure (£000s)	**157**	**153**	**(15)**
Average GBP:USD forward contract rate	**1.283**	**1.306**	**1.342**
Average GBP:EUR forward contract rate	**1.124**	**1.112**	**1.115**
Average GBP:HKD forward contract rate	**–**	**–**	**–**

Group

Classification of the Group's financial assets and liabilities is set out below:

Financial assets	31 December 2021 £000s	31 December 2020 £000s
Financial assets at amortised cost		
Trade receivables	**23,929**	20,221
Accrued income	**1,837**	2,838
Cash and cash equivalents	**29,061**	28,898
Derivative financial instruments		
Used for hedging	**64**	310
	54,891	52,267

Financial liabilities	31 December 2021 £000s	31 December 2020 £000s
Financial liabilities at amortised cost		
Trade and other payables	**36,166**	27,220
Loans and borrowings	**117,057**	138,328
Other liabilities	**–**	470
Lease liabilities	**2,882**	3,695
Derivative financial instruments		
Used for hedging	**–**	15
	156,105	169,728

21 Financial instruments continued

Forward foreign exchange contracts (Level 2) continued

Company

Classification of the Company's financial instruments is set out below:

Financial assets	31 December 2021 £000s	31 December 2020 £000s
Financial assets at amortised cost		
Trade and other receivables	**31**	36

Financial liabilities	31 December 2021 £000s	31 December 2020 £000s
Financial liabilities at amortised cost		
Trade and other payables	**368**	306

Reconciliation to cash flow movements

		Cash flows		Non-cash changes				
	2020 £000s	Principal £000s	Interest £000s	Foreign exchange* £000s	Net additions £000s	Amortisation £000s	Interest £000s	2021 £000s
Gross loans and borrowings	139,920	**(22,587)**	**–**	**(308)**	**–**	**–**	**–**	**117,025**
Prepaid arrangement fees	(1,592)	**–**	**–**	**–**	**–**	**627**	**–**	**(965)**
Accrued interest	76	**–**	**(2,861)**	**–**	**–**	**–**	**2,817**	**32**
Lease liabilities	3,695	**(924)**	**(103)**	**–**	**111**	**–**	**103**	**2,882**

* Exchange movements on loans and borrowings are reported in other comprehensive income and accumulated in the translation reserve.

Derivative financial instruments

	31 December 2021 Assets/(Liabilities) £000s	31 December 2020 Assets/(Liabilities) £000s
Current portion	**64**	310
Non-current portion	**–**	(15)
Forward exchange swap – cash flow hedge	**64**	295

The cash flow hedges were tested for effectiveness both retrospectively and prospectively as at 31 December 2021. They were found to be highly effective, with the ineffective element being immaterial. The amount recognised through the Income Statement in finance costs for interest rate swaps during the year was a charge of £Nil (2020: £49,000). The amounts recognised through the Income Statement in respect of the forward foreign exchange contracts during the year was a credit of £982,000 in revenue (2020: credit of £24,000).

22. Deferred tax

The Group	31 December 2021 £000s	31 December 2020 £000s
Accelerated capital allowances on tangible assets	**(464)**	(917)
Temporary differences: trading	**291**	492
Temporary differences: non-trading	**915**	623
Accelerated allowances on intangible assets	**(13,452)**	(9,839)
Initial recognition of intangible assets from business combination	**(47,796)**	(45,369)
Share-based payments	**1,819**	1,024
Foreign exchange forward contracts	**(16)**	(56)
Losses	**501**	–
	(58,202)	(54,042)
Recognised as:		
Deferred tax asset	**3,526**	2,139
Deferred tax liability	**(61,728)**	(56,181)

Reconciliation of deferred tax movements:

The Group	1 January 2021 £000s	Transfers £000s	Recognised in other comprehensive income/ directly in equity	Recognised in the income statement £000s	31 December 2021 £000s
Non-current assets					
Intangible assets	(55,208)	(670)	(284)	(5,086)	**(61,248)**
Property, plant and equipment	(917)	670	–	(217)	**(464)**
Non-current liabilities					
Derivative financial instruments	(56)	–	40	–	**(16)**
Other non-current liabilities	623	–	292	–	**915**
Equity					
Share option reserve	1,024	–	626	169	**1,819**
Temporary differences					
Trading	492	–	–	(201)	**291**
Losses	–	–	–	501	**501**
	(54,042)	–	674	(4,834)	**(58,202)**
Recognised as:					
Deferred tax asset	2,139				**3,526**
Deferred tax liability	(56,181)				**(61,728)**
	(54,042)				**(58,202)**

The Group has unrecognised deferred tax assets of £246,000 in relation to losses (2020: £nil).

Notes to the Financial Statements continued

22. Deferred tax continued

The Group	1 January 2020 £000s	Recognised in other comprehensive income £000s	Recognised directly in equity £000s	Recognised on acquisition £000s	Recognised in the income statement £000s	31 December 2020 £000s
Non-current assets						
Intangible assets	(29,242)	–	–	(25,491)	(475)	(55,208)
Property, plant and equipment	(468)	–	(42)	–	(407)	(917)
Non-current liabilities						
Derivative financial instruments	(92)	36	–	–	–	(56)
Other non-current liabilities	662	(39)	–	–	–	623
Equity						
Share option reserve	806	–	96	–	122	1,024
Temporary differences						
Trading	234	–	221	–	37	492
	(28,100)	(3)	275	(25,491)	(723)	(54,042)
Recognised as:						
Deferred tax asset	1,710					2,139
Deferred tax liability	(29,810)					(56,181)
	(28,100)					(54,042)

23. Share capital

	Allotted, called up and fully paid No. of shares	£000s
At 1 January 2020 – Ordinary shares of 1p each	529,402,619	5,294
Issued during the year	3,516,492	35
At 31 December 2020 – Ordinary shares of 1p each	532,919,111	5,329
Issued during the year	5,306,413	53
At 31 December 2021 – Ordinary shares of 1p each	**538,225,524**	**5,382**

Between 1 January 2021 and 31 December 2021 5,306,413 shares were issued on the exercise of employee share options (2020: 3,516,492).

The holders of Ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

23. Share capital continued

Potential share options commitment

Under the Group's share option scheme for employees and Executive Directors, options have been granted to subscribe for shares in the Company at prices ranging from 0.00p to 102.80p (2020: 0.00p to 81.60p). Options are exercisable three years after date of grant, but in certain instances this can be extended to five years. Options outstanding are as follows:

Year of grant	Exercise price Pence	Exercise from	Scheme	31 December 2021 Number (000s)	31 December 2020 Number (000s)
2011	31.00 and 34.12	2014	CSOP	–	186
2012	29.25	2015	CSOP	**41**	75
2013	37.25	2016	CSOP	**263**	892
2013	35.75	2018	CSOP	–	450
2014	33.75	2017	CSOP	**321**	494
2015	43.75 and 46.75	2018	CSOP	**1,219**	1,852
2016	47.50	2019	CSOP	**1,077**	3,896
2016	47.50	2021	CSOP	**1,800**	3,500
2017	53.00	2020	CSOP	**2,877**	4,694
2018	81.60	2021	CSOP	**4,171**	6,322
2019	76.90	2022	CSOP	**5,422**	6,793
2019	0.00	2022	LTIP	**529**	596
2020	73.70	2023	CSOP	**5,042**	6,129
2020	0.00	2023	LTIP	**628**	704
2021	102.80	2024	CSOP	**7,012**	–
2021	0.00	2024	LTIP	**531**	–
				30,933	36,583

The provision of shares to satisfy certain of the Group's share option schemes can be facilitated by purchases of own shares by the Group's Employee Benefit Trust. The cost of operating the Trust is borne by the Group but is not material. To date, no shares have been purchased by the Trust for satisfaction of outstanding or future share option awards.

Managing capital

Our objective in managing the business's capital structure is to ensure that the Group has the financial capacity, liquidity and flexibility to support the existing business and to fund acquisition opportunities as they arise.

The capital structure of the Group consists of net bank debt and shareholders' equity. At 31 December 2021 net debt was £87.0m (2020: £109.4m) (note 34), whilst shareholders' equity was £282.5m (2020: £281.0m).

The business is profitable and cash-generative. The main financial covenant applying to bank debt is that leverage (the ratio of net bank debt to EBITDA) should not exceed 3.0 times. The Group complied with this covenant in 2021 and 2020.

Smaller acquisitions are typically financed using bank debt, while larger acquisitions typically involve a combination of bank debt and additional equity. The mixture of debt and equity is varied, taking into account the desire to maximise the shareholder returns while keeping leverage at comfortable levels.

24. Share-based payments

Under the Group's share option scheme for employees and Executive Directors, options to subscribe for shares in the Company are granted normally once each year. The contractual life of an option is ten years from date of grant. Generally, options granted become exercisable on the third anniversary of the date of grant, but in certain instances this can be extended to five years. Exercise of an option is normally subject to continued employment. Options are valued by a third-party provider using the Black-Scholes option-pricing model.

Share options and weighted average exercise price are as follows for the reporting periods presented:

	2021		2020	
	Number (000s)	Weighted average price Pence	Number (000s)	Weighted average price Pence
Outstanding at start of year	**36,583**	**47.02**	34,484	59.40
Granted	**7,674**	**93.94**	6,833	66.10
Exercised	**(5,306)**	**50.07**	(3,516)	47.65
Forfeited	**(8,018)**	**63.27**	(1,218)	74.70
Outstanding at end of year	**30,933**	**71.62**	36,583	61.39
Exercisable at end of year	**11,845**	**60.12**	12,539	47.02

Share options were exercised throughout the financial year. Share options were exercised at prices of between 29.25 and 81.60 pence per share.

Certain options are subject to EPS or Total Shareholder Return (TSR) accretion performance criteria; those outstanding are as follows:

Year of grant	Exercise price Pence	Exercise from	31 December 2021 Number (000s)	31 December 2020 Number (000s)
2013	35.75	2018	**–**	450
2014	33.75	2017	**92**	204
2015	43.75	2018	**104**	317
2016	47.50	2019	**155**	545
2016	47.50	2021	**1,800**	3,500
2017	53.00	2020	**323**	1,028
2018	81.60	2021	**1,639**	2,411
2019	76.90	2022	**911**	1,127
2019	0.00	2022	**529**	596
2020	73.70	2023	**837**	917
2020	0.00	2023	**628**	704
2021	102.80	2024	**1,172**	–
2021	0.00	2024	**531**	–
			8,721	11,799

The total expense for the year relating to share-based payment plans was £2.3m (2020: £1.4m), of which £2.0m (2020: £1.1m) related to equity-settled transactions and £0.3m (2020: £0.3m) related to cash-settled transactions.

It is assumed that, on average, options will be exercised after five years. The expected volatility is based on historical volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information. The risk-free rate of return is based on UK Government bonds of a term consistent with the assumed option life.

The cash-settled transaction expense includes provision for social security charges based on the applicable social tax rate applied to the number of share awards which are expected to vest, valued with reference to the year-end share price.

The estimated total equity-settled fair value of the share options granted on 29 September 2021 was £1,551,000. The model inputs were a market price of 102.8p, expected volatility of 29.96% and a risk-free rate of 1.07%.

Notes to the Financial Statements continued

25. Cash generated from operations

	Group		Company	
	Year ended 31 December 2021 £000s	Year ended 31 December 2020 £000s	Year ended 31 December 2021 £000s	Year ended 31 December 2020 £000s
Profit for the year	**7,319**	8,027	**6,756**	5,433
Taxation	**10,838**	4,989	**946**	941
Interest payable and similar charges	**3,646**	2,657	**–**	–
Interest income	**(23)**	(10)	**(6,121)**	(5,777)
Foreign exchange (gain)/loss	**(205)**	644	**–**	–
Loss on disposal of intangibles	**–**	308	**–**	–
Depreciation of property, plant and equipment	**1,575**	1,753	**–**	–
Amortisation and impairment of intangibles	**14,680**	19,212	**–**	–
Change in inventories	**1,842**	(5,206)	**–**	–
Change in trade and other receivables	**(6,146)**	6,728	**(3)**	(12)
Change in trade and other payables	**(326)**	5,929	**62**	82
Change in provisions	**9,469**	–	**–**	–
Share-based employee remuneration	**2,250**	1,374	**–**	–
Dividends received	**–**	–	**(2,600)**	(2,800)
Cash generated from/(used in) operations	**44,919**	46,405	**(960)**	(2,133)

26. Capital commitments

The Group had capital commitments at 31 December 2021 totalling £Nil (2020: £3,500,000).

27. Contingent liabilities

Contingent liabilities are possible obligations that are not probable. The Group operates in a highly regulated sector and in markets and geographies around the world each with differing requirements. As a result, and in the normal course of business, the Group can be subject to a number of regulatory inspections/investigations/customer and other claims on an ongoing basis. It is therefore possible that the Group may incur penalties for non-compliance. In addition, a number of the Group's brands and products are subject to pricing and other forms of legal or regulatory restrictions from both governmental/regulatory bodies and also from third parties. Assessments as to whether or not to recognise a provision in respect of these matters are judgemental as the matters are often complex and rely on estimates and assumptions as to future events.

28. Pensions

The Group operates a defined contribution pension scheme for the benefit of Executive Directors and certain employees.

The Group	31 December 2021 £000s	31 December 2020 £000s
Contributions payable by the Group for the year	**1,306**	994

Notes to the Financial Statements continued

29. Related party transactions

During the year, the Company entered into the following transactions with related parties:

	The Company Transaction values for the year ended		Amount due from related parties	
	31 December 2021 £000s	31 December 2020 £000s	31 December 2021 £000s	31 December 2020 £000s
Alliance Pharmaceuticals Limited – Net funds received	**(10,170)**	750	**176,111**	176,539
Alliance Pharmaceuticals Limited – Interest received	**6,121**	5,777	**–**	–
Alliance Pharmaceuticals Limited – Investments during the year	**–**	(272)	**–**	–
Alliance Pharmaceuticals Limited – Share-based payment recharge	**1,021**	1,109	**–**	–
Alliance Pharmaceuticals Limited – Dividend declared and received	**2,600**	2,800	**–**	–

Net funds received represent net payments made against the intercompany loan by Alliance Pharmaceuticals Limited.

30. Joint ventures

Name	Principal activity	Country of incorporation	% Owned
Synthasia International Company Limited	Distribution of infant milk formula products in China	Hong Kong	20
Synthasia Shanghai Company Limited	Distribution of infant milk formula products in China	China	20

Until 10 March 2021, the Group owned 20% of the issued share capital of Synthasia International Company Limited, which is a 100% parent of Synthasia Shanghai Company Limited (together known as 'Synthasia'). The Group considered the existence of substantive participating rights held by both the Group and another shareholder which provide both parties with a veto right over the significant financial and operating policies of Synthasia and determined that, as a result of these rights and by exercise of judgement, Synthasia was accounted for as a joint venture. In accordance with IFRS 11 Joint Arrangements, a joint venturer shall recognise its interest in a joint venture as an investment and shall account for that investment using the equity method in accordance with IAS 28 Investments in Associates and Joint Ventures.

In May 2018 the Group was notified that the import licence partner was not going to receive the required approval to import Suprememil, the infant milk formula brand owned by Synthasia. Following subsequent discussions with the import licence partner and Synthasia management, the Board concluded that the joint venture investment of £0.3m, and associated loan balances of £2.2m, was to be written down in full.

Following the impairment further losses from the Synthasia joint venture have not been recognised. This is due to the Group having no obligation to fund such losses.

On 10 March 2021 the Group fully divested its holding in Synthasia for nil consideration. As part of the terms of disposal Suprememil brand trademarks were retained by the Group for potential future use. There are currently no forecasted sales for this brand.

31. Acquisition of Biogix Inc

On 29 December 2020 the Group completed the acquisition of 100% of the share capital of Biogix Inc, a privately held, US-based consumer healthcare company. The acquisition brought into the Group a highly successful and fast-growing brand, Amberen, with significant near-term growth potential.

The total amount paid in relation to the acquisition was $111.3m, being $110.0m consideration paid in cash on completion, $0.4m estimated working capital adjustment paid in cash on completion and $0.9m foreign exchange option cash premium paid in December 2020.

31. Acquisition of Biogix Inc continued

The acquisition was funded by drawdown of $22.0m and £66.1m from the Group's existing £165m Revolving Credit Facility shortly before completion in December 2020. The Sterling drawdown was subsequently sold in a foreign exchange transaction to buy US Dollars for use in settlement of cash payments on completion. A portion of funding was drawn in Sterling so that, after taking account of existing borrowings, the Group's overall loan position by currency matches expected post-hedging cash generated by currency.

The fair values of the assets acquired, as at 29 December 2020, are as follows:

	Book value of assets and liabilities acquired $000s	Fair value adjustments $000s	Fair value of assets and liabilities acquired $000s	Fair value of assets and liabilities acquired £000s
Intangible fixed assets	37	121,000	121,037	89,990
Deferred tax asset	223	–	223	166
Property, plant and equipment	419	–	419	312
Current assets (excluding cash and cash equivalents)	5,824	–	5,824	4,330
Cash and cash equivalents	382	–	382	284
Current liabilities	(1,587)	–	(1,587)	(1,180)
Lease liabilities	(378)	–	(378)	(281)
Net assets	4,920	121,000	125,920	93,621
Deferred tax liability			(35,101)	(26,097)
Goodwill			20,501	15,244
Fair value of net assets acquired			111,320	82,768
Cash consideration			110,000	81,784
Working capital adjustment paid in cash			411	308
Option premium paid in cash			909	676
Total consideration			111,320	82,768

The fair values set out above are final figures, following additional review of judgemental areas including intangible asset allocation and finalisation of completion accounts during the year. There was a reduction in the working capital adjustment paid in cash by $249,000 (£183,000).

The fair value of the intangible asset recognised on business combination all relates to Amberen. A single brand intangible asset was identified for valuation through completion of a formal purchase price allocation exercise. This brand recognition and positioning were the key drivers for the acquisition and are regarded as the main barrier to market entry. No other intangible assets were considered to have separately identifiable value.

The brand was valued using a multi-period excess earnings approach, utilising the Group's long-term cash flow forecast and a post-tax discount rate of 10.75%.

None of the goodwill recognised is expected to be deductible for income tax purposes.

Legal and professional fees incurred in the acquisition of £1.3m were recognised as non-underlying costs within administration and marketing expenses (note 5).

32. Events after the reporting date

On 25 March 2022 the Group announced that it has completed the acquisition of the Kelo-cote® US licensing rights and the second largest US scar treatment brand 'ScarAway®' from Perrigo Company PLC, a global consumer self-care company, for $19.4m (£14.8m). paid for in cash from the Group's existing financial resources. The accounting considerations will be finalised in the second quarter of 2022 and included in the Group's interim results for the six months ended 30 June 2022.

33. Ultimate controlling party

The Company's shares are listed on the Alternative Investment Market ('AIM') and are held widely. There is no single ultimate controlling party.

34. Alternative performance measures

The performance of the Group is assessed using Alternative Performance Measures ('APMs'). The Group's results are presented both before and after non-underlying items. Adjusted profitability measures are presented excluding non-underlying items as we believe this provides both management and investors with useful additional information about the Group's performance and aids a more effective comparison of the Group's trading performance from one period to the next and with similar businesses. In addition, the Group's results are described using certain other measures that are not defined under IFRS and are therefore considered to be APMs. These measures are used by management to monitor ongoing business performance against both shorter-term budgets and forecasts but also against the Group's longer-term strategic plans. APMs used to explain and monitor Group performance are as follows:

Notes to the Financial Statements continued

34. Alternative performance measures continued

Measure	Definition	Reconciliation to GAAP measure
Underlying EBIT and EBITDA	Earnings before interest, tax and non-underlying items (EBIT, also referred to as underlying operating profit), then depreciation, amortisation and underlying impairment (EBITDA). Calculated by taking profit before tax and financing costs, excluding non-underlying items and adding back depreciation and amortisation. EBITDA margin is calculated using see-though revenue.	Note A below
Free cash flow	Free cash flow is defined as cash generated from operations less cash payments made for interest payable and similar charges, capital expenditure and tax.	Note B below
Net debt	Net debt is defined as the Group's gross bank debt position net of finance issue costs and cash.	Note C below
Underlying effective tax rate	Underlying effective tax rate is calculated by dividing total taxation for the year less impact of tax rate changes and non-underlying charges, by the underlying profit before tax for the year.	Note D below
See-through Income Statement	Under the terms of the transitional services agreement with certain supply partners, Alliance receives the benefit of the net profit on sales of Nizoral from the date of acquisition up until the product licences in the Asia-Pacific territories transfer to Alliance. The net product margin is recognised as part of statutory revenue. The see-through Income Statement recognises the underlying sales and cost of sales which give rise to the net product margin, as management consider this to be a more meaningful representation of the underlying performance of the business, and to reflect the way in which it is managed.	Note E below
Constant exchange rate (CER) revenue	Like-for-like revenue, impact of acquisitions, and total see-through revenue are stated so that the portion denominated in non-Sterling currencies is retranslated using foreign exchange rates from the previous financial year.	Note F below
Like-for-like	Like-for-like figures compare financial results in one period with those for the previous period, excluding the impact of acquisitions and disposals made in either period. For 2021, like-for-like revenue excludes the impact of Amberen which was acquired in December 2020.	Not needed
Operating costs	Defined as underlying administration and marketing expenses, excluding depreciation and underlying amortisation charges.	Not needed

A. Underlying EBIT and EBITDA

Reconciliation of Underlying EBIT and EBITDA	Year ended 31 December 2021 £000s	Year ended 31 December 2020 £000s
Profit before tax	**18,157**	13,016
Non-underlying items (note 5)	**24,061**	20,512
Underlying profit before tax	**42,218**	33,528
Finance costs (note 6)	**3,418**	3,300
Underlying EBIT	**45,636**	36,828
Depreciation (note 12)	**1,575**	1,753
Underlying amortisation (note 11)	**1,362**	–
Underlying EBITDA	**48,573**	38,581

B. Free cash flow

Reconciliation of free cash flow	Year ended 31 December 2021 £000s	Year ended 31 December 2020 £000s
Cash generated from operations (note 25)	**44,919**	46,405
Interest payable and similar charges	**(2,965)**	(2,866)
Capital expenditure	**(5,532)**	(4,612)
Tax paid	**(6,260)**	(4,838)
Free cash flow	**30,162**	34,089

C. Net debt

Reconciliation of net debt	Note	31 December 2021 £000s	31 December 2020 £000s
Loans and borrowings – non-current	18	**(116,060)**	(138,328)
Cash and cash equivalents	16	**29,061**	28,898
Net debt		**(86,999)**	(109,430)

Notes to the Financial Statements continued

34. Alternative performance measures continued

D. Underlying effective tax rate

Reconciliation of underlying effective tax rate	Year ended 31 December 2021 £000s	Year ended 31 December 2020 £000s
Total taxation charge for the year	**(10,838)**	(4,989)
Non-underlying tax debit/(credit) (note 5)	**2,805**	(1,383)
Underlying taxation charge for the year	**(8,033)**	(6,372)
Underlying profit before tax for the year	**42,218**	33,528
Underlying effective tax rate	**19.0%**	19.0%

E. See-through Income Statement

	2021 Statutory values £000s	See-through adjustment £000s	2021 See-through values £000s
Revenue – Consumer Healthcare brands	**115,376**	**6,443**	**121,819**
Revenue – Prescription Medicines	**47,831**	**–**	**47,831**
Total revenue	**163,207**	**6,443**	**169,650**
Cost of sales	**(53,757)**	**(6,443)**	**(60,200)**
Gross profit	**109,450**	**–**	**109,450**
Gross profit margin	**67.1%**	**–**	**64.5%**

	2020 Statutory values £000s	See-through adjustment £000s	2020 See-through values £000s
Revenue – Consumer Healthcare brands	85,340	7,719	93,059
Revenue – Prescription Medicines	44,461	–	44,461
Total revenue	129,801	7,719	137,520
Cost of sales	(46,985)	(7,719)	(54,704)
Gross profit	82,816	–	82,816
Gross profit margin	63.8%	–	60.2%

There is no impact from the see-through adjustment on Income Statement lines below gross profit.

F. Constant exchange rate revenue

	2021 AER £000s	Foreign exchange impact £000s	2021 CER £000s
LFL see-through revenue – Consumer Healthcare brands	**102,586**	**3,389**	**105,975**
LFL see-through revenue – Prescription Medicines	**47,831**	**326**	**48,157**
Like-for-like see-through revenue	**150,417**	**3,715**	**154,132**
Impact of acquisitions (Amberen)	**19,233**	**1,362**	**20,595**
See-through revenue (Note E)	**169,650**	**5,077**	**174,727**

	2021 AER £000s	Foreign exchange impact £000s	2021 CER £000s
LFL statutory revenue – Consumer Healthcare brands	**96,143**	**3,247**	**99,390**
LFL statutory revenue – Prescription Medicines	**47,831**	**326**	**48,157**
Like-for-like statutory revenue	**143,974**	**3,573**	**147,547**
Impact of acquisitions (Amberen)	**19,233**	**1,362**	**20,595**
Statutory revenue	**163,207**	**4,935**	**168,142**

Additional Information

Unaudited Information

Shareholder Information

Shareholder enquiries

The Company's share register is maintained by Link Group ('Link') who are responsible for updating the register, including changes to shareholders' names or addresses and processing off-market transfers of the Company's shares. If you have any question about your shareholding in the Company or you need to notify any changes to your personal details you should write to Link Group, 10th Floor, Central Square, 29 Wellington Street, Leeds, LS1 4DL or telephone 0371 664 0300 (calls are charged at the standard geographical rate and will vary by provider, lines are open 9.00am to 5.00pm Monday to Friday).

Financial Calendar

Annual General Meeting	18 May 2022
Interim results announcement	20 September 2022
Year end	31 December 2022
Preliminary announcement	21 March 2023

Additional Information continued

Five Year Summary

	Year ended 31 December 2017 £m	Year ended 31 December 2018 £m	Year ended 31 December 2019 £m	Year ended 31 December 2020 £m	Year ended 31 December 2021 £m
Revenue	101.6	118.2	135.6	129.8	**163.2**
Operating profit before non-underlying items	25.8	28.9	37.4	36.8	**45.6**
Non-underlying operating items	4.4	(5.3)	(1.8)	(20.5)	**(24.0)**
Operating profit	30.2	23.7	35.6	16.3	**21.6**
Profit before tax before non-underlying items	23.9	28.1	32.9	33.5	**42.2**
Profit before tax after non-underlying items	28.3	22.8	31.1	13.0	**18.2**
Intangible assets	278.6	335.2	328.7	412.9	**413.8**
Tangible assets	5.7	7.6	11.6	15.9	**4.8**
Current assets	49.1	58.7	65.0	77.2	**81.0**
Current liabilities	61.4	91.7	24.2	30.2	**40.6**
Equity	203.1	252.2	274.2	281.0	**282.5**
Average shares in issue (millions)	473.8	497.2	520.7	531.1	**535.3**
Shares in issue at period end (millions)	475.0	518.2	529.4	532.9	**538.2**
Earnings per share – basic (p)	6.08	3.69	4.80	1.51	**1.37**
Earnings per share – adjusted underlying basic (p)	4.05	4.54	5.09	5.11	**6.39**