Sinclair IS Pharma plc

Interim Results

Sinclair IS Pharma plc (SPH.L), ("Sinclair" or the "Group") the international specialty pharma company, today announces its unaudited half year results for the six months ended 31 December 2013.

Highlights

- **Revenues growth 6.6% to £24.5 million** (H1 13: £23.0 million)
- **Adjusted EBITDA* increased to £1.1 million** (H1 13: £1.0 million)
- **Loss before tax reduced to £2.5 million** (H1 13: loss of £5.8 million)
- **Much improved European growth outlook**
- **Acquisitions of Perfectha®, Atlean® and Ellansé™ create global aesthetics business**

Chris Spooner, CEO of Sinclair IS Pharma commented *"*Due to some timing differences between H1 and H2, the H1 results were marginally behind our expectations but these differences are now reversing and we expect the full year results to be in line with our forecasts and with market expectations. We are very excited about the growth prospects in the business, both organically and from our successful recent acquisition activity, notably in Aesthetics, a high growth market segment which dovetails well with our existing Dermatology product range. With our sales and distribution platform now established, our recent acquisitions of Perfectha®, Atlean® and the acquisition of Ellansé™ announced today should be substantially earnings enhancing for Sinclair shareholders. We remain confident about the future*".*

* Adjusted EBITDA defined as earnings before interest, tax, depreciation, amortisation, share based payments and exceptional items and loss from discontinued operations.

Ends

For further information please contact:

Sinclair IS Pharma plc **Tel: +44 (0) 20 7467 6920**
Chris Spooner
Alan Olby
Robert Taylor

Peel Hunt LLP **Tel: +44 (0) 20 7418 8900**
James Steel
Clare Terlouw

Notes to Editors:

About Sinclair IS Pharma plc – www.sinclairispharma.com
Sinclair IS Pharma is an international specialty pharmaceutical company centred on Dermatology, in particular Aesthetics, Wound care, and Skin care. The group has a direct sales and marketing presence in the top five European markets and a rapidly growing International division concentrated on the Emerging Markets through long term multi-product, multi-country, sales, marketing and distribution deals with key strategic partners.

"Safe Harbor" Statement under the US Private Securities Litigation Reform Act of 1995: Some or all of the statements in this document that relate to future plans, expectations, events, performances and the like are forward-looking statements, as defined in the US Private Securities Litigation Reform Act of 1995. Actual results of events could differ materially from those described in the forward-looking statements due to a variety of factors.

BUSINESS REVIEW

Sinclair has continued to make significant progress with the implementation of its dermatology strategy in the current financial year. The development of its aesthetics business is proving to be a major catalyst for growth in Europe where the Group is well positioned through its established commercial infrastructure to consolidate aesthetic dermatology assets. Recent acquisitions of highly differentiated aesthetic brands further improve the growth outlook in Europe and substantially benefit Sinclair's International Operations by providing a global presence in the fast growing aesthetic dermatology market.

Revenues for the six months ended 31 December 2013 grew by 6.6% to £24.5 million, compared to £23.0 million for the same period last year, boosted by the acquisition of Sculptra, New-Fill and Succeev which added £2.9 million to revenue compared to H1 FY13. As previously announced a number of short-term supply, regulatory, and political factors impacted H1 revenues, including approximately £1.6 million of international orders being delayed from H1 into early H2. As a result Like-for-like ("LFL*") revenues reduced by 7% during the first half but these issues have now largely been resolved. As in previous years the Group expects a significant H2 weighting in revenues which will be even more pronounced in the current year due to the issues highlighted above. Good overall visibility on International orders provides confidence for the expected return to LFL growth for the full year. Adjusted EBITDA** increased 9.6% in the first half to £1.1 million reflecting a temporarily lower gross margin but continuing cost control in central functions. The strong seasonality in the business and short term factors have further exacerbated the significant weighting to second half profitability when the gross margin is also expected to improve.

After the period end the Group further extended its presence in aesthetic dermatology by acquiring the global rights to Perfectha®, a complete range of hyaluronic acid ("HA") fillers, through the acquisition of Obvieline Laboratories SA for a total cash consideration of up to €32.2 million with an upfront payment of €10.0 million. Perfectha® complements Sculptra® in Europe where Sinclair's European salesforces can now offer a significantly more comprehensive and commercial product range, and the opportunity to participate in exceptional growth in emerging markets where facial aesthetic procedures are at a much earlier stage. Perfectha® delivered over 75% revenue growth to approximately €9.3 million in the year to 31 December 2013. Over 90% of its revenues were in emerging markets with 40% in Asia.

In addition, in January 2014, the Group acquired Atlean® from Stiefel, the dermatology business of GSK, for an undisclosed cash consideration. Atlean® combines a collagen stimulator and hyaluronic acid filler particularly for the treatment of the lower face. Atlean® has not been actively marketed in Europe since 2012 and requires the European CE Mark registration to be regained which is expected to take around 9-12 months. First revenues are therefore expected in H2 FY15.

Today Sinclair announces the acquisition of AQTIS Medical BV for the Ellansé™ brand. The details of this transaction are described in a separate statement issued today.

The Group has recently acquired global rights to Eurograft-M®, a high-value and novel stem cell treatment for vitiligo (hypopigmentation). Launch is scheduled for FY16 following final development work and registration. Vitiligo is especially prevalent in the Indian sub-continent and the product will fit well into Sinclair's emerging market aesthetic portfolio.

* Like-for-like revenues exclude product acquisitions and disposals, one-off licence fee income and currency fluctuations

** Adjusted EBITDA defined as earnings before interest, tax, depreciation, amortisation, share based payments and exceptional items. Hereafter always referenced as EBITDA.

In March 2014, Sinclair was granted orphan drug designation for Flammacerium® (sterile cream containing 1% silver sulphadiazine and 2.2% cerium nitrate) for the treatment of patients with severe dermal burns. The annual incidence of severe dermal burns in the US is within the threshold of 200,000 patients required for the granting of orphan drug designation which provides seven year marketing exclusivity following approval. Flammacerium® must now be subject to the FDA regulatory process to gain marketing approval in the USA. While the expected time to filing for this approval remains uncertain and is dependent on the regulatory requirements to be finally determined, US approval would be expected to provide material upside to Sinclair's earnings in future.

Country Operations

Revenue from Country Operations (leading five EU markets each with their own sales force) was £16.6 million, £2.8 million ahead of last year reflecting the increased importance of the Group's aesthetic portfolio in Europe and represented 68% of total sales in the period. LFL revenues were 1.6% lower in the period against a 5% fall in FY13 but are expected to be positive for the year as a whole after a marked improvement in H2.

The closure of the Cléry manufacturing facility at the end of the previous financial year resulted in limited wholesaler stocking during the manufacturing transfer to Fareva which has now unwound. There was a significant underlying change in sales mix in the first half. 23% of revenues were generated in aesthetic dermatology compared with 7% a year ago. This major shift is set to continue with the benefits of the build-out of the Group's specialist aesthetics sales and marketing infrastructure together with the future prospects of an increasingly competitive portfolio of aesthetic brands including the acquisitions of Perfectha® and Ellansé™. Aesthetic dermatology is a growing market in Europe and the Group's increasing presence accelerates its initiative to reduce its exposure to government controlled pricing.

Sculptra® completed its first year in the Group contributing revenue of £2.6 million for the six months to 31 December 2013. Through the period Sinclair continued to increase sales, marketing and training, both to support the product and in preparation for the Perfectha® acquisition. Sculptra® units have grown by 31% offset by a 12% price reduction in the 12 months since launch. Volume growth is expected to continue at around 25%, implying franchise sales in FY14 of approximately £7.0 million.

France returned to growth in the period despite the effect of the weak economy, benefiting from the increasing emphasis on aesthetics and a targeted approach to pharmacy sales. Sculptra® responded well to a significant increase in direct marketing with French sales by value in the first year since launch more than double the comparable period.

This encouraging trend was echoed in the UK where over 60 Sculptra® workshops for aesthetic physicians took place in H1. Kelo-cote® also performed well, particularly sales to private cosmetic surgeons, which represented 28% of sales in H1. With generic competition failing to materialise Variquel® sales grew 11% LFL and the positive impact of approval for the Group's ready mix solution will be felt in the second half. German sales of Variquel® also recovered strongly, improving 13% LFL in the period. In line with the Board's strategy to focus on growth brands in dermatology, Sinclair has agreed with Helsinn to return the UK rights to Aloxi (treatment for the prevention of nausea and vomiting associated with chemotherapy) with effect from 31 December 2014. Sinclair is also returning the rights to the NETU-PALO combination product licenced for UK and Ireland removing the Group's obligation to pay future milestones of €2.0 million.

LFL sales in Italy increased 16% in H1 with strong performances from both Kelo-cote® and Sculptra® and the benefits of a successful launch of Atopiclair® by Menarini.

At the end of H1 the Group entered into a strategic OTC partnership with Fannin in the UK. Fannin will market the Kelo® franchise, Aloclair Plus® and Flammasun® into pharmacies and supermarkets using its 24 strong sales force and complementing Sinclair's specialist in-house sales to clinicians. Initial sales are expected in the current financial year.

International Operations

Revenue from International Operations (32% of total revenue in the period) was £1.3 million lower at £7.8 million and LFL revenues reduced by 17% as a result of various short term issues. These included flooding at a tube supplier which particularly affected the Kelo franchise in APAC by delaying deliveries of Glyderm® (Kelo-stretch®) into H2, and resulted in abnormally low distributor stock levels. Both this and negotiations to raise the Kelo-cote® price in China have now been resolved and as a result the Kelo franchise growth rate is expected to reach c.20% for FY14. Kelo-cote® was launched in Japan, where it already has regulatory approval, by PRSS a specialist aesthetics distributor, and sales to plastic surgeons, dermatologists and aesthetic clinics have already started. Asian sales improved strongly in Q2 with the benefit of recent launches including Glyderm® in the Philippines. Atopiclair® and Papulex® gained market share and have now both achieved third position in respective IMS APAC prescription sales data after initial launches in FY12.

Changes in the regulatory framework in Saudi Arabia necessitated re-registration of both Kelo-cote® and Bio-Taches® and this materially affected H1 sales in MEA but with much improved visibility for the remainder of the year. Flammazine® sales in the region grew 9% in the period and Atopiclair® grew strongly following recent launches across MEA.

In the Americas, North and Eastern Europe political difficulties in Venezuela delayed the import license renewal for Kelo-cote®, substantially reducing sales, although this was to a degree offset by strong growth in Brazil. Sinclair further extended its relationship with Menarini during the first half with a 10 year agreement to market Aloclair Plus® in Russia and the CIS.

Financial Review

Revenues increased to £24.5 million, 6.6% growth over £23.0 million for the same period last year, helped by the acquisition of Sculptra, New-Fill and Succeev which added £2.9 million to revenue and also helped by a stronger Euro which added £0.7 million to headline revenues. Revenues would have been higher had one-off factors not delayed approximately £1.6 million in deliveries to the second half. EBITDA increased 9.6% to £1.1 million from £1.0 million in the prior year.

Gross margins reduced to 56.6% in the period from 61.7% in H1 FY13 due to the revenue mix but operating margin (defined as the ratios of adjusted EBITDA to Revenue) one of the Group's KPI's, was maintained at 4.3% (H1 FY13: 4.2%). The revenue mix favoured product deliveries in the current period with a reduction in licence and royalty income of £0.8 million compared with the same period last year and accounted for 3.1% of the 4.6% gross margin reduction in the period. A large portion of the delayed sales were also from high gross margin products such as Kelo-cote® and Bio-Taches® which further reduced the reported margin. Delivery of delayed orders and an improved mix of product sales and royalty income are expected in the second half with a consequent improvement in the overall gross margin for the full year.

Selling, marketing and distribution costs were largely unchanged at £7.7 million (2012: £7.8 million) although the focus of spend has switched significantly over the last year with the Group's sales teams now primarily directed towards aesthetic physicians. Promotion to pharmacies has largely been sub contracted to specialist OTC partners. Pre-exceptional administrative expenses increased by £0.3 million or 3.8% to £8.7 million (2012: £8.4 million) due to an increase in non-cash charges for amortisation and share based payments. Underlying administration costs are unchanged on the prior year as the Group focusses on driving operating leverage through increased sales from the existing infrastructure.

Exceptional items result in a £0.2 million credit to the income statement for the period. This arises due to a one-off profit on disposal of £0.6 million arising on the disposal of Effederm, an acne treatment sold principally in France. The disposal continues the Group's strategy of focussing resources on a smaller number of key dermatology brands with clear growth potential. This profit was offset by £0.3 million of acquisition costs related to the Perfectha acquisition, which completed post period, and £0.1 million in restructuring costs from the re-alignment of sales teams.

Net finance costs are £0.2 million (H1 FY13: £0.7 million), reduced by a £0.3m foreign exchange gain on US Dollar denominated borrowings. The prior period also included a £0.4 million charge resulting from the re-negotiation of borrowing facilities. Interest on borrowings at £0.3 million was 11% lower than the prior year due to the lower level of borrowings outstanding in the period.

Loss for the period from discontinued operations of £1.0 million represents the costs of decommissioning the Cléry facility post the cessation of production in June 2013. All remaining employees left in December 2013 and as a result there will be a minimal level of costs in the second half. Final redundancy payments were made in January 2014.

Loss for the period fell to £3.4 million from £5.2 million in H1 FY13, resulting in a reduced loss per share of 0.8p, of which 0.2p is attributable to discontinued operations, compared with a loss of 1.2p per share from continuing operations in the prior period.

Cash flow and net debt

Cash outflow from operations was £3.1 million, compared with £0.5 million in 2012. The increased cash outflow comes from two equal factors, £1.0 million of cash outflow from discontinued operations and £1.6 million from continued operations due to increased working capital in the period. Following the settlement of final redundancy payments in January 2014, cash flow from operations is expected to improve strongly in the second half of the year with trading performance again strongly weighted to the second half of the financial year.

Net debt stood at £9.1 million at 31 December 2013, increased from £6.9 million at 30 June 2013 as a result of the cash outflows in the period but representing just 1.2x annualised EBITDA.

On 3 January 2014, the Group entered into a new debt facility with Hayfin Capital Management Group ("Hayfin") in order to finance the acquisition of global rights to Perfectha through the acquisition of Obvieline Laboratories SA. Hayfin agreed 5 year credit facilities including a £35.0 million term facility and a £3.0 million revolving credit facility. Entry into the facility involved the repayment of existing borrowings of £10.2 million provided by Clydesdale Bank plc. Hayfin have also provided additional debt of €18.0 million (£15.0 million) in order to finance the acquisition of AQTIS,

completed on 24 March 2014. Net debt on a pro-forma basis is expected to be approximately 3.5x EBITDA at the end of the financial year, falling to 3.0x by the end of the calendar year, based on forecast growth.

Outlook

Sinclair continues to focus on its leading brands in medicinal and aesthetic dermatology. Recent acquisitions have created a highly differentiated aesthetic platform that transforms the Group's growth prospects in Europe and enables it to take advantage of the expansion of the global aesthetics market. The Board continues to assess opportunities to further strengthen its aesthetics portfolio. Sinclair expects a significant improvement in LFL revenue growth in the second half and earnings to benefit from increasing operating leverage in the business.

Unaudited Consolidated Income Statement
For the six months ended 31 December 2013

	Notes	Unaudited Six months ended 31 December 2013 Pre-exceptional items £'000	Exceptional items (note 5) £'000	Total £'000	Unaudited Six months ended 31 December 2012 Pre-exceptional items £'000	Exceptional items (note 5) £'000	Total £'000
Revenue	6	**24,461**	**-**	**24,461**	22,950	-	22,950
Cost of sales		**(10,608)**	**-**	**(10,608)**	(8,789)	(58)	(8,847)
Gross profit/(loss)		**13,853**	**-**	**13,853**	14,161	(58)	14,103
Selling, marketing and distribution costs		**(7,709)**	**-**	**(7,709)**	(7,762)	-	(7,762)
Administrative expenses		**(8,678)**	**212**	**(8,466)**	(8,358)	(3,040)	(11,398)
Operating (loss)/profit		**(2,534)**	**212**	**(2,322)**	(1,959)	(3,098)	(5,057)
Net finance expense	9	**(177)**	**-**	**(177)**	(719)	-	(719)
(Loss)/profit before taxation		**(2,711)**	**212**	**(2,499)**	(2,678)	(3,098)	(5,776)
Taxation		**143**	**-**	**143**	74	519	593
(Loss)/profit for the period from continuing operations		**(2,568)**	**212**	**(2,356)**	(2,604)	(2,579)	(5,183)
Discontinued operations	8						
Loss for the period from discontinued operations		-	-	**(1,044)**	-	-	-
Loss for the period		**(2,568)**	**212**	**(3,400)**	(2,604)	(2,579)	(5,183)
Loss per share (basic and diluted)	**10**						
From continuing operations				**(0.5)p**			(1.2)p
From discontinued operations				**(0.2)p**			-
From loss for the period				**(0.8)p**			(1.2)p

Unaudited Consolidated Statement of Comprehensive Income
For the six months ended 31 December 2013

	Unaudited Six months ended 31 December 2013 £'000	Unaudited Six months ended 31 December 2012 £'000
Loss for the period	**(3,400)**	(5,183)
Other comprehensive income		
Currency translation differences	**(5,104)**	(591)
From discontinued operations	**(1,044)**	-
From continuing operations	**(7,460)**	(5,774)
Total comprehensive income for the period	**(8,504)**	(5,774)

The notes on pages 12 to 22 form an integral part of this condensed consolidated half-yearly financial information.

Unaudited Consolidated Balance Sheet
As at 31 December 2013

	Notes	**Unaudited 31 December 2013 £'000**	Unaudited 31 December 2012 £'000	Audited 30 June 2013 £'000
Non-current assets				
Goodwill	11	**60,666**	64,724	63,521
Intangible assets	12	**53,665**	67,164	57,841
Property, plant and equipment		**573**	701	500
Deferred tax assets		**3,923**	4,814	4,155
Other financial assets		**152**	151	157
		118,979	137,554	126,174
Current assets				
Inventories		**5,250**	6,504	4,848
Trade and other receivables	14	**19,581**	14,610	19,936
Cash and cash equivalents		**813**	2,876	5,061
		25,644	23,990	29,845
Assets held for resale		**-**	214	-
Total assets		**144,623**	161,758	156,019
Current liabilities				
Borrowings	15	**(3,411)**	(3,415)	(3,418)
Trade and other payables	14	**(18,330)**	(14,634)	(18,429)
Other financial liabilities	16	**(443)**	(454)	(490)
Current tax liabilities		**(245)**	(472)	(311)
Provisions		**(861)**	(1,619)	(1,380)
		(23,290)	(20,594)	(24,028)
Non-current liabilities				
Borrowings	15	**(6,454)**	(8,129)	(8,500)
Other financial liabilities	16	**(1,519)**	(1,805)	(1,467)
Deferred tax liabilities		**(10,629)**	(12,378)	(10,929)
Other non-current liabilities		**(189)**	(953)	(554)
Provisions		**-**	(99)	-
		(18,791)	(23,364)	(21,450)
Total liabilities		**(42,081)**	(43,958)	(45,478)
Net assets		**102,542**	117,800	110,541
Equity				
Share capital		**4,349**	4,349	4,349
Share premium account		**67,242**	67,274	67,242
Merger reserve		**97,141**	97,141	97,141
Other reserves		**2,587**	2,938	7,691
Retained deficit		**(68,777)**	(53,902)	(65,882)
Total equity		**102,542**	117,800	110,541

The notes on pages 12 to 22 form an integral part of this condensed consolidated half-yearly financial information.

Unaudited Consolidated Statement of Changes in Shareholders' Equity
For the six months ended 31 December 2013

	Share capital £'000	Share premium £'000	Merger reserve £'000	Other Reserves £'000	Retained deficit £'000	Total equity £'000
Balance at 30 June 2012 (audited)	**4,026**	**58,727**	**97,141**	**3,529**	**(49,145)**	**114,278**
Exchange differences arising on translation of overseas subsidiaries	-	-	-	(591)	-	(591)
Loss for the period	-	-	-	-	(5,183)	(5,183)
Total comprehensive income/(expense) for the period	-	-	-	(591)	(5,183)	(5,774)
Share based payments	-	-	-	-	426	426
Share issue expenses	-	(184)	-	-	-	(184)
Share capital issued	323	8,731	-	-	-	9,054
Balance at 31 December 2012 (unaudited)	**4,349**	**67,274**	**97,141**	**2,938**	**(53,902)**	**117,800**
Exchange differences arising on translation of overseas subsidiaries	-	-	-	4,753	-	4,753
Loss for the period	-	-	-	-	(12,181)	(12,181)
Total comprehensive income/(expense) for the period	-	-	-	4,753	(12,181)	(7,428)
Share based payments	-	-	-	-	201	201
Share issue expenses	-	(32)	-	-	-	(32)
Balance at 30 June 2013 (audited)	**4,349**	**67,242**	**97,141**	**7,691**	**(65,882)**	**110,541**
Exchange differences arising on translation of overseas subsidiaries	-	-	-	(5,104)	-	(5,104)
Loss for the period	-	-	-	-	(3,400)	(3,400)
Total comprehensive expense for the period	-	-	-	(5,104)	(3,400)	(8,504)
Share based payments	-	-	-	-	505	505
Balance at 31 December 2013 (unaudited)	**4,349**	**67,242**	**97,141**	**2,587**	**(68,777)**	**102,542**

The notes on pages 12 to 22 form an integral part of this condensed consolidated half-yearly financial information.

Unaudited Consolidated Statement of Cash Flows
For the six months ended 31 December 2013

	Notes	**Six months ended 31 December 2013**	Six months ended 31 December 2012
		£'000	£'000
Net cash outflow from operating activities including discontinued operations	17	**(3,065)**	(473)
Interest paid		**(312)**	(416)
Interest paid on finance leases		**-**	(2)
Taxation (paid)/received		**18**	(485)
Net cash used in operating activities		**(3,359)**	(1,376)
Investing activities			
Purchases of property, plant and equipment		**(10)**	(33)
Purchase of intangible assets		**(176)**	(7,642)
Proceeds from the sale of intangible assets		**997**	448
Net cash generated from/ (used in) investing activities		**811**	(7,227)
Financing activities			
Proceeds from borrowings		**-**	154
Repayments of borrowings		**(1,700)**	(1,531)
Proceeds from issue of share capital		**-**	8,820
Net cash from financing activities		**(1,700)**	7,443
Net (decrease) in cash and cash equivalents		**(4,248)**	(1,160)
Cash and cash equivalents at 1 July		**5,061**	4,036
Cash and equivalents at end of period		**813**	2,876

The notes on pages 12 to 22 form an integral part of this condensed consolidated half-yearly financial information.

Notes to the unaudited condensed consolidated half-yearly financial information

1. General Information

The Company is a public limited company which is listed on the AIM market of the London Stock Exchange, and is incorporated and domiciled in the United Kingdom. The address of its registered office is Whitfield Court, 30-32 Whitfield Street, London, W1T 2RQ.

This condensed consolidated half-yearly financial information does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 30 June 2013 were approved by the board of Directors on 11 October 2013 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, and did not contain any statement under Section 498 of the Companies Act 2006.

This condensed consolidated half-yearly financial information was approved for issue on 25 March 2014.

2. Basis of preparation

This condensed consolidated half-yearly financial information for the half-year ended 31 December 2013 has been prepared in accordance with the Disclosures and Transparency Rules of the Financial Conduct Authority and with IAS 34, 'Interim financial reporting' as adopted by the European Union as if the Company were listed on a market regulated under EU law. The half-yearly condensed consolidated financial report should be read in conjunction with the annual financial statements for the year ended 30 June 2013, which have been prepared in accordance with IFRSs as adopted by the European Union.

3. Accounting policies

Except as described below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 30 June 2013, as described in those annual financial statements.

Amendments to existing standards and interpretations that are relevant to the Group's operations but have had no impact.

- IAS 19, 'Employee benefits' (effective Annual periods beginning on or after 1 January 2013)
- IFRS 9, 'Financial Instruments', on 'Classification and measurement' of financial assets and liabilities.

Amendments to existing standards that are not relevant to the Group's operations

- IFRS 9, 'Financial instruments' on deferral of mandatory effective date
- Amendments to IFRS 10,12 and IAS 27 on 'Consolidation for investment entities'
- Amendment to IAS 39, 'Financial instruments: Recognition and measurement', on novation of derivatives and hedge accounting.

Amendments to existing standards that are effective for annual periods beginning on or after 1 January 2014 which have not been early adopted.

- Amendment to IAS 36, 'Impairment of assets' on recoverable amount disclosures

4. Estimates

The preparation of the interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported values of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed interim financial statements, the significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 30 June 2013, with the exception of changes in estimates that are required in determining the amortisation of deferred tax assets.

Taxes on income in the period are accrued using the tax rate that would be applicable to expected total annual profit or loss.

5. Seasonality of operations

Due to the ordering patterns of the customer base, higher revenues and operating profits are usually experienced in the second half of the year than the first half. In financial year ended 30 June 2013, 41% of revenues accumulated in the first half of the year, with 59% accumulating in the second half of the year.

6. Segment information

The chief operating decision maker has been identified as the executive management team. This team reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The executive management team considers the business as being organised into the following reportable operating segments; Country Operations (including the Group's operations in France, UK, Italy, Germany and Spain) where the Group has its proprietary sales infrastructure, and International Operations where the Group sells through local distributors. Research and development, technology licensing income and costs, intellectual property and corporate costs are included under the 'other' heading.

The executive management team assesses the performance of the operating segments based on a measure of adjusted earnings before interest, tax, depreciation, amortisation, exceptional items and share based payments (Adjusted EBITDA).

December 2013 continuing operations

Operating Segments	**France** £'000	**Italy** £'000	**Germany** £'000	**United Kingdom** £'000	**Spain** £'000	**Country Operations** £'000	**International operations** £'000	**Other** £'000	**Total** £'000
Product sales	**5,787**	**2,445**	**1,929**	**3,640**	**1,644**	**15,445**	**7,310**	**-**	**22,755**
License fees and royalty income	**-**	**-**	**430**	**760**	**-**	**1,190**	**516**	**-**	**1,706**
Revenue	**5,787**	**2,445**	**2,359**	**4,400**	**1,644**	**16,635**	**7,826**	**-**	**24,461**
Cost of goods sold	**(2,439)**	**(1,379)**	**(791)**	**(1,483)**	**(876)**	**(6,968)**	**(3,640)**	**-**	**(10,608)**
Gross Profit	**3,348**	**1,066**	**1,568**	**2,917**	**768**	**9,667**	**4,186**	**-**	**13,853**
Adjusted EBITDA	**552**	**381**	**341**	**1,427**	**(158)**	**2,543**	**1,980**	**(3,461)**	**1,062**

December 2012 continuing operations

Operating Segments	France £'000	Italy £'000	Germany £'000	United Kingdom £'000	Spain £'000	Country Operations £'000	International operations £'000	Other £'000	Total £'000
Product sales	5,024	1,786	1,258	2,758	1,393	12,219	8,274	-	20,493
License fees and royalty income	16	128	475	960	1	1,580	877	-	2,457
Revenue	5,040	1,914	1,733	3,718	1,394	13,799	9,151	-	22,950
Cost of goods sold	(1,953)	(735)	(450)	(1,272)	(666)	(5,076)	(3,713)	-	(8,789)
Gross Profit	3,087	1,179	1,283	2,446	728	8,723	5,438	-	14,161
Adjusted EBITDA	283	412	381	514	(196)	1,394	3,108	(3,533)	969

6. Segment information continued

A reconciliation of total adjusted EBITDA to operating loss is provided as follows:

	Six months ended 31 December 2013 £'000	Six months ended 31 December 2012 £'000
Adjusted EBITDA for reportable segments	**1,062**	969
Depreciation	**(83)**	(180)
Amortisation	**(2,558)**	(2,322)
Exceptional items (note 7)	**212**	(3,098)
Share based payments	**(955)**	(426)
Operating loss	**(2,322)**	(5,057)

7. Exceptional Items

Exceptional items represent significant items of income and expense which due to their nature, size or the expected infrequency of the events giving rise to them, are presented separately on the face of the income statement to give a better understanding to shareholders of the elements of financial performance in the period, so as to facilitate comparison with prior periods and to better assess trends in financial performance.

	Six months ended 31 December 2013 £'000	Six months ended 31 December 2012 £'000
Restructuring costs	**(139)**	(572)
Acquisition costs	**(290)**	-
Profits on disposal	**641**	-
Cost of sales – release of fair valuation uplift in acquired inventories	**-**	(58)
Impairment of intangible assets	**-**	(2,468)
	212	(3,098)

Restructuring costs of £139,000 (2012: £572,000) include severances paid to employees in order to achieve organisation efficiencies. In 2012 these also include a contract termination fee incurred to return certain product rights.

Acquisition costs of £290,000 include legal and professional expenses incurred in relation to the acquisition of the global rights to Perfectha ™ through the acquisition of Obvieline Laboratories SA which was completed on January 3 2014 (note 19).

Profits on disposal of £641,000 are generated from the disposal of Effederm by the Group to Laboratoires Bailleul International for a total consideration of €1,010,000 (£854,000) in October 2013. The profit on disposal represents the consideration net of the carrying value of the asset less costs of disposal.

Exceptional cost of sales in 2012 of £58,000 are the pass through of the fair value uplift applied at acquisition to the carrying value of the inventory acquired with acquisitions of Advanced Bio Technologies Inc.

Impairment charges in 2012 of £2,468,000 were made to the Cryogesic trademark included with intangible assets and acquired as part of the acquisition of IS Pharma Group in May 2011. New entrants to the market in

2012 resulted in declining sales and a reduction in average prices. The Directors re-assessed forecast sales and gross margins and as a result of the reduced cash flows recorded an impairment. There have been no further indications of impairment against this asset.

8. Discontinued operations

On 30 June 2013 the Group closed its only manufacturing facility at Cléry in France and has fully outsourced its manufacturing arrangements. The Directors expect to make significant cost savings through the outsourcing of these manufacturing arrangements to its manufacturing partners.

A loss for the period of £1,044,000 (2012: £nil) has been recognised as the costs of discontinued operations.

A single amount is shown on the face of the income statement comprising the post-tax result of discontinued operations. The income and expenses of these operations are reported separately from the operations of the Group. Revenue from discontinued operations represents intra group revenue of the Cléry site from inventory sold during the period which was manufactured by the Cléry site up to the point manufacturing operations ceased in June 2013, determined using third party rates for the products manufactured during the year.

	2013	2012
	£'000s	£'000s
Revenue	**1,274**	-
Cost of sales	**(1,447)**	-
Gross loss	**(173)**	-
Administrative expenses	**(871)**	-
Operating loss	**(1,044)**	-
Finance expense	**-**	-
Loss before taxation	**(1,044)**	-
Taxation	**-**	-
Loss for the period from discontinued operations	**(1,044)**	-

The cash outflow from discontinued operations is disclosed in note 17, there were no cash flows from investing or financing activities.

9. Finance income and costs

	Six months ended 31 December 2013	Six months ended 31 December 2012
	£'000	£'000
Interest on bank loans and overdrafts	**(324)**	(363)
Imputed interest on deferred consideration	**(135)**	(67)
Write off of arrangement fees arising from terminated loan facilities	**-**	(415)
Other finance charges	**(36)**	(57)
Finance costs	**(495)**	(902)
Net foreign exchange gain on financing activities	**318**	181
Other interest income	**-**	2
Finance income	**318**	183

Net finance expense	**(177)**	(719)

10. Loss per share

The basic loss per share has been calculated by dividing the loss for the period, by the weighted average number of shares in existence for the period.

Shares held by the Employee's Share Trust, including shares over which options have been granted to Directors and staff, have been excluded from the weighted average number of shares for the purposes of calculation of the basic loss per share.

The loss and weighted average number of shares for the purpose of calculating the diluted loss per share are identical to those used for the basic loss per share, as the exercise of share options and warrants would have the effect of reducing the loss per share and therefore are not dilutive.

	Six months Ended 31 December 2013	Six months ended 31 December 2012
Basic and diluted EPS		
Loss attributable to equity shareholders (£'000)	**(3,400)**	(5,183)
Weighted average number of shares	**434,483,706**	419,059,296
Diluted weighted average number of shares	**434,483,706**	419,059,296
Basic and diluted loss per share (pence)	**(0.8)p**	(1.2)p
From continuing activities		
Loss from continuing activities	**(2,356)**	(5,183)
Basic and diluted loss per share (pence) from continuing activities	**(0.5)p**	(1.2)p
From discontinued activities		
Loss from discontinued activities	**(1,044)**	-
Basic and diluted loss per share (pence) from continuing activities	**(0.2)p**	-

Adjusted loss per share has been calculated by adding back exceptional charges and amortisation of intangible assets and losses from discontinued operations to the loss for the period together with deferred tax movements linked to these items, resulting in an adjusted loss for the period.

A reconciliation of adjusted loss is as follows:

	Six months Ended 31 December 2013 £'000	Six months ended 31 December 2012 £'000
Loss for the period	**(3,400)**	(5,183)
Amortisation	**2,568**	2,322
Exceptional items (note 7)	**(212)**	3,098
Discontinued activities	**1,044**	-
Deferred tax credits on amortisation and exceptional items	**(301)**	(915)
Adjusted loss for the period	**(301)**	(678)
Adjusted loss per share basic and diluted (pence)	**(0.1p)**	(0.2p)

11. Goodwill

	31 December 2013 £'000	31 December 2012 £'000	30 June 2013 £'000
Cost			
At 1 July	**70,077**	67,644	67,644
Disposals	**(95)**	-	-
Exchange adjustments	**(2,760)**	(41)	2,433
At period end	**67,222**	67,603	70,077
Accumulated amortisation and impairment			
At 1 July	**6,556**	2,879	2,879
Impairment charge	**-**	-	3,677
At period end	**6,556**	2,879	6,556
Net book value at period end	**60,666**	64,724	63,521

The disposal of the product SST to Hexim, completed in November 2013 results in a £95,000 disposal of the goodwill recognised on the acquisition of Salix AB in 2001.

12. Intangible assets

	31 December 2013 £'000	31 December 2012 £'000	30 June 2013 £'000
Cost			
At 1 July	**96,401**	86,688	86,688
Additions	**263**	7,910	8,472
Disposals	**(338)**	-	(734)
Transfers to assets held for sale	**-**	(214)	-
Exchange adjustments	**(2,080)**	(497)	1,975
At period end	**94,246**	93,887	96,401
Amortisation and impairment			
At 1 July	**38,560**	21,828	21,828
Charge for the period/year	**2,568**	2,322	4,953
Disposals	**(194)**	-	(361)
Impairment charge	**-**	2,468	11,474
Exchange adjustments	**(353)**	105	666
At period end	**40,581**	26,723	38,560
Net book value at period end	**53,665**	67,164	57,841

Additions in 2012 included the €9.0m paid to Valeant Pharmaceutical North America LLC, for the 100 year distribution agreement for Sculptra, New-fill & Suceev in Western Europe.

13. Trade and other receivables

	31 December 2013 £'000	31 December 2012 £'000	30 June 2013 £'000
Trade receivables	**15,993**	11,693	17,085
Less provision for impairment of trade receivables	**(196)**	(448)	(234)
Trade receivables-net	**15,797**	11,245	16,851
Other receivables	**1,336**	1,412	1,199
Prepayments and accrued income	**2,448**	1,953	1,886
	19,581	14,610	19,936

14. Trade and other payables

	31 December 2013 £'000	31 December 2012 £'000	30 June 2013 £'000
Trade payables	**7,740**	8,464	8,673
Other taxes and social security costs	**1, 226**	527	1,091
Other payables	**2,312**	830	1,761
Accruals and deferred income	**7,052**	4,813	6,904
	18,330	14,634	18,429

15. Borrowings

	31 December 2013 £'000	31 December 2012 £'000	30 June 2013 £'000
Bank loans	**6,427**	8,077	8,463
Finance lease liabilities	**27**	52	37
Non-current borrowings	**6,454**	8,129	8,500
Obligations under finance leases	**11**	15	18
Bank loans	**3,400**	3,400	3,400
Current borrowings	**3,411**	3,415	3,418
Total borrowings	**9,865**	11,544	11,918
Borrowings included above are repayable as follows:			
On demand or within one year	**3,411**	3,415	3,418
Over one and under two years	**3,411**	3,415	3,418
Over two and under five years	**3,043**	4,714	5,082
Total borrowings	**9,865**	11,544	11,918

15. Borrowings continued

Bank loans outstanding at 31 December 2013 represent loan facilities with Clydesdale Bank plc of which £13.6m has been drawn and £10.2m remained repayable. This includes amounts denominated in dollars of $8.2m (£5.0m) of which $5.4m (£3.3m) remained outstanding. The total facility of £23.6m (including a £1.0m revolving credit facility and borrowing facility up to £22.6m) was arranged in December 2012 and expires on 31 December 2016. Interest is charged at LIBOR plus 3.25%, and interest over two thirds of the amount drawn down is capped at 4.75% through an interest rate cap. Direct issue costs of £371,000 have been offset against the gross liability. Repayments are scheduled to be made in equal instalments of £850,000 every three months and a final settlement payment at the expiry of this facility. Drawings under this facility are secured by a debenture over all the Group's assets.

On 3 January 2014, the Group entered into new senior credit facilities with Hayfin Capital Management LLP resulting in the existing bank borrowings being repaid in full; see note 19.

16. Other financial liabilities

Other financial liabilities include deferred purchase consideration due as follows:

	31 December 2013 £'000	31 December 2012 £'000	30 June 2013 £'000
Current	**443**	454	490
Non-current	**1,519**	1,805	1,467
	1,962	2,259	1,957

Included within other financial liabilities is deferred contingent consideration which represents the fair value of the assumed contractual minimum liabilities of the previous owner of SEPI AG (a Swiss subsidiary acquired by IS Pharma in April 2008) which are payable to the original developers of Haemopressin in annual instalments until 2016 representing royalties payable on future net revenue from Haemopressin. The amount included represents the Directors' estimate of the fair value of the contractual amount payable by 2016 discounted to its present value.

17. Cash flow from operating activities

	Six months ended 31 December 2013	Six months ended 31 December 2012
	£'000	£'000
Continuing Operations		
Loss before tax	**(2,499)**	(5,776)
Adjustments for:		
Finance income	**(318)**	(183)
Finance costs	**495**	902
Share based payments	**505**	426
Depreciation	**83**	180
Amortisation of intangible assets	**2,558**	2,322
Impairment charges	**-**	2,468
Profit on disposal of intangible assets	**(830)**	(23)
Exchange gains	**-**	4
	(6)	320
Changes in working capital (excluding effects of acquisitions)		
Increase in inventories	**(2,681)**	(323)
Decrease in receivables	**2,316**	2,136
Decrease in payables	**(1,421)**	(2,297)
Net cash outflow from continuing operations	**(1,792)**	(164)
Discontinued operations		
Loss before tax	**(1,044)**	-
Adjustments for:		
Reduction in provisions	**(519)**	-
Changes in working capital		
Decrease/(increase) in inventories	**173**	(309)
Decrease in debtors	**44**	-
Increase in payables	**73**	-
Net cash out flow from discontinued operations	**(1,273)**	(309)
Net cash outflow from operations	**(3,065)**	(473)

18. Related party transactions

There were no related party transactions during the period.

19. Post balance sheet events

Acquisition of global rights to Perfectha™

On 3 January 2014 the Group entered into agreements to acquire the global rights to Perfectha™ dermal fillers through the acquisition of Obvieline Laboratories SA ("Obvieline") and also entered into agreements to acquire distribution rights principally in Brazil and Russia from Pharmavital SA ("Pharmavital"), Obvieline's parent company, for a total consideration of up to €32.2 million (£26.7 million) in cash with an initial payment of €10.0 million (£8.3 million). The acquisition of Obvieline completed on 6 January 2014 and the acquisition from Pharmavital is expected to close within six months.

The total consideration is structured into a number of payments with most being delivered over the two years following completion. These include a balancing payment based on the finalised 2013 audited revenues of Obvieline; a payment on completion for the distribution rights in certain geographies (principally Brazil and Russia) of 2 x 2013 sales of Perfectha™ by Pharmavital and a payment of €6.5 million on obtaining EU approval for the Perfectha™ lidocaine (anaesthetic) range. Additional one-off payments of €2.0 million each will be made on 31 March 2014 and once sales of Perfectha exceed €17.0 million in any 12 month period from 6 January 2014.

Acquisition of Atlean™

On 30 January 2014, the Group acquired rights to the product Atlean, a combined collagen stimulator and hyaluronic acid filler from Stieffel the dermatology business of GSK, for an undisclosed cash consideration.

Acquisition of global rights to Ellansé™

On 24 March 2014 the Group completed the acquisition of the global rights to Ellansé™ a range of combined dermal fillers and collagen stimulators through the acquisition of Aqtis Holding B.V. for a total consideration of up to €46.6m (£38.8m) in cash with an initial payment of €16.6m (£13.8m).

Borrowings

On January 3 2014 the Group entered into a new 5 year senior credit facilities agreement with Hayfin Capital Management LLP. The facilities include a committed £35.0m debt facility, a £3.0m revolving credit facility and uncommitted facilities of £25.0m. Initial drawings of £26.5m were made at completion in order to fund the acquisition of Perfectha ™ and repay existing borrowings with Clydesdale bank plc. A further €18.0m from the uncommitted facility has been drawn in order to fund the acquisition of Aqtis Holding BV.

The effective interest rate for the facility equates to 9.2% which includes a margin over libor, upfront arrangement fees and direct costs of entering into the facility agreement. Interest is paid quarterly during the term of the facility.

Capital repayments, equivalent to 50% of the amount by which cash flows after debt service exceeds £0.5m, will be paid following the end of each financial year. A final repayment will be made at the expiry of the facility term.

Borrowings under the facility are secured by a debenture over all the Group's assets.

As a consequence of entering into the new facility, all borrowings under the Clydesdale facility (note 15) were repaid in full.

Principal risks and uncertainties

Sinclair IS Pharma plc is a business that depends on product revenues through its own sales and marketing operations and marketing partners, a successful pipeline to build future revenues, other business development activities to generate future revenues, and good management of the finances of the Group. The main risks associated with these factors are outlined below.

Risk associated with commercialised success of products

The Group's revenues are, and will be, principally from sales of its products. There can be no assurance that current product revenues can be maintained or increased in the future. Product sales may be affected by adverse market conditions or other factors including: pricing pressures from governments or other authorities, competition from other products, the withdrawal of a product because of a regulatory or other reason, or the financial or commercial failure of a marketing partner. The Company also spreads risk by commercialising its products throughout the global markets. Manufacturing of the majority of the Group's products is outsourced and supply may be interrupted or products may be recalled should quality or other issues arise. The Company maintains adequate insurance to mitigate the risks associated with product recall.

Interruption to product supply

The Group relies on third-party manufacturers for the supply of all products. Problems at manufacturers' facilities may lead to delays and disruptions in the supply chain which could have significant negative impact on the Group. The Group maintains a close dialogue with key suppliers and rigorously monitors inventory levels and customer demand to ensure that any interruption to product supply can be managed, and back up sources of supply are maintained where possible.

Competition and intellectual property risk

The position of Sinclair's products in the market is dependent on its ability to obtain and maintain patent and/or trademark protection for its products, preserve its trade secrets, defend and enforce its rights against infringement and operate without infringing the proprietary or intellectual property rights of third parties. The validity and enforceability of patents and/or trademarks may involve complex legal and factual issues resulting in uncertainty as to the extent of the protection provided. The Group's intellectual property may become invalid or expire before or during commercialisation of the product. The Group continuously seeks to develop its products to ensure they are competitive and monitors its intellectual property rights to identify and protect against any infringements.

Statement of Directors' responsibilities

The Directors have voluntarily adopted to comply with the requirements of the Disclosure and Transparency Rules 4.2.7 and 4.2.8 as if the Company were listed on a regulated market under EU law.

The Directors' confirm that these condensed set of interim financial statements has been prepared in accordance with IAS 34 as adopted by the European Union, and that the interim management report herein includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed consolidated interim financial information, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related-party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.

The Directors of Sinclair IS Pharma Plc in the period were:

Mr G Cook	Non-Executive Chairman
Mr C P Spooner	Chief Executive Officer
Mr C H Foucher	Chief Operating Officer
Mr J-C Tschudin	Non-executive Director
Mr R S Swanson	Non-executive Director

By order of the Board

CP Spooner
Chief Executive Officer

G Cook
Chairman

25 March 2014

Independent review report to Sinclair IS Pharma plc

Introduction

We have been engaged by the company to review the condensed consolidated financial statements in the half-yearly financial report for the six months ended 31 December 2013, which comprises the Unaudited Consolidated Income Statement, Unaudited Consolidated Statement of Comprehensive Income, Unaudited Consolidated Balance Sheet, Unaudited Consolidated Statement of Changes in Shareholders' Equity, Unaudited Consolidated Statement of Cash Flows and the related notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the AIM Rules for Companies which require that the financial information must be presented and prepared in a form consistent with that which will be adopted in the company's annual financial statements.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed consolidated financial information included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed consolidated financial statements in the half-yearly financial report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of the AIM Rules for Companies and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial information in the half-yearly financial report for the six months ended 31 December 2013 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the AIM Rules for Companies.

PricewaterhouseCoopers LLP
Chartered Accountants
London Gatwick
25 March 2014

Notes:

(a) The maintenance and integrity of the Sinclair IS Pharma plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.