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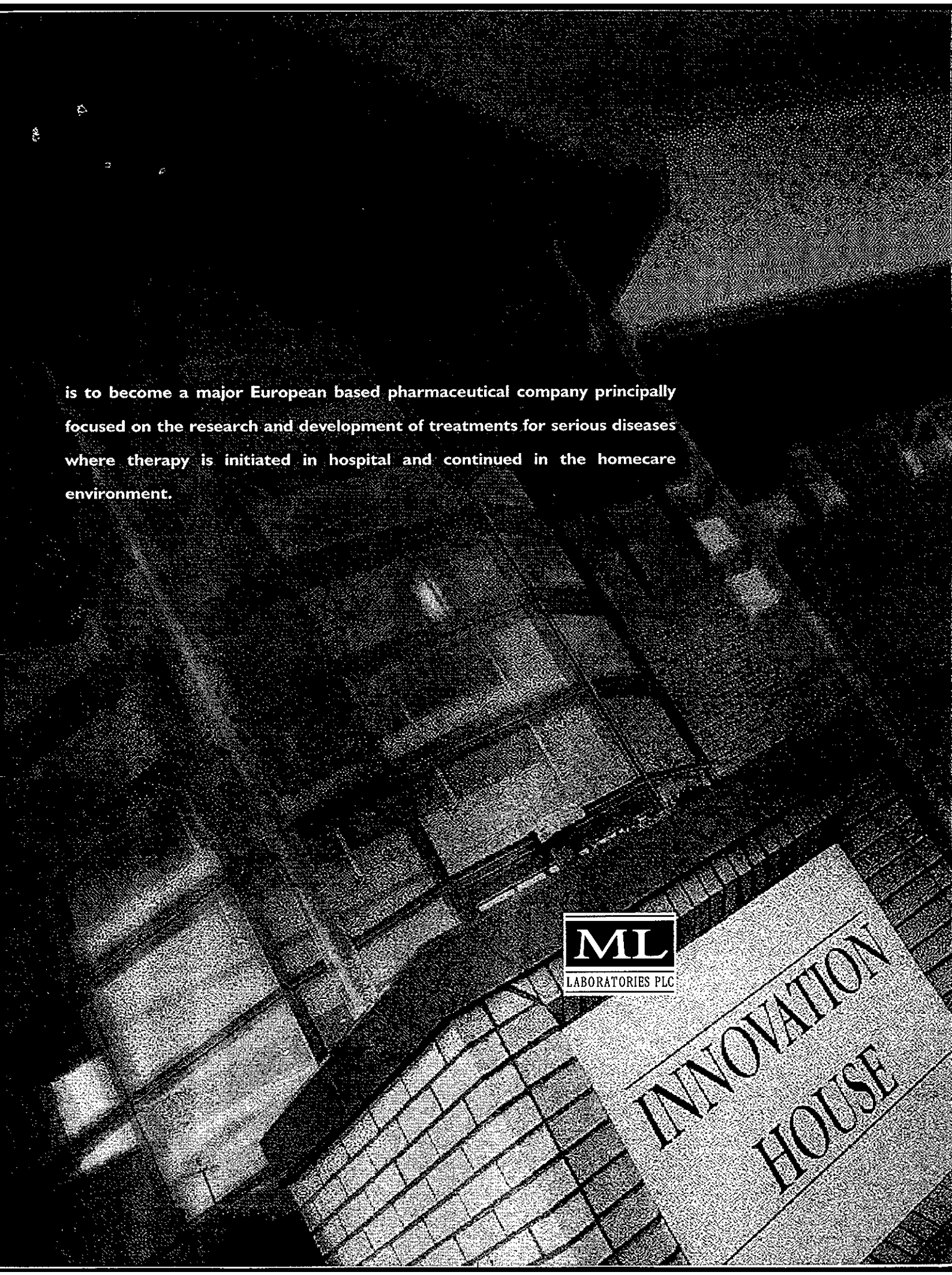
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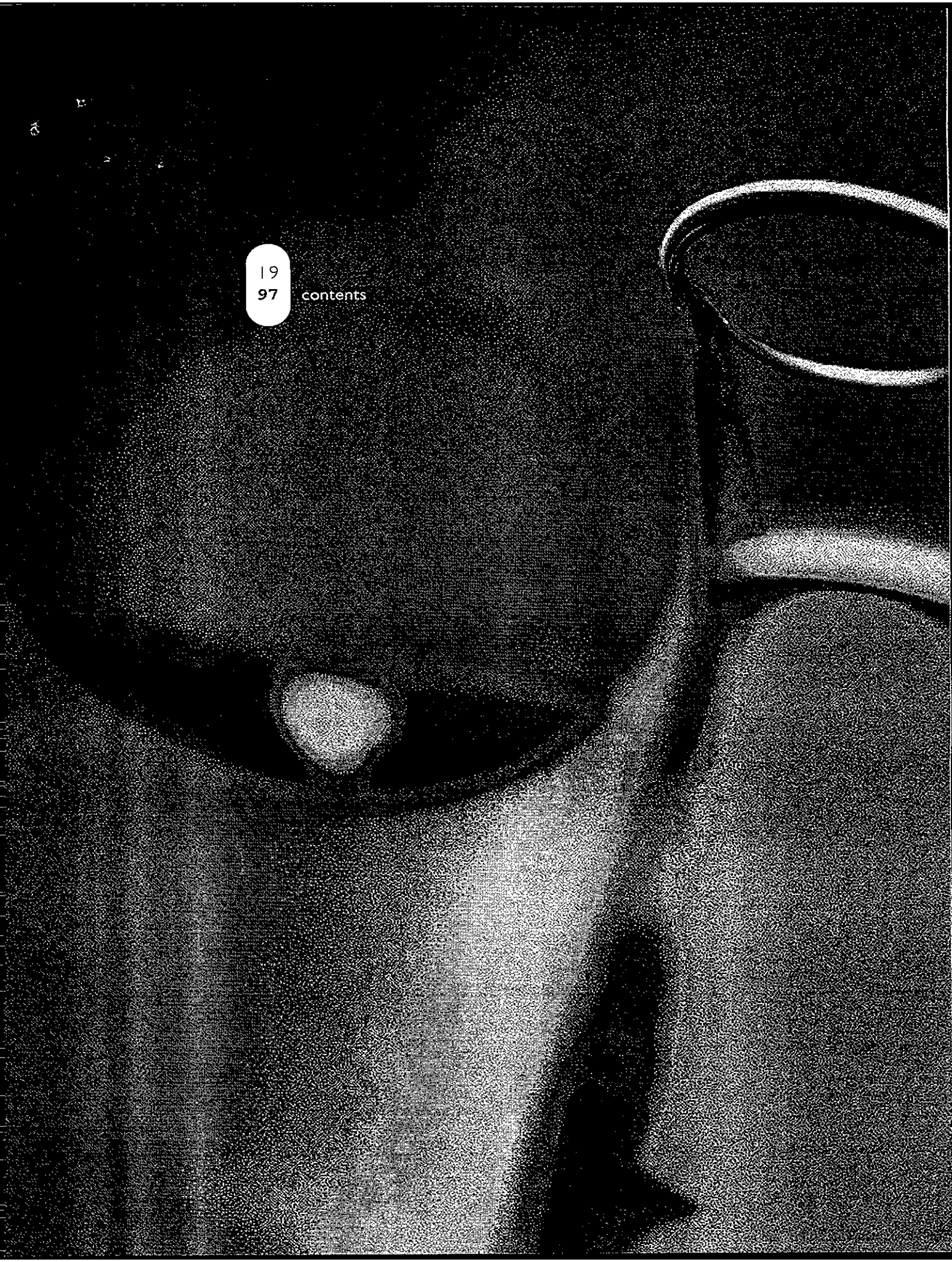
The Corporate Objective of ML Laboratories

ML Laboratories is to become a major European based pharmaceutical company principally focused on the research and providing [illegible] of treatments for serious diseases where therapy is initiated in hospital and continued in the homecare environment.

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is to become a major European based pharmaceutical company principally focused on the research and development of treatments for serious diseases where therapy is initiated in hospital and continued in the homecare environment.


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notice of annual general meeting

M.L. Laboratories plc ("the Company")
Registered in England no: 2148607

NOTICE is hereby given that the tenth Annual General Meeting of M.L. Laboratories PLC will be held at the Institute of Directors, 116 Pall Mall, London, SW1Y 5ED on Wednesday, 18th February 1998 at 11 am, for the following purposes:

1. To receive and adopt the Directors' Report, the Accounts and the Auditors' Report for the year ended 30th September 1997.

2. To re-elect Mr. K.R. Leech as a Director of the Company.

3. To re-elect Dr. C.B. Brown as a Director of the Company.

4. To re-elect Mr. G.P. Fothergill as a Director of the Company.

5. To re-elect Mr. P.J. Shennan as a Director of the Company.

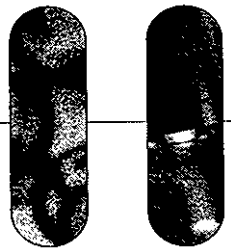
6. To re-appoint Messrs Coopers & Lybrand, Chartered Accountants, as Registered Auditors of the Company until the conclusion of the next Annual General Meeting and to authorise the Directors to determine their remuneration.

As special business, to consider and if thought fit to pass the following resolutions which will be proposed as to resolutions 7 and 8 as Ordinary Resolutions and as to resolution 9 as a Special Resolution:

7. That the authorised share capital of the Company be and it is hereby increased from £1,500,000 to £2,000,000 by the creation of a further 50,000,000 ordinary shares of 1p each ranking pari passu in all respects with the existing ordinary shares of 1p each.

8. That for the purposes of and pursuant to Section 80 of the Companies Act 1985 as amended (the "Act"), and in substitution for all existing powers pursuant to Section 80 of the Act, the Directors of the Company be and they are hereby generally and unconditionally authorised and empowered to exercise all the powers of the Company to allot relevant securities (as defined by Section 80(2) of the Act) up to an aggregate nominal amount of £490,000 to such persons at such times and upon such terms and conditions as they may determine (subject always to the articles of association of the Company), provided that this authority shall expire five years after the date of this resolution (unless renewed, varied or revoked by the Company in a general meeting) save that the Company may, prior to the expiry of this authority, make an offer or an agreement under which relevant securities would or might fall to be allotted after expiry and the Directors may allot relevant securities in pursuance of such an offer or agreement as if this authority had not expired.

9. That the Directors be and they are hereby empowered pursuant to Section 95 of the Act to allot equity securities (within the meaning of Section 94 of the Act) for cash pursuant to the authority granted on the date the resolution was passed under Section 80 of the Act as if Section 89 (1) of the Act did not apply to any such allotment PROVIDED THAT this power shall be limited to:



(i) the allotment of equity securities in connection with a rights issue in favour of ordinary shareholders where the equity securities respectively attributable to the interest of all ordinary shareholders are proportionate (as nearly as may be) to the respective number of ordinary shares held by them but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with legal or practical problems in respect of overseas holders, fractional entitlements or otherwise;

(ii) the allotment of ordinary shares of 1p each ("Ordinary Shares") up to a nominal amount equal to £72,478.65 on the exercise of options granted pursuant to the M.L. Laboratories PLC Executive Share Option Scheme approved by the Company in general meeting on 8th March 1989; and

(iii) the allotment (other than pursuant to subparagraph (i) and (ii) above) of Ordinary Shares up to an aggregate nominal amount of £72,478.65 equivalent to 5 per cent of the Company's issued Ordinary Share capital on the date of the notice of the 1998 Annual General Meeting of the Company;

and shall expire on the earlier of the date of the Annual General Meeting of the Company to be held in 1999 or the date 15 months after the passing of this resolution, save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement as if the authority conferred hereby had not expired.

10. To transact any other ordinary business of an Annual General Meeting.

BY ORDER OF THE BOARD
Dated: 15th December 1997
D. SMITH
Secretary

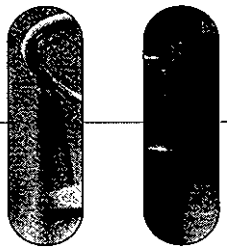
Registered Office:
Marcol House
293 Regent Street
London, W1R 7PD

NOTES:

(i) A member of the Company who is entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and on a poll to vote in his or her place. A proxy need not be a member of the Company.

(ii) The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, must be deposited at the office of the Registrars, IRG Plc of Balfour House, 390 -398 High Road, Ilford, Essex, IG1 1NQ not later than 48 hours before the time appointed for the Meeting. A form of proxy is enclosed. Completion of the proxy form will not affect the right of such a member to attend and vote at the Meeting.

(iii) There will be available for inspection at the Registered Office of the Company, during usual business hours on any weekday (Saturdays and public holidays excepted) from the date of this notice until the date of the Meeting and at the place of the Meeting for fifteen minutes prior to and during the Meeting, copies of the Directors' Service Agreements with the Company and particulars for the period up to 15th December 1997 of transactions of each Director and, so far as he can reasonably ascertain, of his family in the share capital of the Company.





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directors, secretary and advisers

DIRECTORS

K.R. Leech - Chairman

S.W. Sim, FCA - Chief Executive

Dr. R.N. Boyes, PhD

Dr. C.B. Brown BSc, MD, FRCP

* Professor D.S. Davies, BSc, PhD, FRSC, FRCPath, Hon MRCP

G.P. Fothergill, BA, FCIM

P. J. Shennan, BA, FCA, MSI

*Non-Executive

SECRETARY AND REGISTERED OFFICE

David Smith

Stringer Saul

Marcol House

293 Regent Street

London W1R 7PD

PRINCIPAL BANKERS

Midland Bank PLC

Library Place

St. Helier

Jersey

Channel Islands

REGISTRARS AND TRANSFER OFFICE

IRG PLC

Balfour House

390/398 High Road

Ilford

Essex IG1 1NQ



Dr. R.N. Boyes, PhD (Age 56)

Nick Boyes joined the Group in 1990 and became a Director of the Company in 1993. He has thirty years experience of the pharmaceutical industry, much of which was gained with the Astra Pharmaceutical Group in the USA, Sweden and the UK during which time he carried out a number of senior functions at director level. Nick Boyes is responsible for the clinical development of new and existing products. He is an expert in respiratory diseases and is the inventor of several of the Group's respiratory products. He is a non-executive director of Proteus International PLC and holds a number of other non-executive directorships.



Dr. C.B. Brown, BSc, MD, FRCP (Age 55)

Colin Brown joined the Group from Sheffield Kidney Institute in January 1997 and became a Director of the Company on 15th December 1997. He is a leading renal specialist and retains the position of Consultant Physician at the Institute. In addition he brings to the Group in his role as Medical Director considerable expertise in the field of fluid and drug administration through the peritoneum and extensive experience of hospital medicine. Dr. Brown was the independent expert who provided written opinion in the Company's prospectus in 1987.

REGISTERED
AUDITORS
Coopers & Lybrand
Chartered Accountants
Richmond House
1 Rumford Place
Liverpool L3 9QS

STOCKBROKER
Panmure Gordon & Co. Ltd
New Broad Street House
35 New Broad Street
London EC2 1NH
Member of S.F.A.



K.R. Leech
Chairman (Age 54)

Kevin Leech is the co-founder of the Company. He held the position of Chairman and Chief Executive until June 1997 when he split the role to enable him to concentrate solely on his responsibilities as Executive Chairman. He is also Chairman of Queensborough Holdings PLC, a UK listed company, where he owns 29.2% of the equity. In addition he is a director of a large number of unquoted companies by virtue of his controlling interest in those companies resulting from his role of provider of private venture capital.



S.W. Sim, FCA
Chief Executive (Age 46)

Stuart Sim qualified as a Chartered Accountant in 1975 and joined the Company as Finance Director in 1988 from a senior position at Norwest Co-operative Society, a diverse retailer. He was appointed Chief Executive in June 1997. He is also Deputy Chairman of Queensborough Holdings PLC and acts as an adviser to Kevin Leech in his venture capital activities.



Professor D.S. Davies, BSc, PhD, FRSC, FRCPath, Hon MRCP (Age 57)

Donald Davies is Director of Clinical Pharmacology at Imperial College School of Medicine at Hammersmith Hospital, London. He is a member of the Committee on Safety of Medicines of the Medicines Control Agency, Department of Health and has served on other expert committees in the UK, Europe and the USA. His research interests are in drug and chemical toxicity, drug development, drug safety, diet and cancer and he is the inventor of several of the Group's products. He has had more than 200 papers published on mechanisms of drug action and toxicity and drug safety evaluations. He advised Kevin Leech on his original investment in the Company in 1983 and he was appointed to the Board in 1987 because of his expertise and knowledge of the principal areas of development being undertaken by the Group.



G.P. Fothergill, BA, FCIM (Age 52)

Peter Fothergill became a Director of the Company in January 1997, having previously acted as adviser to the Board in assisting them to determine the Group's commercialisation strategy and in negotiating agreements. He has almost thirty years experience of the pharmaceutical industry gained mostly with Fisons where he was Chairman of the Pharmaceutical Division and a Main Board director of Fisons PLC. He is a non-executive director of Proteus International PLC and Chairman of I. Holland Limited and holds several other non-executive directorships.



P.J. Shennan, BA, FCA, MSI (Age 47)

Peter Shennan became Finance Director on 30th November 1997. He qualified as a Chartered Accountant in 1977 and is a Member of the Securities Institute. He joined the Group in June 1997 from Coopers and Lybrand where he held a senior position in the corporate finance advisory team and was a Nominated Adviser for AIM.

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chairman's statement



I am pleased to inform you that the solid progress I reported to you at the interim stage in June has continued throughout the second half of the year. Our various late stage development programmes are moving steadily forward and are continuing to attract considerable interest from outside parties; Icodial has started to make a significant impact in the countries where it has been launched, Salbutamol Clickhaler is about to be launched and the science of our method for treating and preventing AIDS is gaining increasing recognition. Overall we continue to rigorously adhere to our low risk strategy and we remain firmly on course to achieve our corporate objective of becoming a European based pharmaceutical company specialising in the treatment of serious diseases.

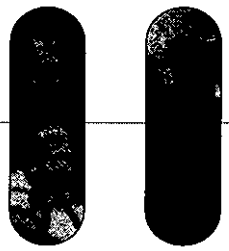
RENAL FAILURE Baxter Healthcare, the licensee of Icodial, our innovative dialysis solution, has been continuing the process of completing the regulatory administration procedures necessary to enable it to continue the roll out of the launch of the product throughout Europe. By the end of the financial year the product was on sale in 16 countries and should be available in the remaining European countries shortly.

Whilst the European launch is only in its infancy, the market penetration achieved thus far in the countries in which the product has been launched is at the higher end of Baxter's expectations, which gives us confidence that the future royalty stream that will flow from the product will be significant.

Under the terms of the licence agreement Baxter are obliged to obtain regulatory approval throughout the world and I am pleased to report that they have informed us that rapid progress is being made towards approval in the lucrative US and Japanese markets.

Currently we manufacture Icodextrin, the active ingredient on which Icodial is based, for our licensee under a short term contract. Baxter's forecasts indicate that demand for Icodextrin will exceed our manufacturing capacity during 1999 and we are currently discussing with them the possibility of extending the manufacturing relationship.

We are continuing to develop additional innovative Icodextrin-based dialysis solutions with a view to increasing the penetration of our proprietary products in the therapy.



VIROLOGY

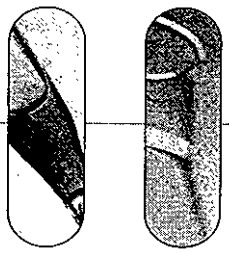
AIDS Treatment Our patented anti-viral agent D_2S has a unique mechanism of action, blocking the uptake of HIV into cells and thereby inhibiting replication of the virus. Recently this mechanism has been recognised as particularly significant in that it minimises the potential for the virus to become resistant to the treatment.

Our multi-centre Phase III clinical study of the treatment of late stage AIDS patients continues. The object of the study is to demonstrate the effectiveness of the treatment in patients that are either resistant to, or are unable to tolerate, all other treatments, so-called 'rescue' patients.

Recruitment of patients into the study has been slower than originally anticipated due to the introduction of several new protease inhibitors in early 1997 which has significantly reduced the availability of eligible patients. However the emergence of resistance to current treatments, coupled with a change in our entry criteria, should accelerate patient recruitment.

Due to the shortage of patients we anticipate that the interim data relating to the first patients participating in the study will not now be available until the second quarter of 1998.

Our short term regulatory strategy is to obtain marketing authorisation for the use of D_2S as a 'rescue' therapy. Currently it is estimated that 20% of all patients fall into the category of rescue patients;



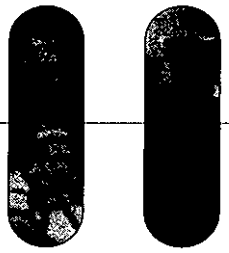
however, a recently published paper indicates that up to 50% of patients are unresponsive to combination therapy.

We believe the advantages of the D_2S treatment are significant and include intermittent treatment of short duration, long duration of action, retained efficacy allowing re-treatment, absence of serious side-effects and the ability to be self administered by the patient at home.

AIDS Prevention There remains great public health interest in finding a female controlled means of preventing the transmission of the AIDS virus between heterosexuals. The recent failure of Nonoxynol-9 to demonstrate positive effect has led the Medical Research Council (MRC) to adopt our D_2S intra-vaginal gel as one of two lead product candidates for further investigation. In conjunction with the MRC, a detailed pre-clinical and clinical development programme is being planned which should enable Phase II studies to commence early next year. An application has been made by our research colleagues for significant EU funding towards the cost of Phase II studies at two locations in Africa

DRUG DELIVERY SYSTEMS

Drug delivery has become one of the fastest growing segments of the pharmaceutical industry. The worldwide market for drug delivery products is valued at $12 billion with annual growth anticipated at 25% over the next 5 to 10 years. The growth is driven by the



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senior management team



Paul Ballington
BSc (Hons)
Marketing



Phillip Braithwaite
Design and
Engineering



Lorna Clisby
BPharm. MSc,
MRPharmS
Regulatory Affairs



David Manning
BSc, CChem
Manufacturing



Dr. Mark Parry-Billings
DPhil
Project
Management



Dr. Elizabeth Peers
MA PhD
Project
Management

ML Laboratories locations

Liverpool
Manufacturing

Farnham
Regulatory Affairs

Tewkesbury
Design & Engineering

Leicester
Commercial Development & Marketing

St Albans
Project Management

Warrington
Finance and Administration

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requirement of pharmaceutical companies to extend the patent life of existing drugs through novel delivery systems and to improve patient acceptability by either minimising the number of doses taken or by providing a route of administration that does not involve injection.

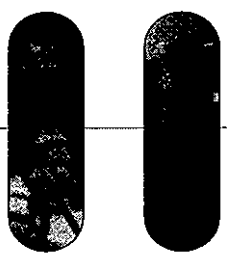
RESPIRATORY DRUG DELIVERY

Clickhaler A number of patient acceptability studies have been conducted using the Clickhaler both in-house, and by potential licensees, which have uniformly indicated a high level of acceptance of the device when compared to all other available forms of inhalation treatment.

Salbutamol Clickhaler Medeva, our licensee for Europe, has informed us that the launch process commenced in the UK at the end of November.

The European mutual recognition application is progressing with final determination anticipated in early 1998. In addition, our clinical studies in Canada and the US are progressing well and in early 1998 we will approach the FDA to discuss the initiation of our Phase III trial programme in the US.

Beclomethasone Clickhaler The initial application for marketing authorisation was filed earlier this year in the UK and we have received the initial response of the regulators which is broadly in line with our expectations. We anticipate grant of marketing authorisation in the early part of 1998.



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product development strategy

ML's approach

origination & research

Product candidates sourced from
- In-house research projects
- Funded research projects at Centres of Excellence including Universities and Teaching Hospitals
- Licensing or development agreements with third parties
- Joint ventures with innovators

product selection

Products selected for development which can be rapidly progressed into human clinical studies and which have a high probability of obtaining regulatory approval as well as market potential so as to result in acceptable risk profiles

pre-clinical trials

Designed in-house and contracted out to specialist organisations

clinical trials

Product development programmes designed and project managed in-house by experienced teams of clinical trials specialists and contracted out to Centres of Excellence

regulatory approval

Product licence applications compiled in-house by a team of highly experienced regulatory affairs personnel

commercialisation

Europe
- In-house for products not requiring large sales and marketing infrastructures
- Licensee appointment for other products

USA, Japan and Rest of World
- Licensee appointment

In-house manufacture or supply chain management where appropriate

Budesonide Clickhaler Clinical studies comparing our two formulations with Astra's Pulmicort Turbohaler will be completed in the first quarter of 1998.

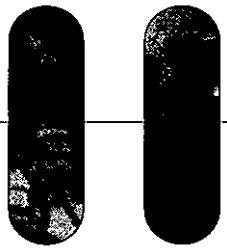
Further clinical evaluation of our product for regulatory purposes will be completed during the course of 1998.

Other Clickhaler Developments Pre-clinical development studies of the Clickhaler containing formoterol and ipratropium, two asthma treatments, are currently underway.

Other inhalers and devices We continue to develop our Technohaler - a unit dose device for delivering drugs which are moisture sensitive - our Active Inhaler - a device driven by an energy source for delivering drugs which require a high efficiency of delivery - and our Aerofilter - a device which increases respirable dose and reduces deposition of the drug in the mouth and throat - all of which offer considerable commercial promise.

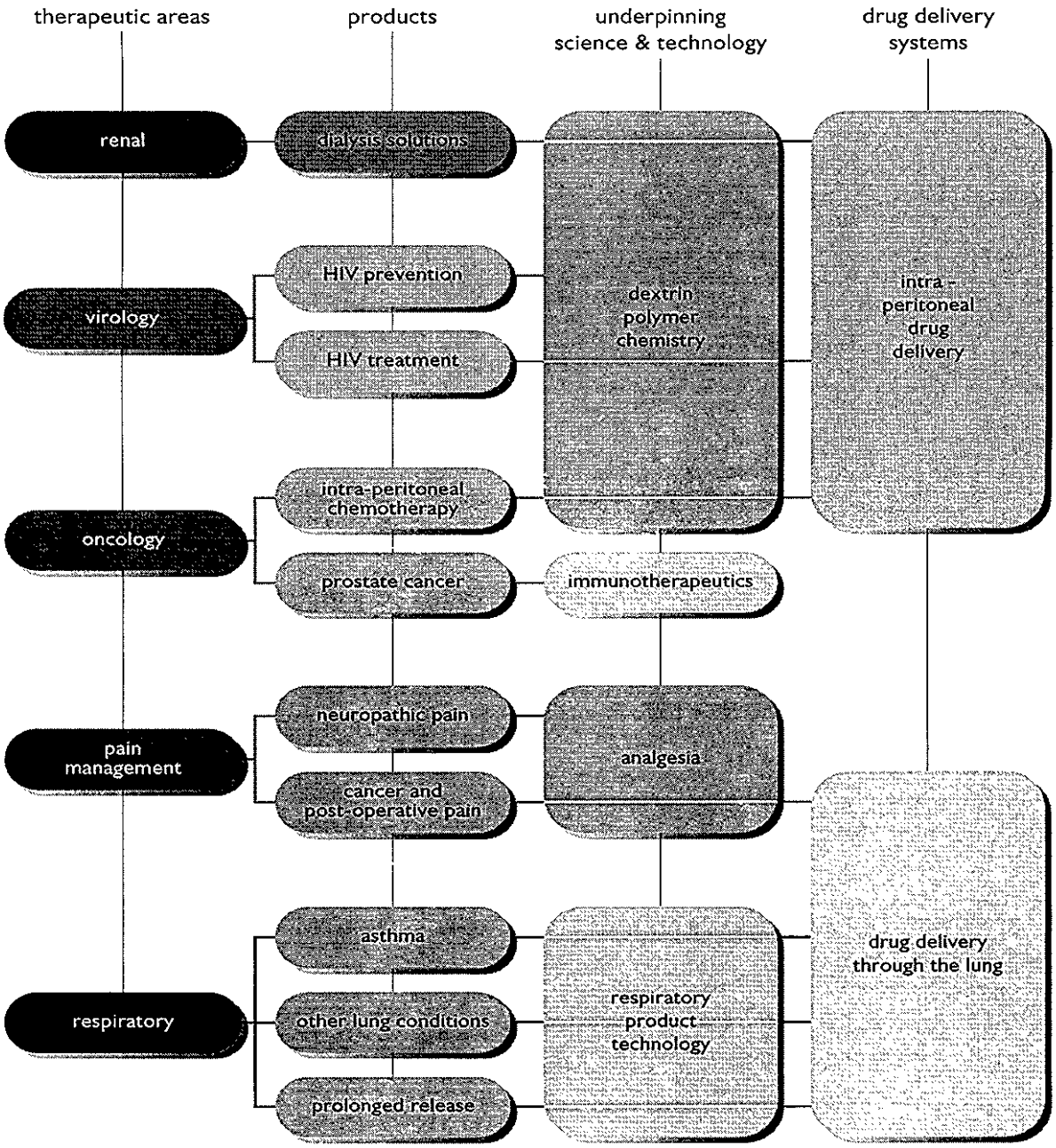
There has been further development of our Active Inhaler in that our device design and development centre at Tewkesbury have produced prototypes of a multi-dose version, the initial testing of which is scheduled to take place this month.

Undoubtedly we have an extensive portfolio of patent protected inhalation devices, all of which are technically advanced. When coupled with our expertise in the respiratory field we consider we



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are well placed to exploit the significant commercial opportunity available to us as a result of being able to deliver drugs by inhalation, including many of the drugs currently being developed by biotechnology companies.

We are in negotiation with several parties regarding the commercialisation of both patented and non-patented drugs in our inhalers and we hope to be in a position to announce details of further collaborations shortly.

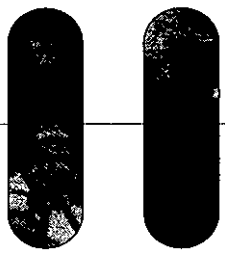
Pulmocaps Phase II studies of our sustained release inhalable drug delivery system have recently been completed and further studies are proposed and will commence shortly.

We are in negotiation with several parties over the application of this technology to a variety of drugs and would hope to announce further collaborations in the near future.

INTRA-PERITONEAL DRUG DELIVERY

We continue to believe that there is an unmet need for an efficient system for delivering drugs via the peritoneum which in certain circumstances could be the ideal route of administration.

Our long experience in delivering solutions into the peritoneum gained in treating renal failure patients with Icodial, coupled with the solution's unique property of being able to dwell in the peritoneal cavity for up to 72 hours without significant absorption, leads us to believe that Icodextrin solution could be the ideal intra-peritoneal drug delivery solution.

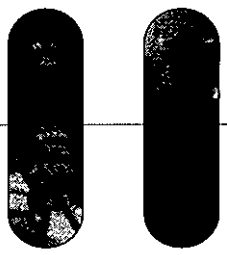


targeted and, as a consequence, reduce side effects, continues to be conducted with great enthusiasm. Patents have been filed covering a wide range of Icodextrin constructs and research presentations have been made at international scientific meetings.

We are currently in discussion with the US National Cancer Institute which is considering participating in our research programme by providing access to certain cancer chemotherapy compounds and assisting in both pre-clinical and clinical testing of the resultant polymer derivatives.

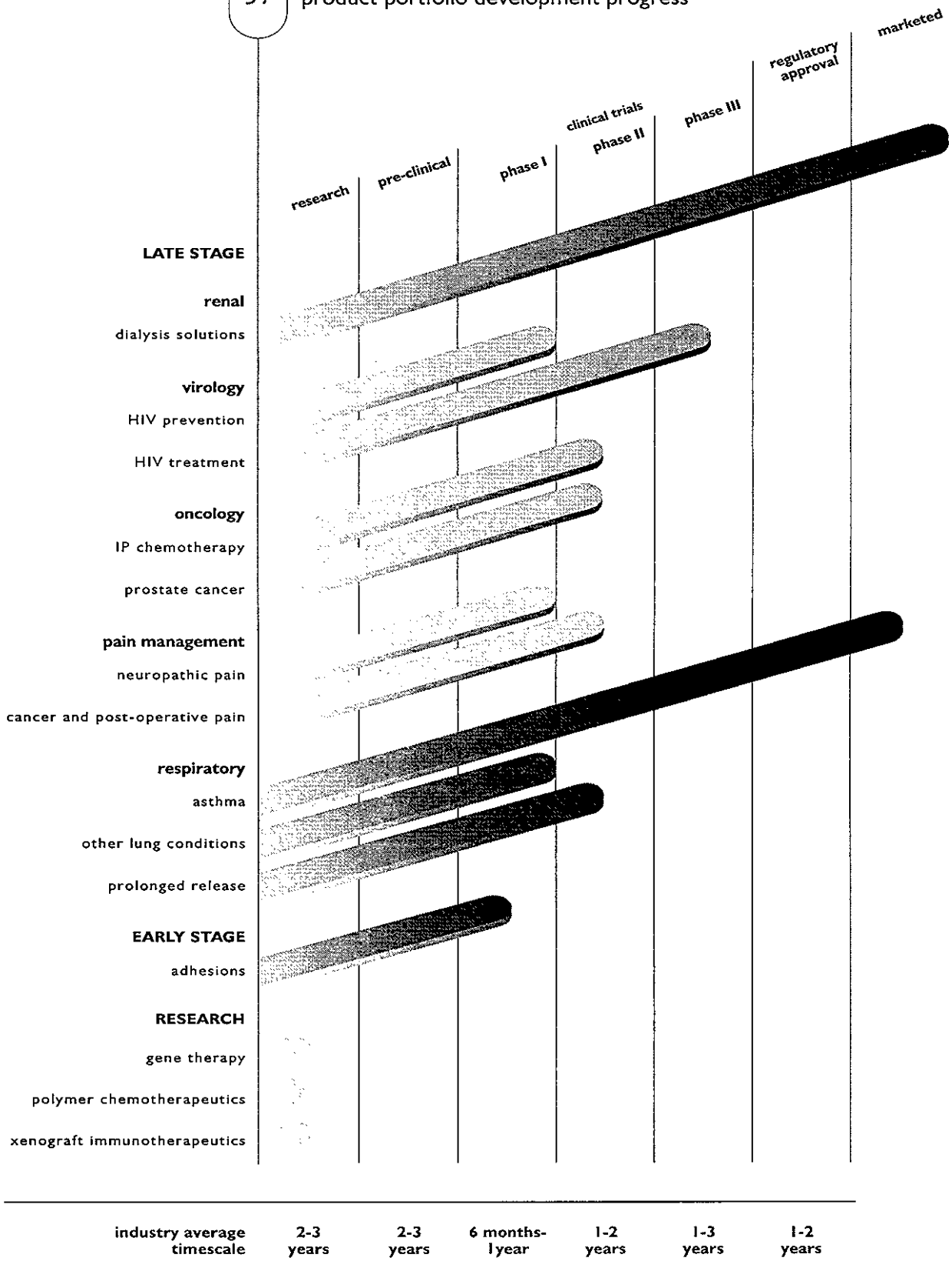
Gene Therapy The research being conducted at the Imperial College School of Medicine into the activation of a readily accessible and safe drug with the object of rendering it selectively toxic to cancer cells shows great promise. Currently we are holding discussions with European and US Gene Therapy companies in an effort to identify potential collaborators and several have expressed great interest.

Immunotherapeutics Professor Lechler's group at the Imperial College School of Medicine continues its research into an immuno-therapeutic solution to the acute rejection reaction following organ transplantation between species. The rejection response, which is controlled by specific proteins on the cell surface, may be neutralised by targeting certain peptide regions of these proteins with immuno-therapeutic products. A series of those peptides has now been produced.



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product portfolio development progress



industry average timescale	2-3 years	2-3 years	6 months-1 year	1-2 years	1-3 years	1-2 years

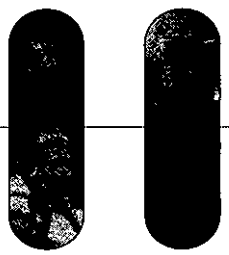
FINANCIAL PERFORMANCE

Once again I am pleased to report that we achieved a profit in the full year. However, at the pre-tax level the profit of £1.1M is £4.3M less than the previous year. This is due to the fact that access fees received from licensees of products were £5.5M less than the previous year. This was however partially offset by an increase of £1M in the settlement monies received from Bespak relating to our disputed licensing agreement. Royalty income, whilst substantially increased over the previous year, remains as yet an insignificant element of our total income.

This illustrates the distorting effect that such access fees have on our trading performance which will continue to be the case until such time as those fees become a less significant element of our income, namely, when income resulting from the in-market performance of our products becomes significant.

This will not be for some time due to a combination of several factors, namely, the gap period between the receipt of licence access fees and market launch, the time taken to achieve significant market penetration and the fact that we anticipate receiving significant access fees in the short term as the development of several products nears completion.

Until then our trading performance can neither be used as an indicator of future performance nor as a reliable basis on which to



value the company, the basis for which should be the long term commercial prospects of our product portfolio, our inherent ability to develop patented global pharmaceutical products from research ideas at economical cost and our ability to continue to identify and source new product opportunities.

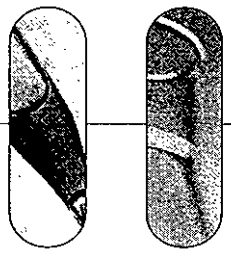
We ended the year with cash of circa £23M and we remain of the opinion that we have sufficient cash to develop the products in our late stage portfolio.

MINORITY SHAREHOLDERS

Part of our strategy for accessing product ideas that show considerable commercial potential is to form a subsidiary company dedicated to the development of that product and exchange the rights to the idea for a minority shareholding in that company. A significant share of our consolidated net assets is now attributable to such minority interests and accordingly it is provided for in the accounts.

An important element of that strategy is to provide an exit route for the minority shareholders to enable them to be rewarded for their efforts once commercial value has been established.

In that regard we were pleased to announce in September that we had agreed to purchase a further 6.25% of the shares in our subsidiary, Innovata Biomed Ltd, for a consideration of £3.75M from the three minority shareholders who acquired their holding in 1989.



in exchange for the rights to several respiratory products the first of which, Salbutamol Clickhaler, is in the process of being launched in the UK market. The individuals concerned continue to hold key positions in the company and retain a shareholding of 18.75%, over which we have been granted certain options.

STRENGTHENING OF MANAGEMENT

Earlier this month we announced the appointment of Peter Shennan as Finance Director following his term in a designate position and I am pleased to announce the appointment of Dr. Colin Brown to the main Board as Medical Director following a similar term in a designate role.

We continue to recruit quality personnel of the highest calibre at all levels as necessary.

APPRECIATION

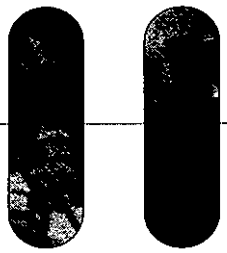
I would like to express thanks to all members of staff whose hard work, loyalty and contribution continues to be exceptional, to our medical and scientific colleagues, participating patients and nurses for their valuable contribution and to shareholders for their continued support.



Kevin R. Leech

Chairman

15th December 1997



in exchange for the rights to several respiratory products the first of which, Salbutamol Clickhaler, is in the process of being launched in the UK market. The individuals concerned continue to hold key positions in the company and retain a shareholding of 18.75%, over which we have been granted certain options.

STRENGTHENING OF MANAGEMENT

Earlier this month we announced the appointment of Peter Shennan as Finance Director following his term in a designate position and I am pleased to announce the appointment of Dr. Colin Brown to the main Board as Medical Director following a similar term in a designate role.

We continue to recruit quality personnel of the highest calibre at all levels as necessary.

APPRECIATION

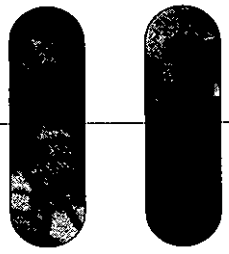
I would like to express thanks to all members of staff whose hard work, loyalty and contribution continues to be exceptional, to our medical and scientific colleagues, participating patients and nurses for their valuable contribution and to shareholders for their continued support.



Kevin R. Leech

Chairman

15th December 1997



The Phase II multi-centre study to evaluate the drug 5-FU in colorectal cancer is progressing, a further study is planned and will commence shortly along with a Phase II study to evaluate the drug Cisplatin.

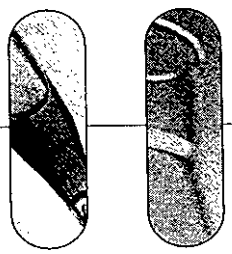
An application to the UK regulatory authorities is currently being prepared in this regard and should be filed in the first quarter of 1998.

Recent discussions with gene therapy companies have indicated that such a solution may be of particular use in the administration of products intended to target ovarian or colorectal cancer cells.

IMMUNOTHERAPEUTICS

The Phase II dose escalation study of Prolog, our immunotherapeutic approach to the treatment of prostate cancer, continues at centres in Manchester and Bristol. Unfortunately we have been constrained in our ability to raise doses due to difficulties encountered in obtaining adequate supplies of clinical trial vaccine from our contract manufacturer which has caused a delay, however, patient entry to the study is now back on course.

We are encouraged by the data from the study as antibody response has been observed in patients at the highest doses administered thus far, demonstrating that Prolog can produce the same antibody response in man as was observed in pre-clinical studies, giving us confidence that at higher doses this will lead to reduction in the circulating levels of testosterone which is the primary treatment strategy for the late stage of this cancer.



We continue to believe that Prolog holds the prospect of becoming a first line therapy for late stage prostatic cancer and as such is of considerable value.

TREATMENT OF PAIN

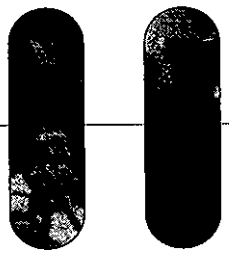
M6G Earlier this year we announced that we had acquired the exclusive rights in all territories, other than North America, to this uniquely synthesised metabolite of morphine which has been shown to be several times more potent than morphine as an analgesic but with seemingly less potential to produce the known major side effects of morphine.

We are continuing the development work necessary to produce formulations of M6G in our dry powder inhaler to enable the drug to be self administered by patients by inhalation for the treatment of cancer pain and post operative pain.

A Phase II clinical study of nebulised M6G is approximately 50% complete. The object of the study is to evaluate the use of M6G to alleviate breathlessness in cancer patients.

CCK Antagonists We expect to announce very shortly that we have entered into a development and licence agreement to develop two compounds as novel treatments for pain in cancer patients and, in addition, for the treatment of certain cancers.

Pre-clinical data demonstrate that a CCK Antagonist can potentiate



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product selection

essential criteria	criteria applied

"...high probability of obtaining regulatory approval"

relevant questions:

Is the disease well understood?

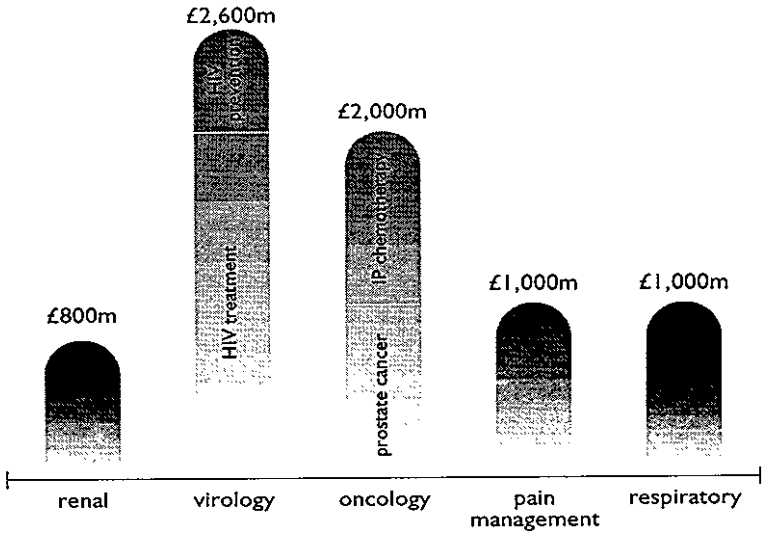
Is the treatment target correct?

Is the end point easily measured?

Is the disease stable enough to allow treatment effect to be measured?

"...market potential"

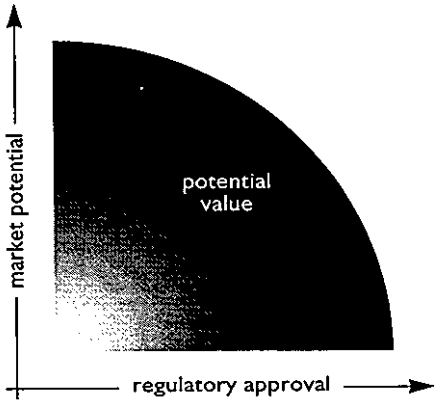
relevant market size:



(Source - Data Monitor and internal ML estimates)

"...acceptable risk profiles"

risk reward determinants:



the analgesic action and reverse tolerance of opioid analgesics such as morphine, improving the efficiency of pain relief.

The market for these compounds could be very significant with the pain indications alone representing a major opportunity in the US $1 billion sector for opiates and related compounds.

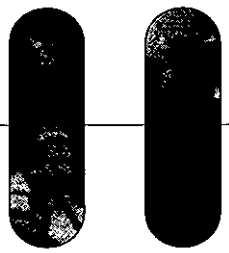
Following completion of the agreement and the production of clinical trial materials in the first quarter of 1998, two Phase II trials in cancer patients whose pain is not adequately managed with morphine, will immediately commence.

In addition, pilot studies to evaluate the use of these compounds in certain other specific indications are also planned.

RISK MANAGEMENT

The flow of bad news from several companies in the emerging Pharmaceutical/Biotechnology sector regarding products either failing or faltering at the final stages of development have sharply reminded investors of the risks inherent in pharmaceutical product development and raised the question of the efficacy of risk management in companies in the sector. Consequently I consider it is appropriate to outline our approach to this important subject.

The principal risk in such companies is the failure to obtain marketing authorisations from the regulatory authorities. The two principal reasons for failing to achieve such authorisations are inadequate design of clinical trials i.e., designing trials the outcome of which do not convince the regulator of the efficacy of the product, and product



selection i.e., developing products where it is inherently difficult to prove efficacy.

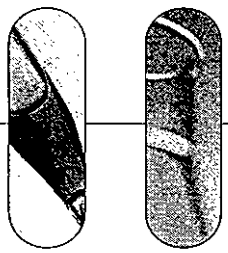
The approach we adopt to ensure such risks are managed effectively is that both our design of clinical trials and our applications for marketing approval are compiled in-house by our highly experienced team of clinical and regulatory personnel who have experience of obtaining authorisations in both Europe and the US and, secondly, the consistent application of strict selection criteria to product candidates.

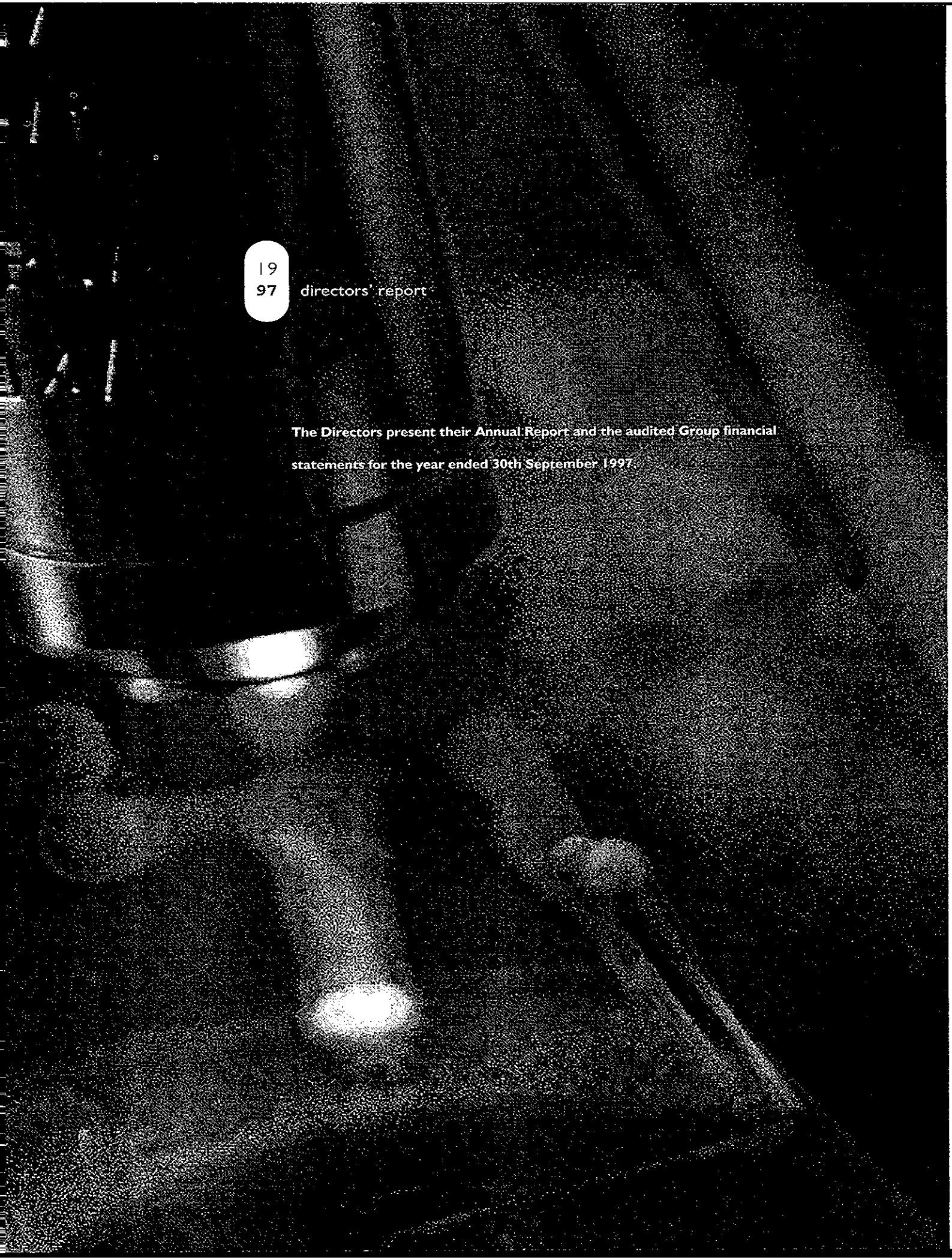
We consider our approach has been validated by the fact that we have to date applied for, and been granted, two marketing approvals and we are hopeful that we will shortly be granted a third. As all of the products in our portfolio have been subject to the same selection criteria we consider that they all have a good probability of obtaining marketing approval and consequently have an acceptable risk profile.

PRE-CLINICAL RESEARCH INITIATIVES

All of the projects in our early stage research programme continue to be progressed and remain capable of producing a product of significant value.

Polymer Therapeutics Our partnership with the Centre for Polymer Therapeutics with Professor Duncan of the University of London and Professor Cassidy of the University of Aberdeen, for the development of novel chemotherapeutic agents utilising Icodextrin as a polymer backbone to enable cancer cells to be preferentially





1997 directors' report

The Directors present their Annual Report and the audited Group financial statements for the year ended 30th September 1997.

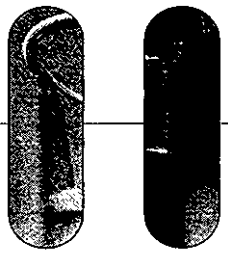
PRINCIPAL ACTIVITIES The Group to date has successfully commercialised a small number of its ethical pharmaceutical products. It continues to develop the balance of its portfolio of such products and its other products with a view to commercialising them on a world wide basis.

The Group also provides regulatory affairs consultancy and educational training for the pharmaceutical and biotechnology industries.

BUSINESS REVIEW The Chairman's Statement on pages 10 to 29 should be read in conjunction with this Directors' Report as it includes a review of the development of the business of the Group including its principal activities in research and development and likely future developments.

RESULTS AND DIVIDENDS The Group profit on ordinary activities before taxation amounted to £1,121,237 (1996 £5,452,599). The retained Group profit for the year after taxation and minority interests of £683,810 has been deducted from the deficit brought forward on the profit and loss account as shown in note 17 on page 67. The Directors are unable to recommend the payment of a dividend.

RESEARCH AND DEVELOPMENT The Group is engaged in research into, and development of, a diverse portfolio of pharmaceutical, medical and other novel products.



During the year additions to research and development amounted to £6,496,744 (1996 £4,086,067). This expenditure includes, inter alia, the costs incurred in manufacturing materials to be used in clinical trials, the cost of those trials, external studies, analysis and consultants, the cost of obtaining regulatory approvals and the cost of third party licence fees where appropriate. During the year additions to patent costs amounted to £255,972 (1996 £230,497).

The Directors consider that it continues to be appropriate to capitalise the cost of research, development and patenting in these financial statements, as they have confidence that there is reasonable certainty as to the technical feasibility and ultimate commercial viability of all the products under development. Patent and development costs are amortised in accordance with the Company's accounting policy set out on page 56.

SIGNIFICANT CHANGES IN FIXED ASSETS Changes in intangible and tangible fixed assets are disclosed in notes 7 and 8 to the financial statements.

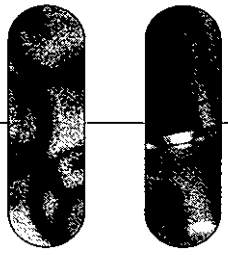
DIRECTORS The Directors who held office during the year were: K.R. Leech (Chairman)

S.W. Sim (Chief Executive)

Dr. R.N. Boyes

Prof. D.S. Davies (Non-Executive)*

G.P. Fothergill (Appointed 1st January 1997)



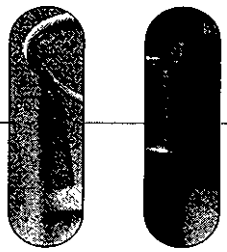
As announced in the Company's Interim Report, S. W. Sim became Chief Executive on 25th June 1997 thereby splitting the roles previously combined by K. R. Leech of Chairman and Chief Executive.

Dr. C.B. Brown was appointed as a Director on 15th December 1997.

P.J. Shennan was appointed as a Director on 30th November 1997.

Under the Articles of Association K.R. Leech, Dr. C.B. Brown, G.P. Fothergill and P.J. Shennan retire from office, and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

*Professor D.S. Davies, BSc, PhD, FRSC, FRCPath, Hon MRCP, is Director of Clinical Pharmacology, Division of Medicine, Imperial College School of Medicine at Hammersmith Hospital, London. Professor Davies is a member of the Committee on Safety of Medicines of the Medicines Control Agency, Department of Health and has served on other expert committees in the UK, Europe and the USA. His research interests are in drug and chemical toxicity, drug develop-ment, drug safety, diet and cancer and he has had more than 200 papers published on mechanisms of drug action and toxicity and drug safety evaluation. He was appointed to the Board in 1987 because of his expertise and knowledge of the principal areas of development being undertaken by the Group.



Mr. Sim and Mr. Leech have service contracts which expire on 30th June 2000, unless renewed.

Dr. Boyes has a service contract which expires on 31st March 2000, unless renewed.

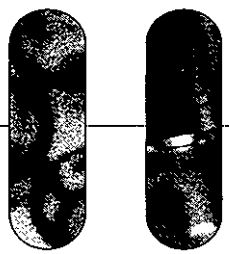
Dr. Brown has a service contract which expires on 1st January 1999, unless renewed.

Mr. Fothergill has a service contract which expires on 6th January 2000, unless renewed.

Mr. Shennan has a service contract which expires on 30th May 1999, unless renewed.

The Company's policy of awarding Directors service contracts in excess of one year is as a result of the desire to attract and retain senior executives of the highest calibre, in competition with larger and more established pharmaceutical companies.

DIRECTORS' SHARE OPTIONS The Directors have been granted options over the ordinary shares of 1p each (beneficial) of the Company under the M.L. Laboratories PLC Executive Share Option Scheme as follows:-



K.R. Leech

Date of grant	Subscription price	Number of options	Exercise date	Expiry date
05/08/92	£1.36	146,410	05/08/95	05/08/2002
24/08/93	£2.02	19,801	24/08/96	24/08/2003
26/08/94	£2.03	49,261	26/08/97	26/08/2004
04/09/95	£1.70	35,294	04/09/98	04/09/2005
23/07/96	£3.73	3,753	23/07/99	23/07/2006
		254,519		

S.W. Sim

22/12/89	£0.74	168,775	22/12/92	22/12/99
19/12/90	£0.41	615,965	19/12/93	19/12/2000
23/08/91	£0.90	44,245	23/08/94	23/08/2001
05/08/92	£1.36	29,280	05/08/95	05/08/2002
24/08/93	£2.02	19,801	24/08/96	24/08/2003
26/08/94	£2.03	39,408	26/08/97	26/08/2004
04/09/95	£1.70	23,529	04/09/98	04/09/2005
23/07/96	£3.73	36,676	23/07/99	23/07/2006
		977,679		

Dr. R.N. Boyes

05/08/92	£1.36	131,770	05/08/95	05/08/2002
24/08/93	£2.02	39,603	24/08/96	24/08/2003
26/08/94	£2.03	19,704	26/08/97	26/08/2004
04/09/95	£1.70	23,529	04/09/98	04/09/2005
23/07/96	£3.73	3,190	23/07/99	23/07/2006
		217,796		

Dr. C.B. Brown

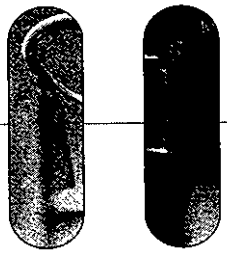
06/01/97	£2.29	209,606	06/01/2000	06/01/2007
		209,606		

Prof. D.S. Davies

22/12/89	£0.74	161,265	22/12/92	22/12/99
19/12/90	£0.41	96,045	19/12/93	19/12/2000
23/08/91	£0.90	11,060	23/08/94	23/08/2001
05/08/92	£1.36	14,640	05/08/95	05/08/2002
24/08/93	£2.02	9,900	24/08/96	24/08/2003
04/09/95	£1.70	11,765	04/09/98	04/09/2005
23/07/96	£3.73	2,159	23/07/99	23/07/2006
		306,834		

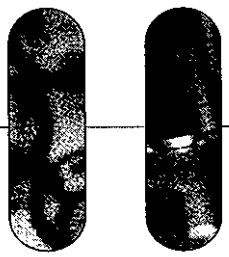
G.P. Fothergill

06/01/97	£2.29	262,008	06/01/2000	06/01/2007
		262,008		



No options lapsed nor were exercised during the year. The market price of the shares at 30th September 1997 was £1.76 and the range during the financial year was £1.46 to £3.03.

The M.L. Laboratories PLC Executive Share Option Scheme is administered by the Board of Directors and governed by the Scheme rules. The maximum number of ordinary shares which may be issued on the exercise of options granted under the Scheme is 5% of the issued ordinary share capital of the Company. The Scheme is available to such Directors and full-time employees of the Company and its subsidiaries as may be invited to participate by the Board of Directors. Options may not be granted to an individual (other than a Director of the Company or one of its subsidiaries) if the total subscription price exceeds four times his/her annual emoluments. The price at which a participant may acquire ordinary shares will be the market value at the date of grant and shall not be less than the nominal value. Options may be exercised after the expiry of three years but before the expiry of ten years from the date of grant.



DIRECTORS' INTERESTS The interests (beneficial unless otherwise stated) in the shares of the Company of the Directors who held office at 30th September 1997, were as follows:

	At 30th Sept 1997 Number of Ordinary Shares	At 30th Sept 1996 Number of Ordinary Shares	At 30th Sept 1997 Percentage of Ordinary Share Capital	At 30th Sept 1996 Percentage of Ordinary Share Capital
K.R. Leech	76,474,000*	76,468,000*	52.76%	52.75%
S.W. Sim	31,375**	1,375**	0.02%	-
Prof. D.S. Davies	288,180	258,180	0.20%	0.18%
G. P. Fothergill	3,000	3,000***	-	-

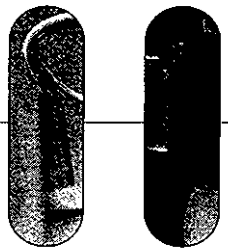
*Milner Laboratories Limited, a company registered in Jersey, C.I., owns 76,450,950 Ordinary Shares of the Company, representing approximately 53% of its issued share capital. Mr. Leech is a Director of, and share-holder in, Milner Laboratories Limited, and owns 68% of its issued share capital.

The remaining 32% is owned by the estate of the late Mr. J. Milner.

The remainder of Mr. Leech's interest in the Company's Ordinary Shares comprises a non-beneficial holding of 12,050 shares (1996 6,050 shares) and 111,000 shares (1996 111,000 shares) owned by Glen Investments Limited, a private company registered in Jersey, C.I., of which Mr. Leech is the controlling shareholder.

**Includes 1,375 shares held non-beneficially.

***At date of appointment.



At 30th September 1997, Dr. R.N. Boyes was interested in 7,500 shares in Innovata Biomed Limited (1996 8,950 shares) representing 18.75% of that company's issued share capital. Innovata Biomed Limited is a subsidiary of the Company.

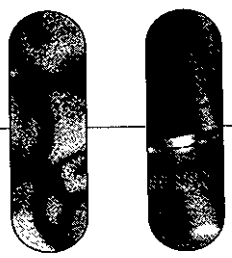
On 15th December 1997, Dr C.B. Brown held 352,415 Ordinary Shares of the Company.

At 15th December 1997, there had been no change to the Directors' interests in the Ordinary Shares of the Company from that shown above.

There were no contracts of significance subsisting during the period under review between the Company, or one of its subsidiary undertakings and a controlling shareholder.

Details of any contracts of significance subsisting during the period under review to which the Company, or one of its subsidiary undertakings, is or was a party and in which a Director of the Company is or was materially interested, are included in note 30 to the financial statements.

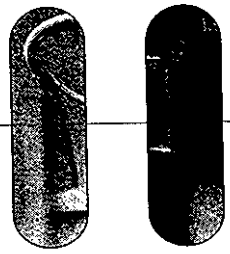
SUBSTANTIAL INTERESTS In addition to those disclosed above, at 15th December 1997 the Company was aware of the following interests in 3% or more of its share capital. The holdings shown are as notified under the Companies Act 1985:



Shareholder	No of ordinary shares	% of share capital
National Westminster Bank PLC for itself and on behalf of companies forming part of its corporate group	14,946,037	10.31
Legal & General Investment Management Ltd	4,674,692	3.22

CREDITOR PAYMENT POLICY The Group's policy in relation to the payment of its creditors is to make payments in accordance with relevant payment terms for each business transaction. At 30th September 1997 trade creditors represented 66 days of amounts invoiced by suppliers.

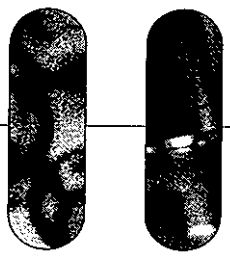
AUTHORITY TO ALLOT SHARES At the Annual General Meeting to be held on 18th February 1998 two ordinary resolutions and a special resolution (numbered resolutions 7, 8 and 9 respectively on the notice of the Annual General Meeting) will be proposed. Resolution 7 proposes to increase the authorised share capital of the Company; resolution 8 proposes to give the Directors power to allot unissued shares in the capital of the Company and resolution 9 proposes that the pre-emption rights attaching to the shares under the Companies Act be disapplied for any issue of shares in connection with first, a rights issue in favour of ordinary share holders, second the allotment of shares pursuant to the exercise of options granted under the Executive Share Option Scheme, and third the allotment of ordinary shares up to an aggregate nominal amount of £72,478.65 for cash, which sum is equivalent to 5% of the



Company's issued ordinary share capital. The Directors believe it is important and in the interests of the shareholders that they should be granted these powers which will increase their options for financing any opportunity which may arise, including, if it is considered appropriate, by the issue of shares in the Company. Accordingly, the Directors unanimously recommend you to vote in favour of the resolutions to be proposed at the Annual General Meeting.

CHARITABLE AND POLITICAL DONATIONS During the year the Group made a charitable donation of £25,000 to Imperial College School of Medicine (1996 £Nil). No contributions were made to political organisations (1996 £Nil).

ENVIRONMENTAL, HEALTH AND SAFETY POLICIES The Group's objective is to bring quality to life through the development and commercialisation of its products while applying policies and working practices designed to minimise the impact of its operations on the environment and to maintain high standards of health and safety for the Group's employees by meeting or exceeding the requirements of relevant regulations.



AUDITORS A resolution to re-appoint the Registered Auditors, Coopers & Lybrand, will be proposed at the Annual General Meeting in accordance with section 384 of the Companies Act 1985.

BY ORDER OF THE BOARD David Smith, Secretary, Marcol House, 293 Regent Street, London, W1R 7PD.

15th December 1997.



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report of the board on remuneration matters

Following the publication of a Report by a study group on Directors' Remuneration, chaired by Sir Richard Greenbury, the Stock Exchange issued requirements regarding reports to Shareholders on Remuneration matters.

As explained in the review of Corporate Governance on pages 45 to 48, the Company does not operate a Remuneration Committee in accordance with Annex Section A of the best practice provisions annexed to the London Stock Exchange Listing Rules. Therefore, the following report is presented by the Board of Directors with due consideration of Annex Section B.

DIRECTORS' REMUNERATION The information on Directors' remuneration should be read in conjunction with the Directors' Report and note 6 to the financial statements which also constitute part of this Report of the Board on Remuneration Matters.

	Basic Salary	Bonus	Taxable Benefits	Pension Contributions	Fees	Total 1997	Total 1996
	£000	£000	£000	£000	£000	£000	£000
Executive Directors							
K.R. Leech	139	-	9	21	-	169	127
S.W. Sim	140	30	12	21	-	203	185
Dr. R. N. Boyes	106	-	9	16	-	131	107
G.P. Fothergill	113	-	*	17	-	130	-
Non-Executive Director							
Prof. D. S. Davies	-	-	9	-	76	85	77

*The cost of the provision of these items for Mr. Fothergill is charged to the Group through a limited company controlled by him and amounted to £13,632.

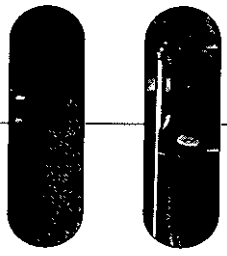
The remuneration of Directors comprises the following four elements:

BASIC SALARY A salary, which reflects the Board's assessment of the market rate for relevant positions and the individual Director's experience and value to the business and takes into consideration levels of remuneration and increases awarded to employees.

TAXABLE BENEFITS Taxable benefits represent the provision to each Director of a car, including fuel benefit, private medical insurance and mobile phone.

SHARE OPTIONS Executive share options are granted to Directors and other Senior Management within the Group and are exercisable between 3 and 10 years from the date of the grant. The share options granted to individual Directors, which are fully disclosed on pages 34 to 36 of the Directors' Report, are not included in the remuneration given above.

BONUS The bonus paid to Mr. Sim was performance based and specifically in relation to the progress made in the commercialisation of the Company's products.



PENSION ARRANGEMENTS The Company currently makes pension contributions of 15% of salary for Executive Directors, who, with the exception of Mr. Fothergill, are members of the Company's defined contribution scheme, details of which are given in note 26 to the financial statements.

SERVICE CONTRACTS Mr. Sim and Mr. Leech have service agreements which currently operate for a fixed term of 3 years expiring on 30th June 2000. Dr. Boyes has a service contract which currently operates for a fixed term of 3 years expiring on 31st March 2000. Prof. Davies has had a consultancy agreement since 1992 which operates on three months notice. Mr. Fothergill has a service agreement which currently operates for a fixed term of 3 years expiring on 6th January 2000. Dr. Brown has a service agreement which currently operates for a fixed term of 2 years expiring on 1st January 1999. Mr. Shennan has a service agreement which currently operates for a fixed term of 2 years expiring on 30th May 1999.

The Company is obliged to compensate for the unexpired portion of the Director's contract if it is terminated early. Where possible the Company would mitigate the cost of termination by negotiation.

NON-EXECUTIVE DIRECTOR The non-Executive Director receives fees which are determined by the Board, and participates in the Group's share option scheme arrangements.



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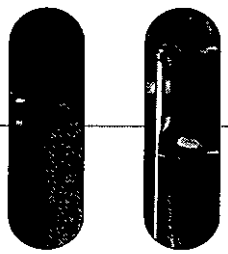
corporate governance

The Cadbury Committee Report on the financial aspects of Corporate Governance, together with its Code of Best Practice (the "Code") has been carefully considered by the Directors.

The Directors believe that good corporate governance depends primarily on the Executive Directors and the existence of proper management and financial controls. To enable the Non-Executive Director to operate effectively the Company does not draw a distinction between Non-Executive and Executive Directors in terms of information available. All Directors are therefore provided with all information necessary for them to understand every aspect of the operation of the Group and so to fulfil their duties.

The Board is able to confirm compliance, throughout the year, with all of the provisions of the Code, save that:

- The requisite number of Non-Executive Directors has not been appointed to the Board. Due to the size of the Group, the Directors consider that the absence of additional Non-Executive Directors at this time is not detrimental to the stewardship of the Company and that in these circumstances the Board's procedures for dealing with Directors' remuneration and audit matters continue to be effective in the absence of a Remuneration Committee and an Audit Committee.
- Subsequent to 30th September 1997 a schedule of matters specifically reserved to the Board for decision has been adopted;



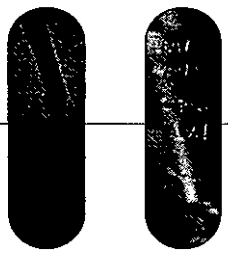
the Board considers that during the year ended 30th September 1997 its decision making processes and structures ensured that direction and control of the Group remained in the hands of all Group Board members.

- The Non-Executive Director has entered into a consultancy agreement with the Company which specifies the terms of his appointment and the Board will introduce fixed term contracts for any new Non-Executive Directors and will select any such Directors through a formal process that will be considered by the Board as a whole.

Regarding the matter raised in the Cadbury Report in respect of the going concern status of the business, after making appropriate enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the Group's financial statements.

The Company's compliance with the Code has been reviewed by the Auditors and their report is given on page 51.

REPORT ON INTERNAL FINANCIAL CONTROL The Board of Directors has overall responsibility for internal financial control, which it maintains through a management structure with clearly defined levels of responsibility and authority and appropriate



reporting procedures. The Board, as a whole, has reviewed the effectiveness of the internal financial control environment of the Group. The Board meets regularly and considers, inter alia, reports from the external auditors. The Board has reviewed the effectiveness of the system of internal financial control for the 52 weeks ended 30th September 1997 and the period from 30th September 1997 to the date of approval of the financial statements. An internal control framework can only provide reasonable, not absolute, assurance against material misstatement or loss. The Directors are not aware of any significant weakness or deficiencies in the Group's system of internal financial controls. The main features of the internal control framework implemented are:

FINANCIAL REPORTING There is a detailed budgeting system with an annual budget approved by the Board. Monthly trading results and working capital requirements are reported against the corresponding figures for the budget and the previous year with corrective action taken by the Board as appropriate.

More detailed financial information, including balance sheets and cash flow statements, is also provided on a monthly basis.

TREASURY MANAGEMENT The treasury function is operated within Board-approved guidelines. Facilities are approved by the Board and all transactions are controlled and monitored. Frequent

reports are made to the Finance Director and monthly summaries are prepared for the Board. Speculative transactions are not undertaken.

RISK MANAGEMENT The identification of major business risks is carried out in conjunction with operating management and is reviewed by the Board. Steps are taken to mitigate or eliminate these where possible. In addition the Group has insurance cover where it is considered appropriate.

CONTROL ENVIRONMENT Each operating company maintains financial controls and procedures appropriate to its own business environment.

CAPITAL EXPENDITURE AND PROJECT APPRAISAL

The Group has clearly defined guidelines for the review and approval of capital expenditure and other major projects. These include annual budgets and designated levels of authority.



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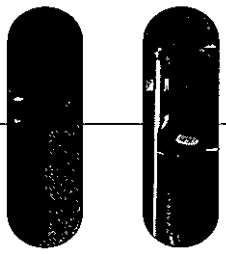
statement of directors' responsibilities

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and of the Company and of the profit or loss of the Group for that period.

In preparing those financial statements, the Directors are required to:-

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

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



report of the auditors to the members of ML Laboratories plc

We have audited the financial statements on pages 52 to 71.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 49 the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

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

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

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 30th September 1997 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

COOPERS & LYBRAND

Chartered Accountants and Registered Auditors, Liverpool.

15th December 1997.

report of the auditors to the members to ML Laboratories plc on corporate governance matters

In addition to our audit of the financial statements, we have reviewed the Directors' statements on pages 45 to 48 concerning the Company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v).

BASIS OF OPINION

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Group's system of internal financial control or its corporate governance procedures, nor on the ability of the Group to continue in operational existence.

OPINION

With respect to the Directors' statements on internal financial control and going concern on pages 45 to 48, in our opinion the Directors have provided the disclosures required by the Listing Rules referred to above and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain Directors and Officers of the Company, and examination of relevant documents, in our opinion the Directors' statements on pages 45 to 48 appropriately reflects the Group's compliance with the other paragraphs of the Code specified for our review by Listing Rule 12.43(j).

COOPERS & LYBRAND

Chartered Accountants, Liverpool.

15th December 1997.

consolidated profit & loss account

for the year ended 30th September 1997

	NOTES	1997 £	1996 £
Turnover	1	6,855,129	10,431,430
Cost of sales		(1,550,945)	(969,440)
Gross profit		5,304,184	9,461,990
Administrative expenses		(5,617,217)	(4,933,703)
Operating (loss)/profit		(313,033)	4,528,287
Investment income	2	1,693,730	1,172,026
Interest payable	3	(259,460)	(247,714)
Profit on ordinary activities before taxation	1,4	1,121,237	5,452,599
Taxation	5	-	-
Profit on ordinary activities after taxation		1,121,237	5,452,599
Minority interests		(437,427)	441
Retained profit for year	17(a)	683,810	5,453,040
Earnings per ordinary share	22	0.5p	3.8p

As permitted by section 230 (3) of the Companies Act 1985, the parent company's profit and loss account has not been included in these financial statements. The retained loss of the parent is shown in note 21.

The Group has no recognised profits or losses in the period other than those included in the profit for the period above and therefore no separate statement of total recognised gains and losses has been presented. Similarly, there were no such adjustments in respect of 1996.

All group operations for the financial year are continuing. No operations have been acquired or discontinued during the financial year.

The notes on pages 58 to 71 form part of these financial statements.

consolidated balance sheet

at 30th September 1997

	NOTES	1997 £	1996 £
Fixed Assets			
Intangible assets	7	22,135,293	16,464,198
Tangible assets	8	3,081,963	3,010,684
		25,217,256	19,474,882
Current Assets			
Stocks	10	384,610	377,181
Debtors	11	3,872,079	2,663,406
Investments	12	3,560	3,560
Cash at bank and in hand	13	23,655,401	29,189,135
		27,915,650	32,233,282
Current Liabilities			
Creditors: amounts falling due within one year	14(a)	(7,744,925)	(3,416,785)
Net Current Assets		20,170,725	28,816,497
Total Assets less Current Liabilities		45,387,981	48,291,379
Creditors: amounts falling due after more than one year	14(b)	(1,901,728)	(2,154,580)
Net Assets		43,486,253	46,136,799
Capital and Reserves			
Called-up share capital	16	1,449,573	1,449,573
Share premium account	17(a)	47,217,134	47,217,134
Profit and loss account	17(a)	(5,374,707)	(2,546,154)
Capital reserve	17(a)	-	16,193
Equity Shareholders' Funds	18	43,292,000	46,136,746
Minority interests	19	194,253	53
		43,486,253	46,136,799

The notes on pages 58 to 71 form part of these financial statements.

parent company balance sheet

at 30th September 1997

	NOTES	1997	1996
		£	£
Fixed Assets			
Intangible assets	7	13,077,814	10,489,510
Tangible assets	8	2,108,233	2,276,224
Investments	9	4,187,228	415,444
		19,373,275	13,181,178
Current Assets			
Stocks	10	284,156	353,910
Debtors	11	4,365,017	5,346,504
Investments	12	3,560	3,560
Cash at bank and in hand	13	29,556,693	32,839,580
		34,209,426	38,543,554
Current Liabilities			
Creditors: amounts falling due within one year	14(a)	(5,983,984)	(2,117,282)
Net Current Assets		28,225,442	36,426,272
Total Assets less Current Liabilities		47,598,717	49,607,450
Creditors: amounts falling due after more than one year	14(b)	(1,940,846)	(2,292,597)
Net Assets		45,657,871	47,314,853
Capital and Reserves			
Called-up share capital	16	1,449,573	1,449,573
Share premium account	17(b)	47,217,134	47,217,134
Profit and loss account	17(b)	(3,008,836)	(1,351,854)
Equity Shareholders' Funds		45,657,871	47,314,853

The financial statements on pages 52 to 71 were approved by the Board of Directors on 15th December 1997 and were signed on its behalf by:

K.R. Leech
S.W. Sim
}Directors

The notes on pages 58 to 71 form part of these financial statements.

consolidated cash flow statement

for the year ended 30th September 1997

	NOTES	1997 £	1996 £
Net Cash Inflow from Operating Activities	26	4,538,346	5,150,275
Returns on Investments and Servicing of Finance			
Interest received		1,622,217	519,083
Interest paid		(8,797)	(46,458)
Investment income		60	50
Interest paid on finance leases		(250,711)	(204,821)
Net Cash Inflow from Returns on Investments and Servicing of Finance		1,362,769	267,854
Taxation			
UK Corporation tax		-	-
Capital Expenditure			
Purchase of intangible fixed assets		(6,684,201)	(4,440,832)
Purchase of tangible fixed assets		(791,545)	(1,376,364)
Receipts from sale of tangible fixed assets		86,370	40,970
Net Cash (Outflow) for Capital Expenditure		(7,389,376)	(5,776,226)
Acquisitions			
Purchase of part of minority interests		(3,771,784)	-
Net Cash (Outflow) for Acquisitions		(3,771,784)	-
Net Cash (Outflow) before Management of Liquid Resources and Financing		(5,260,045)	(358,097)
Management of Liquid Resources			
Decrease/(increase) in cash placed on short term deposit		5,535,860	(26,777,369)
Net Cash Inflow/(Outflow) from Management of Liquid Resources		5,535,860	(26,777,369)
Financing			
Issue of Ordinary Share Capital		-	26,181,066
Expenses paid in connection with share issue		-	(673,316)
Capital element of finance lease rental payments		(885,431)	(249,647)
Loan notes repaid		-	(18,400)
Loan finance acquired		556,878	1,953,533
Loans repaid		-	(3,408)
Net Cash (Outflow)/Inflow from Financing		(328,553)	27,189,828
(Decrease)/Increase in Cash in Period		(52,738)	54,362

The notes on pages 58 to 71 form part of these financial statements.

statement of accounting policies

PRINCIPAL ACCOUNTING POLICIES The financial statements have been prepared in accordance with Accounting and Financial Reporting Standards applicable in the United Kingdom. FRS 1 (Revised) on cash flow statements and FRS 8 on Related Party Transactions have been adopted for the first time. A summary of the more important Group accounting policies, which have been applied consistently, is set out below.

BASIS OF ACCOUNTING The financial statements have been prepared under the historical cost basis of accounting.

BASIS OF CONSOLIDATION The consolidated profit and loss account and balance sheet include the financial statements of the Company and all its subsidiary undertakings made up to 30th September 1997. The results of subsidiaries acquired are included in the consolidated profit and loss account from the date control passed. Intra-group sales and profits are eliminated fully on consolidation.

MINORITY INTERESTS Minority interests represent the share of the net assets, liabilities and results attributable to the interest of the minority shareholders in subsidiaries which are not wholly owned by the Company or its subsidiaries.

GOODWILL Goodwill arising on consolidation, which represents the excess of consideration over the fair value of the net assets acquired, is written off on acquisition against reserves.

INTANGIBLE FIXED ASSETS Patent and development costs are capitalised on the basis that they have been incurred with the intention of obtaining product licences for specific products and developing all products sufficiently to achieve worldwide sales.

This expenditure includes, inter alia, all internal and external costs incurred in developing manufacturing processes and in manufacturing materials to be used in clinical trials, the cost of conducting those trials, external studies, analysis and consultants, the cost of obtaining regulatory approvals and the cost of third party licence fees where appropriate.

Patent and development costs are amortised from the commencement of the period in which the first commercial application of a product begins, by reference to the remaining life of the patents and the period over which income from the sale of a product is likely to be generated.

TANGIBLE FIXED ASSETS Tangible fixed assets are stated at their purchase cost to the Group less depreciation.

Depreciation is provided on a straight line basis to write off the cost of the tangible fixed assets over their estimated useful lives at the following rates:

Plant and machinery	20 per cent. per annum
Computer and office equipment	20 per cent. per annum
Motor vehicles	33 and a third per cent. per annum
Short leasehold buildings	Over the remaining period of the lease.

FINANCE LEASES Tangible fixed assets include assets held under finance leases which are capitalised at their fair value with a corresponding amount treated as a liability. Interest is allocated to the profit and loss account over the period of the lease agreements.

OPERATING LEASES Rentals payable in respect of operating leases are charged to the profit and loss account on a straight line basis over the term of the lease.

FIXED ASSET INVESTMENTS Investments are stated at cost, but are written down to their realisable value if the Directors consider that there has been a permanent diminution of their value.

STOCKS Stocks are valued at the lower of cost and net realisable value. Cost is determined on a first in, first out basis.

DEFERRED TAXATION Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that a liability or asset will crystallise.

PENSION COSTS The Company operates a defined contribution pension scheme covering certain of its employees. Contributions are charged against revenue on an accruals basis.

FOREIGN CURRENCY TRANSLATION Foreign currency transactions are translated into sterling at the rate prevailing at the date of the transaction. Assets held at the year end are translated into sterling at the rate prevailing at the balance sheet date. The resulting exchange differences are dealt with in the profit and loss account.

TURNOVER Turnover, which excludes value added tax, represents amounts receivable in respect of the sale of goods and services and the commercialisation of products via third parties during the year, once it can be determined with reasonable certainty that such income will be received.

1. SEGMENTAL ANALYSIS BY CLASS OF BUSINESS

The analysis by class of business of the Group's turnover, profit before taxation and net assets is set out below:

Segmental reporting

	TURNOVER		PROFIT/(LOSS) BEFORE TAXATION		NET ASSETS/ (LIABILITIES)	
	1997 £	1996 £	1997 £	1996 £	1997 £	1996 £
Licensing and option fees	4,147,442	8,530,000	1,468,002	5,871,183	45,651,327	47,955,107
Royalties	319,781	54,780	-	-	-	-
Educational training	1,218,585	1,017,850	(22,721)	40,759	(288,510)	(265,790)
Other	1,169,321	828,800	(324,044)	(459,343)	(1,876,564)	(1,552,518)
Total	6,855,129	10,431,430	1,121,237	5,452,599	43,486,253	46,136,799

It is impractical to isolate the profit/(loss) before taxation and net assets/(liabilities) related to royalties. Consequently they have been included in licensing and option fees.

Geographical Segments

	UNITED KINGDOM		NORTH AMERICA		EUROPE		GROUP	
	1997 £	1996 £	1997 £	1996 £	1997 £	1996 £	1997 £	1996 £
Turnover by destination	5,402,901	10,208,172	716,860	113,430	735,368*	109,828*	6,855,129	10,431,430
Turnover by origin	6,855,129	10,431,430	-	-	-	-	6,855,129	10,431,430
Profit before taxation	1,121,237	5,352,635	-	-	-	99,964	1,121,237	5,452,599
Net assets	43,486,253	46,136,799	-	-	-	-	43,486,253	46,136,799

* Includes sales to other countries of £13,851 (1996 £7,046)

2. INVESTMENT INCOME

	1997 £	1996 £
Bank interest receivable	1,689,946	1,168,580
Other interest receivable	3,724	3,396
Income from current asset investments	60	50
	1,693,730	1,172,026

3. INTEREST PAYABLE

	1997 £	1996 £
On bank overdraft - repayable within 5 years, not by installments	8,659	15,339
On finance leases	250,711	204,821
On loan notes	-	400
Other	90	27,154
	259,460	247,714

4. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	1997 £	1996 £
Profit on ordinary activities before taxation is stated after charging:		
Depreciation - tangible owned fixed assets	241,582	157,917
- tangible fixed assets held under finance leases	816,800	647,150
Research and development expenditure:		
- Deferred expenditure amortised	995,313	663,203
Patent expenditure:		
- Deferred expenditure amortised	86,308	64,920
Auditors' remuneration for:		
- Audit (Company £17,272) (1996 £13,390)	36,931	31,408
Hire of other assets - operating leases	15,060	20,169
Loss on disposal of tangible fixed assets	2,734	1,999
And after crediting:		
Profit on disposal of tangible fixed assets	54,988	9,110

Amounts charged to revenue in respect of sums payable for the hire of plant and machinery under finance leases are shown above separately under the headings of depreciation £816,800 and finance charges £250,711 (See Note 3) - total £1,067,511 (1996 £851,971).

Remuneration of the Company's Auditors for provision of non-audit services to the Company and its UK subsidiary undertakings was £64,019 (1996 £85,625). This consists principally of fees in respect of taxation compliance and advisory work. The comparative figure included £28,500 in connection with the issue of shares which was charged to share premium account.

6. DIRECTORS AND EMPLOYEES (continued)

Fees and other emoluments include amounts paid to the highest paid director as follows:

	1997 £	1996 £
Salary payments	181,600	166,954
Fees and other emoluments before pensions	181,600	166,954
Pension contributions	20,940	18,315
	202,540	185,269

Further details of the remuneration of Directors is given in the Report of the Board on Remuneration Matters on pages 42 to 44. Details of the Share Options of Directors are given in the Directors' Report on pages 34 to 36.

During the year the interest free advance to a Director, Dr. R. N. Boyes, by Innovata Biomed Ltd, was repaid. At 1st October 1996 this stood at £11,459 which was the highest balance during the year.

7. INTANGIBLE FIXED ASSETS

GROUP	PATENT COSTS £	DEVELOPMENT COSTS £	TOTAL £
COST			
At 1st October 1996	1,884,622	15,955,800	17,840,422
Additions	255,972	6,496,744	6,752,716
At 30th September 1997	2,140,594	22,452,544	24,593,138
AMOUNTS WRITTEN OFF			
At 1st October 1996	142,966	1,233,258	1,376,224
During the year	86,308	995,313	1,081,621
At 30th September 1997	229,274	2,228,571	2,457,845
NET BOOK VALUE			
At 30th September 1997	1,911,320	20,223,973	22,135,293
At 30th September 1996	1,741,656	14,722,542	16,464,198
COMPANY			
COST			
At 1st October 1996	1,103,960	10,506,083	11,610,043
Additions	108,122	3,062,563	3,170,685
At 30th September 1997	1,212,082	13,568,646	14,780,728
AMOUNTS WRITTEN OFF			
At 1st October 1996	101,038	1,019,495	1,120,533
During the year	51,412	530,969	582,381
At 30th September 1997	152,450	1,550,464	1,702,914
NET BOOK VALUE			
At 30th September 1997	1,059,632	12,018,182	13,077,814
At 30th September 1996	1,002,922	9,486,588	10,489,510

8. TANGIBLE FIXED ASSETS

GROUP	PLANT & MACHINERY £	COMPUTER & OFFICE EQUIPMENT £	MOTOR VEHICLES £	SHORT LEASEHOLD BUILDINGS £	TOTAL £
COST					
At 1st October 1996	4,114,268	549,489	554,213	42,354	5,260,324
Additions	651,754	143,094	368,929	-	1,163,777
Disposals	(7,000)	(4,084)	(194,505)	-	(205,589)
At 30th September 1997	4,759,022	688,499	728,637	42,354	6,218,512
DEPRECIATION					
At 1st October 1996	1,560,942	360,192	315,001	13,505	2,249,640
Charge for year	808,039	78,332	170,246	1,765	1,058,382
Disposals	(4,317)	(2,747)	(164,409)	-	(171,473)
At 30th September 1997	2,364,664	435,777	320,838	15,270	3,136,549
NET BOOK VALUE					
At 30th September 1997	2,394,358	252,722	407,799	27,084	3,081,963
At 30th September 1996	2,553,326	189,297	239,212	28,849	3,010,684

The net book value of tangible fixed assets includes an amount of £2,462,851 (1996 £2,388,615) in respect of assets held under finance leases.

COMPANY					
COST					
At 1st October 1996	3,379,868	308,241	210,118	42,354	3,940,581
Additions	323,926	82,971	170,133	-	577,030
Transfer from subsidiary	-	-	4,439	-	4,439
Disposals	-	-	(50,788)	-	(50,788)
At 30th September 1997	3,703,794	391,212	333,902	42,354	4,471,262
DEPRECIATION					
At 1st October 1996	1,320,306	207,348	123,198	13,505	1,664,357
Charge for year	626,602	40,712	82,936	1,765	752,015
Transfer from subsidiary	-	-	(3,888)	-	(3,888)
Disposals	-	-	(49,455)	-	(49,455)
At 30th September 1997	1,946,908	248,060	152,791	15,270	2,363,029
NET BOOK VALUE					
At 30th September 1997	1,756,886	143,152	181,111	27,084	2,108,233
At 30th September 1996	2,059,562	100,893	86,920	28,849	2,276,224

The net book value of tangible fixed assets includes an amount of £1,635,647 (1996 £1,708,077) in respect of assets held under finance leases.

9. FIXED ASSET INVESTMENTS

COMPANY	SUBSIDIARIES
COST	£
At 1st October 1996	415,444
Additions	3,771,784
At 30th September 1997	4,187,228

PRINCIPAL SUBSIDIARY COMPANIES	COUNTRY OF INCORPORATION	DESCRIPTION OF HOLDING	PROPORTION HELD	NATURE OF BUSINESS
			%	
Benest Engineering Ltd	England	Ordinary Shares	75	Research & Development
Biofil Ltd	England	Ordinary Shares	80	Research & Development
Healthcare Education Services Ltd	Scotland	Ordinary Shares	81*	Training
Innovata Biomed Ltd	Scotland	Ordinary Shares Preference Shares	81 100	Research, development and commercialisation of products
M.A.T.S. (UK) Ltd	England	Ordinary Shares	51	Applied Surface Science
Movement Control Systems Ltd	England	Ordinary Shares	90	Monitoring Systems
Traversall Ltd	England	Ordinary Shares	100	Research & Development

*Holding through a subsidiary

All the above companies have been consolidated into the Group financial statements.

10. STOCKS

	GROUP		COMPANY	
	1997 £	1996 £	1997 £	1996 £
Raw materials & consumables	143,467	55,046	50,207	49,239
Finished goods	241,143	322,135	233,949	304,671
	384,610	377,181	284,156	353,910

5. TAXATION

	1997 £	1996 £
UK Corporation tax at 32%	-	-

Taxation has not been provided in the financial statements, as there are tax losses available to cover income. As at 30th September 1997, tax losses available to Group companies for offset against future trading profits in the relevant Group company, subject to agreement with the Inland Revenue, are estimated to be approximately £16M.

6. DIRECTORS AND EMPLOYEES

	1997 NUMBER	1996 NUMBER
Employees		
The average weekly number of persons (including Directors)		
employed by the Group during the year was:		
Development	46	54
Administration	30	25
Production	28	16
	104	95

Staff costs (for the above persons)	1997 £	1996 £
Wages and salaries	2,913,439	2,259,420
Social security costs	270,930	208,279
Other pension costs (see note 26)	143,658	121,315
	3,328,027	2,589,014

Directors' Remuneration		
The remuneration paid to the Directors of		
the holding company was:	£	£
Fees	75,978	58,506
Salary payments (including benefits in kind)	566,679	383,633
Pension contributions	74,760	55,327
	717,417	497,466

11. DEBTORS

	GROUP		COMPANY	
	1997 £	1996 £	1997 £	1996 £
(a) Amounts falling due within one year:				
Trade debtors	737,525	595,119	249,338	474,548
Other debtors	1,524,077	1,236,174	868,168	821,078
Prepayments	1,054,214	275,850	389,690	145,601
	3,315,816	2,107,143	1,507,196	1,441,227
(b) Amounts falling due after more than one year:				
Amounts owed by subsidiary undertakings	-	-	2,301,558	3,349,014
Prepayments	556,263	556,263	556,263	556,263
	3,872,079	2,663,406	4,365,017	5,346,504

12. CURRENT ASSET INVESTMENTS

GROUP & COMPANY	1997 £	1996 £
Investments quoted on a recognised stock exchange, at cost	39,260	39,260
Provision for permanent diminution in value	(35,700)	(35,700)
At 30th September 1997	3,560	3,560
Aggregate market value of quoted investments	2,455	2,865

13. CASH AT BANK

Included in cash at bank is an amount of £327,120 (1996 £518,974) being security for assets held under finance leases by the Company. These monies are to be released over the lease period.

14. CREDITORS

	GROUP		COMPANY	
	1997 £	1996 £	1997 £	1996 £
(a) Amounts falling due within one year:				
Bank overdraft	498,954	444,090	15,561	4,013
Obligations under finance leases	1,019,814	756,596	905,579	692,924
Trade creditors	1,639,043	1,649,676	1,011,032	1,090,558
Other taxation and social security payable	214,713	138,266	113,028	78,342
Other creditors	46,993	21,687	20,013	19,913
Accruals and deferred income	4,325,408	406,470	3,918,771	231,532
	7,744,925	3,416,785	5,983,984	2,117,282

14. CREDITORS (continued)

	GROUP		COMPANY	
	1997 £	1996 £	1997 £	1996 £
(b) Amounts falling due after more than one year:				
Obligations under finance leases	1,901,728	2,154,580	1,739,846	2,091,597
Amounts owed to subsidiary undertakings	-	-	201,000	201,000
	1,901,728	2,154,580	1,940,846	2,292,597

The Company has entered into arrangements to provide unlimited multilateral guarantees in respect of the bank overdrafts of its subsidiaries. No loss is expected to result from these arrangements.

15. DEFERRED TAXATION

No provision for deferred taxation is required. The potential liability for deferred taxation which has not been provided for in the financial statements amounted to:

	GROUP		COMPANY	
	1997 £	1996 £	1997 £	1996 £
Capital allowances in excess of related depreciation	17,483,370	11,915,656	11,247,480	8,521,755
Other timing differences	(16,314,916)	(14,743,344)	(12,728,849)	(10,570,666)
	1,168,454	(2,827,688)	(1,481,369)	(2,048,911)

16. CALLED-UP SHARE CAPITAL

	1997 £	1996 £
Authorised		
150,000,000 Ordinary Shares of 1p each (1996 150,000,000)	1,500,000	1,500,000
Allotted, called-up and fully paid		
144,957,310 Ordinary Shares of 1p each (1996 144,957,310)	1,449,573	1,449,573

16. CALLED-UP SHARE CAPITAL (continued)

Contingent rights to the allotment of shares:

Under the M.L. Laboratories PLC Executive Share Option Scheme, options have been granted to executives and Directors to subscribe for Ordinary Shares as follows:

Date of grant	Subscription price	Number of options	Exercise date	Expiry date
22/12/89	£0.74	330,100	22/12/92	22/12/99
19/12/90	£0.41	752,025	19/12/93	19/12/2000
23/08/91	£0.90	77,425	23/08/94	23/08/2001
05/08/92	£1.36	339,955	05/08/95	05/08/2002
13/01/93	£2.12	78,750	13/01/96	13/01/2003
24/08/93	£2.02	103,179	24/08/96	24/08/2003
26/08/94	£2.03	153,323	26/08/97	26/08/2004
04/09/95	£1.70	165,830	04/09/98	04/09/2005
23/07/96	£3.73	74,074	23/07/99	23/07/2006
06/01/97	£2.29	471,614	06/01/2000	06/01/2007
		2,546,275		

Details of Directors' interests in ordinary shares of the Company are shown in the Directors' Report.

17. SHARE PREMIUM ACCOUNT AND RESERVES

	SHARE PREMIUM ACCOUNT	PROFIT & LOSS ACCOUNT	CAPITAL RESERVE
(a) GROUP	£	£	£
At 1st October 1996	47,217,134	(2,546,154)	16,193
Profit for the year	-	683,810	-
Goodwill arising on acquisition of minority interests	-	(3,528,556)	-
Transfer on realisation	-	16,193	(16,193)
At 30th September 1997	47,217,134	(5,374,707)	-
(b) COMPANY			
At 1st October 1996	47,217,134	(1,351,854)	-
Loss for the year	-	(1,656,982)	-
At 30th September 1997	47,217,134	(3,008,836)	-

The Directors consider that the amount of unamortised development expenditure (see note 7) should not be treated as a realised loss for the purposes of calculating distributable profits.

notes to the financial statements for the year ended 30th September 1997

18. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	1997 £	1996 £
Profit for the financial year attributable to shareholders of M.L. Laboratories PLC	683,810	5,453,040
Nominal value of Ordinary Shares issued	-	75,002
Premium on Ordinary Shares issued	-	25,432,748
Goodwill arising on acquisition of minority interests	(3,528,556)	-
Net (decrease)/increase in shareholders' funds for the year	(2,844,746)	30,960,790
Opening equity shareholders' funds	46,136,746	15,175,956
Closing equity shareholders' funds	43,292,000	46,136,746

19. MINORITY INTERESTS

	1997 £	1996 £
Balance at 1st October 1996	53	494
Amount charged to profit and loss account	437,427	(441)
Reduction on acquisition of part of minority interests	(243,227)	-
Balance at 30th September 1997	(194,253)	53

20. FINANCE LEASE OBLIGATIONS

	GROUP		COMPANY	
	1997 £	1996 £	1997 £	1996 £
At 30th September 1997 the Group and Company had obligations under finance leases as follows:				
Payable within one year	1,019,814	756,596	905,579	692,924
Payable between one and two years	878,026	795,748	786,736	748,223
Payable between two and five years	1,023,702	1,358,832	953,110	1,343,374
	2,921,542	2,911,176	2,645,425	2,784,521

21. PROFIT FOR THE FINANCIAL YEAR

	1997 £	1996 £
Dealt with in the accounts of:		
Parent company	(1,656,982)	3,174,716
Subsidiaries	2,340,792	2,278,324
	683,810	5,453,040

22. EARNINGS PER ORDINARY SHARE

The calculation of basic earnings per share is based on the profit on ordinary activities after taxation and minority interests of £683,810 (1996 £5,453,040) and on 144,957,310 ordinary shares (1996 142,477,091), being the average number of ordinary shares in issue and ranking for dividend during the year, weighted on a time basis. The fully diluted earnings per share is not materially different from the basic earnings per share.

23. OTHER FINANCIAL COMMITMENTS

At 30th September 1997 the Group had annual commitments under non-cancellable operating leases as follows:

	1997		1996	
	LAND & BUILDINGS £	OTHER £	LAND & BUILDINGS £	OTHER £
Expiring within one year	44,250	714	25,852	1,957
Expiring between two and five years	102,628*	2,541	88,378*	3,607
Expiring in over five years	207,482**	-	100,482**	-
	354,360	3,255	214,712	5,564

* Subject to a three year rent review

** Subject to a five year rent review

24. CAPITAL COMMITMENTS

	GROUP		COMPANY	
	1997 £	1996 £	1997 £	1996 £
Capital expenditure on tangible fixed assets that has been authorised by the Directors but has not yet been contracted for	-	-	-	-
Capital expenditure on tangible fixed assets that has been contracted for but has not been provided for in the financial statements	51,000	-	49,000	-

25. CONTINGENT LIABILITIES

Group & Company

At 30th September 1997 there were no contingent liabilities other than those arising from the ordinary course of business in respect of which no material losses are expected to arise.

26. PENSIONS

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The pension cost charge represents contributions payable by the Group to the fund and amounted to £143,658 (1996 £121,315). Contributions totalling £Nil (1996 £2,838) were payable to the fund at the year end and are included in creditors.

27. RECONCILIATION OF OPERATING LOSS TO NET CASH FLOW FROM OPERATING ACTIVITIES

	1997 £	1996 £
Operating (loss)/profit	(313,033)	4,528,287
Depreciation of tangible fixed assets	1,058,382	805,067
Amortisation of intangible fixed assets	1,081,621	728,123
(Profit) on disposal of tangible fixed assets	(52,254)	(7,111)
(Increase)/decrease in stocks	(7,429)	116,909
(Increase) in debtors	(1,054,043)	(820,121)
Increase/(decrease) in creditors	3,825,102	(200,879)
Net cash inflow from continuing activities	4,538,346	5,150,275

28. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	1997 £	1996 £
(Decrease)/increase in Cash in Period	(52,738)	54,362
Cash (inflow)/outflow from (decrease)/increase in Liquid Resources	(5,535,860)	26,777,369
Cash outflow/(inflow) from decrease/(increase) in Debt and Lease Financing	328,553	(1,682,079)
Change in Net Debt Resulting from Cash Flows	(5,260,045)	25,149,652
Other Non Cash Items		
New Finance Leases	(338,919)	(138,210)
Movement in Net Debt	(5,598,964)	25,011,442
Opening Net Debt	25,833 ,869	822,427
Closing Net Debt	20,234,905	25,833,869

29. ANALYSIS OF NET DEBT

	30/09/96 £	Cash Flow £	Other Non Cash Changes £	30/09/97 £
Cash in Hand and at Bank	2,919	2,126	-	5,045
Short Term Deposits	29,186,216	(5,535,860)	-	23,650,356
	29,189,135	(5,533,734)	-	23,655,401
Bank Overdraft	(444,090)	(54,864)	-	(498,954)
Finance Leases due within 1 Year	(756,596)	(263,218)	-	(1,019,814)
Finance Leases due in more than 1 Year	(2,154,580)	1,148,649	(895,797)	(1,901,728)
	25,833,869	(4,703,167)	(895,797)	20,234,905

30. RELATED PARTY TRANSACTIONS

On 15th September 1997, the Company agreed to acquire from minority shareholders, 2,500 shares representing 6.25% in its subsidiary, Innovata Biomed Ltd, for a cash consideration of £3.75m. This transaction included the purchase of 1,450 shares from Dr. R. N. Boyes, a Director of M. L. Laboratories PLC, for a consideration of £2.175m. The consideration was paid on 6th October 1997. In addition, Dr. Boyes has granted the Company an option to purchase a further 3,450 shares in Innovata Biomed Ltd at the same price of £1,500 per share, expiring on 31st December 1998 in respect of 1,000 shares and on 31st December 1999 in respect of the balance of 2,450 shares. Panmure Gordon and Co Ltd, financial advisers, have reported to the London Stock Exchange that the terms of this transaction were fair and reasonable as far as the shareholders of M. L. Laboratories PLC were concerned.

During the year, in the ordinary course of the Group's business, RPMS Technology Ltd, a technology transfer company wholly owned by Imperial College School of Medicine and of which Professor D. S. Davies is a Director, undertook research contracts for the Group, on arms length terms, with a contracted value of £735,000. At 30th September 1997 the amount owing to RPMS Technology Ltd in respect of this work was £310,000.

31. ULTIMATE CONTROLLING PARTY

The Company's ultimate holding company is Milner Laboratories Ltd incorporated in Jersey, C.I. and its ultimate controlling party is Mr. K.R. Leech, by virtue of his ownership of 68% of the issued share capital in that company.