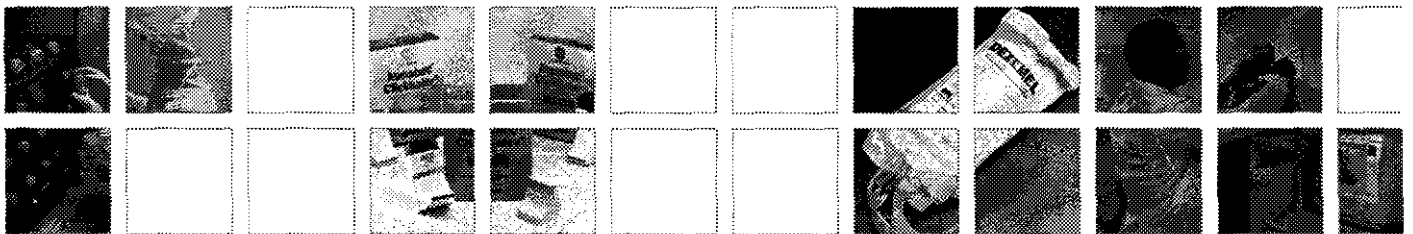


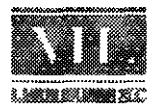
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ML Laboratories PLC

ML Laboratories PLC



Annual Report 2000





Corporate Objective

is to become a **European based pharmaceutical company** principally focused on **research and development in serious disease states**.

Contents

2000 at a Glance	1
Chairman's Statement	2
Our Pharmaceutical Products	6
Chief Executive's Operational Review	9
Financial Review	17
Directors, Secretary and Advisers	18
Directors	19
Directors' Report	21
Remuneration Report	24
Corporate Governance	26
Statement of Directors' Responsibilities	29
Auditors' Report	30
Consolidated Profit and Loss Account	31
Consolidated Balance Sheet	32
Parent Company Balance Sheet	33
Consolidated Cash Flow Statement	34
Statement of Accounting Policies	35
Notes to the Financial Statements	37

2000 at a glance Year's Highlights

Corporate

- Acquisition of Cobra Therapeutics
- Share placing raising £11.5M net
- N M Rothschild appointed to undertake strategic shareholder value review

Gene Therapy

- Gene expression technology licensed to Coulter Pharmaceutical
- Phase I/II trials on new cancer treatment started
- Regulatory approval to manufacture DNA for novel HIV vaccine

Adept

- Launched in UK
- US Phase II trial completed

Clickhaler

- Production scaled up to automated high volume.
- Licencees appointed for Canada, Morocco. Advanced negotiations for Japan

Viralidon

- Phase II/III study encouraging interim review

Emmelle

- EU and MRC collaboration continues
- Results of Phase II London & Antwerp studies expected in February

Extraneal

- Now launched in 27 countries. 25% penetration achieved in Europe to date
- US and Japan launch 2002 and 2003 respectively

Dexemel

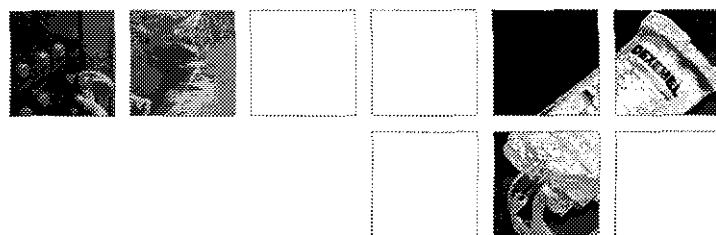
- New gene therapy applications revealed in studies
- Patents filed

Respiratory

- Budesonide Clickhaler core studies for EU licence well advanced
- Collaboration with Vectura to develop inhaled peptides and proteins

Organ Transplantation

- Blocking of rejection response demonstrated



Summary Financial Performance

Licensing, evaluation & development fee income



Royalty Income



Product sales



Income from other activities



Total turnover



Research & development expenditure



Sales, marketing & distribution costs



Administrative expenses

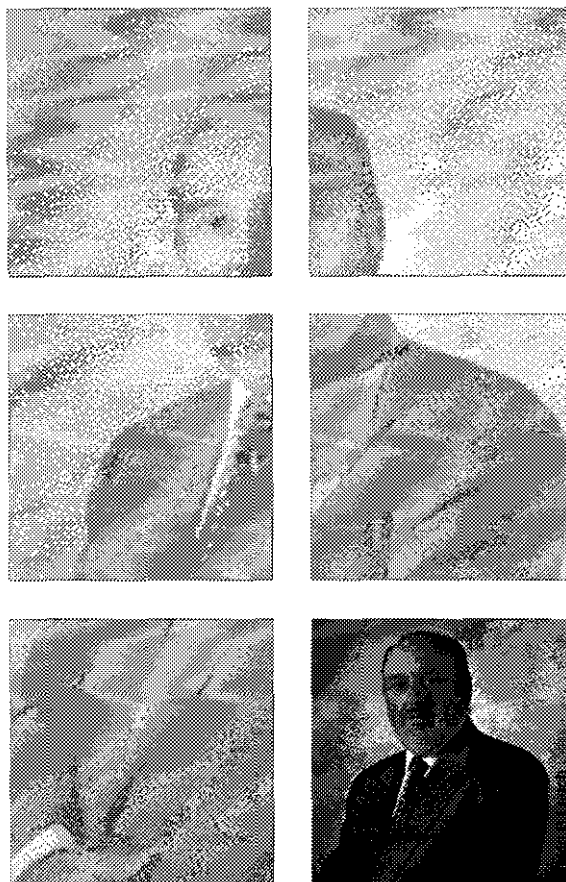


Net loss



Year end cash





Chairman's Statement

The second half of the year has seen us build on the good progress reported at the interim stage and conclude a year of solid achievement consolidating ML's position as one of the more advanced in the sub-sector, as evidenced by our 100% track record of success in taking five products from a research idea through the development process and the stringent regulatory process, to marketing authorisation and the subsequent launch of four of those products in the market, generating essential revenue streams. This is supported by a large portfolio of eight products in late stage development, several of which we anticipate launching in the market in the near term, and an exciting research pipeline which includes leading edge gene therapy products and technologies.

In addition, we have successfully scaled up several products to volume manufacture and we are currently repeating that process in the highly technical area of DNA manufacture each of which is already contributing valuable margin which should increase significantly.

The highlights on the commercial front during the year were the implementation of the first stage of the infrastructure necessary to market certain of our products to enable us to capture the full margin on product commercialisation; the UK launch of ADEPT, our adhesions product, utilising that infrastructure; the significant expansion of the activities of our respiratory subsidiary, Innovata Biomed, via a collaboration with Vectura Ltd, a leading drug particle engineer, to develop a range of inhaled biotech products; the acquisition of Cobra Therapeutics, a leading gene therapy company, and the subsequent formation of a dedicated gene therapy division; and a collaboration and licence agreement with Coulter Pharmaceutical, a US biotechnology company, to jointly develop and commercialise certain applications of our novel gene expression technology.

On the clinical and regulatory front, highlights include encouraging results from the first US clinical trial of ADEPT; progress in the important Phase II trials of GnRH, our vaccine for the treatment of prostate cancer, and in both COLYKADE and DEVACADE, our products to enhance pain relief, the results from all of which are anticipated in Q2 this year; the commencement of Phase I/II trials of our unique gene therapy cancer treatment; and regulatory approval to produce DNA for the clinical trials of a novel DNA vaccine against HIV which employs our patented technology in the production process.

Our programme of funded academic research bore fruit in that our programme on the rejection of transplanted organs demonstrated that an immune response in a host responsible for rejecting foreign cells can be blocked, which offers the potential major benefit of removing the requirement for long term immunosuppression following transplantation. This is a novel solution in the battle to get foreign organs accepted by the human body which may help solve the problem of the huge shortage of donor organs throughout the world.

Milestones were achieved in our manufacturing activities. Firstly, our dedicated automated Clickhaler manufacturing facility came on stream which is significant on two fronts in that we are now able to supply inhalers in large volume and we have demonstrated the ability of Clickhalers to be scaled - up to volume manufacture, which as far as we are aware is a step yet to be achieved by any other independent inhalation device company. Secondly, during the year, our Liverpool plant manufactured

its one thousandth tonne of Icodextrin, the raw material ingredient of our dialysis product Extraneal, which we supply under contract to our licensee of that product, Baxter Healthcare. Thirdly, we have devised and are in the process of installing a waste stream management system for our Liverpool plant which will increase our margins significantly in the current year.

Whilst all aspects of our portfolio of products and technologies have made good progress, of particular note is the progress that has been made by our gene therapy division which was formed in March following the acquisition of Cobra Therapeutics. The acquisition has been a great success in that the company has been fully integrated into the Group whilst retaining its operational autonomy and its identity, which we consider essential, and the resulting synergies have exceeded our initial expectations. Its value has increased substantially since its acquisition as a result of increased investment, acceleration of development programmes and business development initiatives.

Cobra specialises in the development of a new class of therapeutic products known as DNA - based medicines that utilise the information contained in genes. Its most advanced product, CTL102, is a new approach to the treatment of cancer which has been shown to work very efficiently in experimental models and is now on trial in patients in the UK with further European trials planned for later this year. CTL102 is administered by direct injection into the tumour and the initial targets include cancer of the liver, head, neck and prostate.

We have been seeking ways to improve the gene therapy delivery system to enable such products to be administered into the blood and into body cavities such as the peritonea, from where they are able to target the tumour. The first example of this new generation of targeted chemotherapy products, CTL501, is currently in pre-clinical development.

We are also developing vaccine based approaches to the treatment of cancer, the mechanism of action of which is to provoke the patients immune system to kill tumour cells. Pre-clinical results are encouraging and we are currently completing safety evaluation and product manufacture to enable clinical trials to start later this year.

Chairman's Statement

In addition to its product candidates, Cobra has developed and patented a wide range of technologies for use in the production of new biotechnology products. Whilst the primary use of this technology will be to develop our own products, it is potentially of great value and we are actively negotiating to license it to third parties. Cobra is particularly skilled in the development of technology for the expression of proteins from genes and during the year we entered into a number of research collaborations to explore the utility of that technology. We have entered into an agreement with Coulter Pharmaceutical to jointly develop and commercialise certain applications of our UCOE technology in the protein field. This agreement generated an access fee of £1M and will generate further significant milestone fees as the development and commercialisation of the technology progresses. In the longer term we will also receive royalties on the sale of products incorporating the use of our technology. We expect to enter into many such agreements relating to our technology.

Cobra has also developed expertise in the manufacture of plasmid DNA, viral products and proteins for both our own use and for use by third parties. During the year, revenues from custom manufacture increased four fold and currently our order book is full and we are manufacturing to capacity. We are in the process of expanding capacity by 100% and when completed we will be well placed to take advantage of the growth that is evident in the demand for custom manufacturing of the new biological product candidates entering development as a consequence of the increase in information regarding the human genome.

I have previously referred to the receipt of regulatory approval to produce DNA for the clinical trials of a novel DNA vaccine for the treatment of AIDS, the manufacturing process for which will employ our patented technology to eliminate the need for antibiotics in the process. As part of the approval process our facility was inspected by the Medicines Control Agency and shown to comply with Good Manufacturing Practice for the manufacture of biological products. We believe our facility is one of the few in Europe able to produce plasmid DNA for clinical use at the scale and quality required to support the development of this new generation of therapeutic products. Currently we are formulating our strategy for the future scale-up of our manufacturing facility to

ensure we remain well placed to benefit from the anticipated demand.

Marketed Products

Those of our products that have been commercialised are progressing well in their respective markets, generating increasing sales from which we derive royalty income in the case of both Extraneal, which is licensed to Baxter Healthcare, and Asmasal and Asmabec Clickhaler which are licensed to Celtech Medeva and generating actual sales revenue in the case of ADEPT, which we have commercialised in-house.

Extraneal is currently being sold in 27 countries and is making excellent progress in increasing market penetration. Asmasal and Asmabec Clickhaler are being sold in France and the UK and will continue their roll-out into Europe. ADEPT, which has only recently been launched in the UK, is being well received by those surgeons using it who are demonstrating a high rate of repeat orders and we will continue to penetrate the UK market whilst preparing to launch in other European markets.

Strategic Review

It is of great concern to the Board that our current share price does not adequately reflect the value of our exciting portfolio of products and technologies. Accordingly we have appointed N.M. Rothschild to advise us how we might best optimise shareholder value in the short term and in that regard we are currently working with their specialist Healthcare Team in undertaking a strategic review of the business.

Innovata Biomed - Nasdaq Flotation

We have previously informed you that we were investigating the feasibility of obtaining a listing on the US Nasdaq market for Innovata Biomed, our respiratory subsidiary, in an effort to obtain recognition of the value of our respiratory technologies which we consider is significantly greater than that currently attributed to it in our share price.

In the intervening period the opportunity arose to considerably strengthen IB's product offering by expanding our respiratory development portfolio to include inhalable peptides and proteins via the collaborative joint venture with Vectura, announced in September. Thereafter having appointed N. M. Rothschild to advise how we

might best optimise shareholder value we have delayed our decision to float on Nasdaq until the strategic review is completed.

Financial Performance

Comparison with the previous year is affected by the inclusion of the results of Cobra since its acquisition in March. Turnover increased to £11.9M however this was offset by larger increases in development expenditure reflecting both the later stage nature of our development portfolio and an increased number of projects and by increased selling and distribution costs as a result of the launch of ADEPT. As a consequence, our net loss increased to £11.8M from £6.9M the previous year, £1.4M of which related to Cobra.

Following a placing of shares in July raising £11.5M, net of expenses, drawing down our revolving bank credit facility of £7.5M and benefiting from Cobra's cash balances on acquisition of £4.1M, net of acquisition expenses, we ended the year with net cash of £14.8M. We continue to keep the adequacy of our cash resources under close review.

Funding

In the event that further funds should be required we have agreed the terms of a Convertible Debenture which will enable us, at our option, to call down funds of up to £12M in tranches of £6M, subject to certain conditions being satisfied, including conditions regarding the volume of shares traded and share price performance. Further particulars of the debenture are contained in a separate announcement issued today as required and will be circulated to shareholders shortly in a separate document as part of the approval process which will be sought at an EGM to be held following the AGM on 8th March.

Risk Management

We have previously referred to our management of product development risk through the consistent application of relatively risk averse product selection criteria designed to ensure that only products with a good probability of obtaining marketing authorisation are entered into our development programme. To date we have been granted five marketing authorisations, maintaining a 100% track record in that regard.

Marketing authorisations and commercial agreements are confirmation of our ability to

discover, develop and commercialise innovative pharmaceutical products. All of the products in our portfolio have been selected on the basis of the same rigorously applied relatively risk averse selection criteria designed to ensure that we overcome the principal risk inherent in pharmaceutical product development, namely, the failure to obtain marketing authorisations. Such authorisations are the 'lifeblood' of this Company, generating the milestone payments and royalty income which are essential to fund our product development programme.

Appreciation

I would like to offer my appreciation and thanks to our employees for their dedication, to all our medical and scientific colleagues, nurses and participating patients for their invaluable contribution and to our shareholders for their continued support.



Kevin R Leech

Chairman 23rd January 2001



ML Pharmaceutical

"Clinical development and commercialisation of hospital based products derived from our icodextrin technology and from intellectual property in-licensed from third parties"

ML Pharmaceutical's objective is to become a European research, development and marketing company focused on providing innovative products for use in hospital medicine. A major step along this path was taken in 2000 with the establishment of a UK sales and marketing infrastructure to facilitate the launch of Adept™ (a product for post-surgical adhesion reduction). The infrastructure will be expanded into the major European markets in 2001 and will be subsequently utilised to commercialise ML's development products and ultimately the Cobra research projects together with in-licensed products.

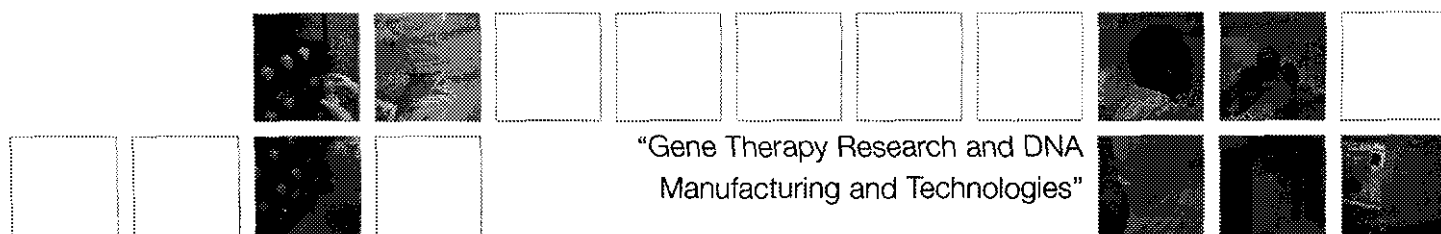
Product development

	Research	Pre-clinical	Phase I	Phase II	Phase III	Regulatory approval	Marketed
EXTRANEAL/RENAL							
ADEPT/ADHESIONS							
DENEMEL/ONCOLOGY & GENE THERAPY							
VIRAL/DONALDS TREATMENT							
ENHANCE/AIDS PREVENTION							
GIRNIZ/PROSTATE CANCER							
COLKAD/DE/ACADE/PAIN MANAGEMENT							
ULTRAMORPH/PAIN MANAGEMENT							

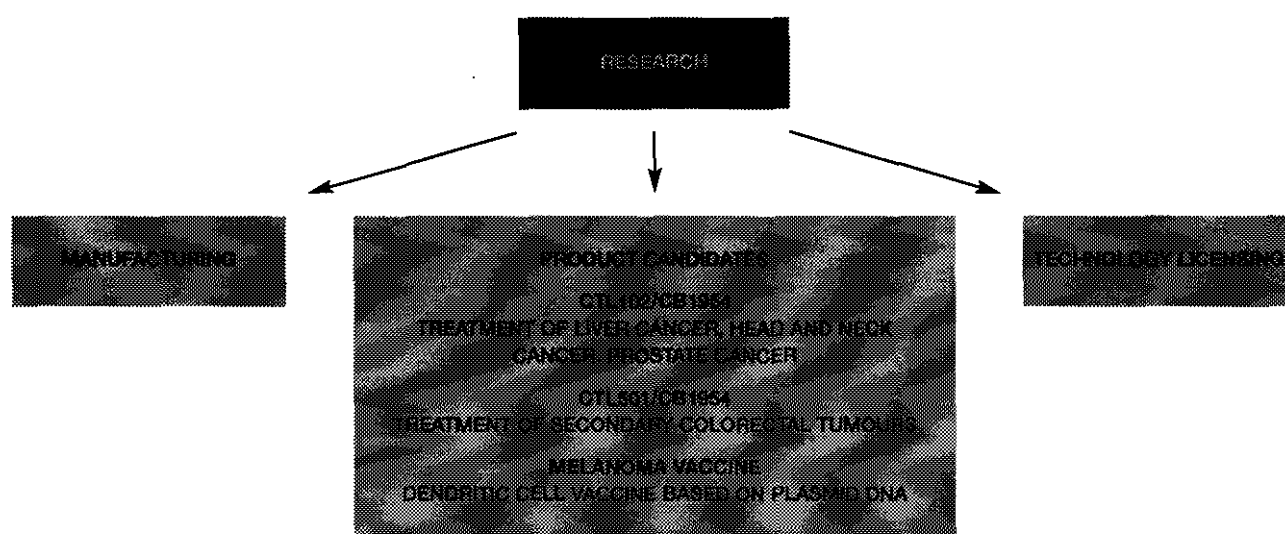
Research projects

	Research	Pre-clinical	Phase I	Phase II	Phase III	Regulatory approval	Marketed
POLYMER CHEMOTHERAPEUTICS							
XENOGRAFT IMMUNOTHERAPEUTICS							
TARGETED THERAPEUTICS							

Cobra Therapeutics



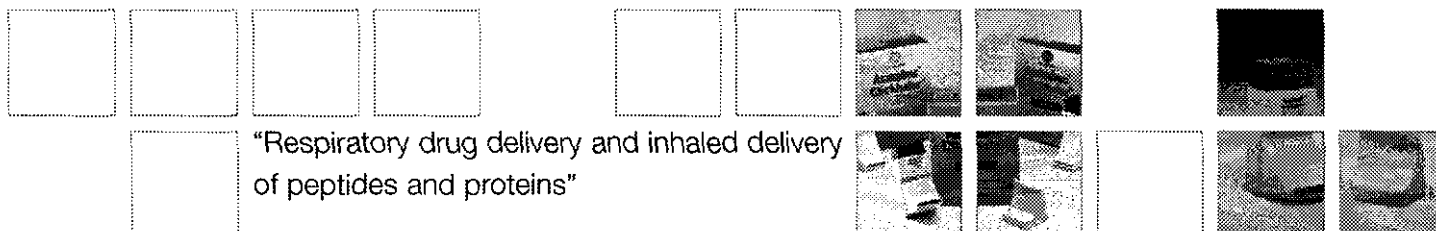
Cobra is a research based company specialising in the development of a new class of therapeutic products known as DNA based medicines involving the delivery of genes to achieve therapeutic benefits. Cobra's primary focus is cancer treatments and the products resulting from its research projects will be commercialised in Europe by ML Pharmaceutical. Cobra's research has also resulted in a number of patented technologies for use in the manufacture of biotechnology products. Cobra generates income through both contract manufacturing for third parties of early stage clinical trial supplies and licensing its technologies for both research and manufacturing purposes.



Product candidates

	Research	Pre-clinical	Phase I	Clinical trials Phase II	Phase III	Regulatory approval	Marketed
CTL102/CB1954							
CTL501/CB1954							
MELANOMA VACCINE							

Innovata Biomed



Innovata Biomed's core competency is in the design, development and industrialisation of innovative technologies delivering compounds to the lung. Our unique strengths lie in the ability to provide inhaled drug delivery solutions to the global pharmaceutical industry based on a proven track record of regulatory approvals and volume manufacture of our founding technologies which are inhalation devices for the administration of drugs for respiratory disease.

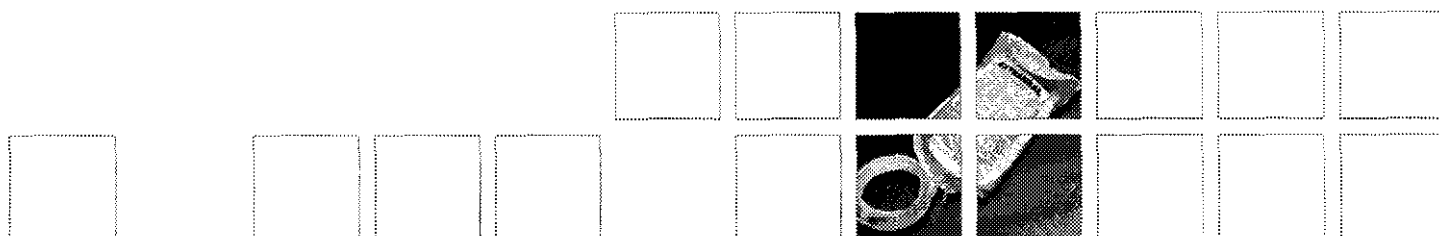
Product development

	Research	Pre-clinical	Phase I	Phase II	Phase III	Regulatory approval	Marketed
ASMAL Clickhaler							
ASMAEC Clickhaler							
BUDESONIDE Clickhaler							
FORMOTEROL Clickhaler							
UNDISCLOSED (2)							
PROTEIN (4)							

Device development

	Research	Development	Phase I	Phase II	Phase III	Regulatory approval	Marketed
Clickhaler							
TECHNOHALER							
OMNIRALER							
AEROFILTER							
UNDISCLOSED (2)							

Chief Executive's Operational Review



ML PHARMACEUTICAL DIVISION Icodextrin Based Products -

Icodextrin solution - an innovative solution for use in Peritoneal Dialysis

Icodextrin solution, the founding product of ML, is a dialysis solution for use in peritoneal dialysis (PD) for the treatment of renal failure patients. ML holds exclusive patents over Icodextrin, the active ingredient, which is a unique polymer of the natural constituent, glucose. The product has demonstrated an acceptable safety profile over many thousands of patient years of use and is the only approved dialysis solution to exhibit a prolonged duration of action in the long dwell.

Baxter Healthcare, the exclusive licensee worldwide for the use of the solution in renal failure, has launched the product, under the trade name Extraneal, in 27 countries to date. In Europe over 25% of the PD patient population are already being treated with Extraneal which we consider has the potential to increase significantly as a market share of over 50% has already been achieved in several individual countries.

Under the terms of the licence Baxter is obliged to obtain marketing authorisations in all territories outside Europe, at their expense and they are making good progress in doing so having been granted approvals in countries including Canada, Brazil, Czech Republic and Singapore to date, increasing significantly the potential for Extraneal sales. Baxter anticipate an increasing number of regulatory approvals during the coming year, each of which will provide further royalty income to ML.

Baxter are in the process of filing for marketing approval in the US and Japan and should launch Extraneal in those valuable markets in 2002 and 2003 respectively. The prospects for the product continue to excite and will be further enhanced by the forthcoming publication of new treatment guidelines which recommend the use of large

molecular weight substitutes for glucose (the original and still the most used solution) such as Icodextrin, for several specific diagnostic categories and state that dialysis solutions containing polyglucose (Icodextrin) have been shown to be superior to glucose based solutions in achieving net ultrafiltration during long dwells in many patients. As a consequence, the guidelines suggest that Extraneal has a pivotal role to play in the treatment of dialysis patients.

Other Icodextrin Based Products

Extensive clinical experience with Icodextrin solution has led to the identification of a number of significant additional medical applications for the product.

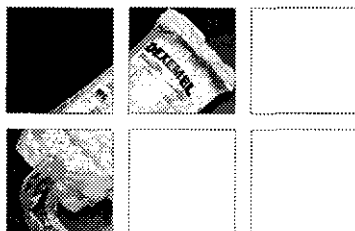
DEXEMEL - an intra-peritoneal drug delivery system

In clinical studies it has been demonstrated that DEXEMEL maintains a constant volume of fluid in the abdomen for at least two days. Our long experience of intra-peritoneal fluid infusions in treating renal patients led us to conclude that DEXEMEL could be an ideal means of delivering drugs via the peritoneal cavity, allowing both the local delivery of drugs in the abdomen and the targeting of drugs to the lymphatic system and liver.

A marketing authorisation allowing the use of DEXEMEL for the administration of suitable drugs in this manner was granted by the UK regulatory authorities in 1999 and 12 EU countries have subsequently agreed to grant marketing authorisations.

It has been established that for certain intra-abdominal cancers, namely ovarian and colorectal, delivery of the chemotherapeutic agent into the peritoneal cavity offers advantages over standard intravenous administration. Two

Chief Executive's Operational Review



previous studies using Icodextrin, the active agent of DEXEMEL, which have been published demonstrated that it is possible to attain levels of drug in the peritoneal cavity that are 1,000 - fold the systemic level, thus exposing cancer cells or seedling tumours to higher concentrations of chemotherapeutic agent than would be possible by the traditional route of administration and with reduced systemic concentrations.

More recently conducted clinical studies have further confirmed the benefits of administering the chemotherapeutic drug, 5-FU, into the abdomen in DEXEMEL solution following colorectal cancer surgery.

Presentations on the product have been made at a number of clinical and scientific meetings both in Europe and the United States. Of particular interest is the recent evidence that indicates DEXEMEL provides significant benefits when used to deliver certain gene therapy products into the abdomen.

For the past two years scientists from ML have been collaborating with colleagues at Canji, Inc. in San Diego, California (a subsidiary of Schering-Plough Corporation) on a research project to evaluate the advantages of DEXEMEL formulations for intra-peritoneal delivery of specific gene therapies. This collaboration has resulted in data which confirm increased marker gene expression when the gene vector combination is administered intra-peritoneally in an Icodextrin formulation, as compared to a standard saline mixture. These results point to improved efficiency of therapeutic gene transfer to cells and as a result a more cost effective therapy. Data from these collaborative studies have been jointly presented by the researchers from Canji and ML at major scientific meetings and have formed the basis of a mutually expanded intellectual property position in the form of a filed patent.

In addition to the above work, further independent studies have shown enhanced viral vector stability in DEXEMEL formulations and pre-clinical studies have shown that DEXEMEL solution can prevent adhesion formation associated with the intra-peritoneal administration of certain chemotherapeutic agents.

We are also utilising DEXEMEL's properties to target the delivery of our anti-AIDS agent, VIRALDON, to the lymphatic system.

ADEPT - a solution for the reduction of post-operative adhesions

Adhesions are a serious and frequent complication following abdominal and gynaecological surgery and are expensive to treat, often requiring further surgery and hospitalisation and the issue of adhesions is becoming acknowledged as a major problem. Currently the only specific anti-adhesions products are either films or highly viscous gels, which are both expensive and difficult to administer, requiring specific training. ADEPT offers significant advantages over competing products, as it is an easy to use, low viscosity solution, which can be delivered via a laparoscope in minimally invasive (keyhole) surgery and is readily incorporated into routine surgical procedures..

Furthermore ADEPT is significantly less expensive, consequently we consider it has the potential to become the preferred treatment and be used routinely in all abdominal surgery.

Marketing approval was granted throughout Europe in November 1999 for the use of ADEPT as 'an intra-peritoneal instillate for the reduction of adhesions following abdominal surgery' and ADEPT was launched in the UK market in May at the Millennium Meeting of the Association of Surgeons of Great Britain and Ireland, where we received an overwhelming response to this novel treatment. It is too early to comment on ADEPT's sales performance, as the adoption of a new technology inevitably takes time, other than to say that the high level of pre-launch interest has continued in the marketplace as evidenced by over 70 UK hospitals having ordered ADEPT and many considering incorporating it into the hospitals standard formulary, an essential step towards adopting it for routine surgical use. Progress has been made in preparing the other European markets for launch and, in addition, commercialisation agreements have been signed for other territories including Greece, Ireland and Israel. We are currently in negotiation with potential licensees for the lucrative US and Japanese market rights.

In parallel with the above activities, the first phase of the programme of clinical trials, designed to provide the data necessary to obtain marketing authorisation in the US, has been successfully completed. The trial was carried out in five centres across the US and was a randomised, controlled evaluation of the use of ADEPT for

post-operative adhesion reduction during gynaecological laparoscopic (keyhole) surgery. The object of the trial was to establish safety by comparing the use of ADEPT with the standard practice which employs a salt solution. Analysis of the data indicated that, overall, the patient group treated with ADEPT showed a reduced incidence of adhesions post-surgery compared to the control patients. Both the severity and extent of adhesions were reduced in the ADEPT patients compared to the control patients.

Data from the initial US trial has been used to assist the design of the pivotal Phase III US trial, which will be submitted to the FDA to support our application for a US marketing authorisation. We anticipate that the trial will commence later this year and is scheduled for completion Q3 2002.

We are very excited by the prospects for ADEPT and by the fact that it is allowing us to establish our own pan-European marketing capability with the capacity to develop into a force capable of commercialising other products in our development portfolio. Due to the expansion of our Icodextrin manufacturing plant and the arrangement we have in place with a contract manufacturer for the supply of finished product, we are well placed to meet anticipated demand for ADEPT in this growing market, valued at \$1 billion, in which ADEPT could become the leading product due to its safety profile, ease of use and price advantage.

VIRALDON - an intra-peritoneal treatment for AIDS

Research conducted at the Imperial College School of Medicine, London, has demonstrated that VIRALDON blocks the uptake of HIV into human cells and thereby blocks the ability of the virus to multiply. The proposed mode of action for the product would suggest that the development of resistance to VIRALDON therapy would be minimal.

VIRALDON is being administered to patients intra-peritoneally as a means of targeting the specific cells in the body where HIV predominantly replicates. In view of the nature of this means of administration VIRALDON is currently being reserved for late stage, so called 'salvage' therapy, in AIDS patients who have not responded to or cannot tolerate other treatments.

In the UK our Phase II/III study ATLAS continues. This multi-centre randomised study of VIRALDON

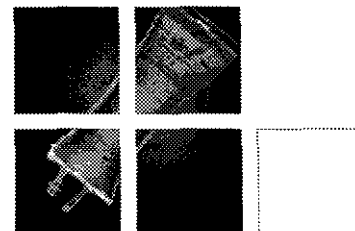
in late stage AIDS patients compares patients on standard treatment with patients on standard treatment plus VIRALDON. An interim analysis of the data has been conducted by the Independent Data Safety Monitoring Committee, chaired by Professor Janet Darbyshire of the MRC Clinical Trials Unit. The Committee considers that interesting results on the efficacy of Viraldon may emerge from the trial and therefore recommends that we should take whatever steps are necessary to improve the rate of patient recruitment and follow up and they encourage us to explore the possibility of expanding recruitment to other sites both in the UK and elsewhere. We are encouraged by their comments and are currently discussing with our UK investigators what practical steps can be taken to increase patient enrolment in the study.

Similarly, patient entry into the US Phase II study has not proceeded as anticipated, consequently GMI, the licensee of the US rights to VIRALDON, has employed Quintiles, a large contract research organisation, to assist with the recruitment of patients to the trial and remains hopeful that they will be able to provide the necessary data to support the use of VIRALDON as salvage therapy in this increasingly large group of patients.

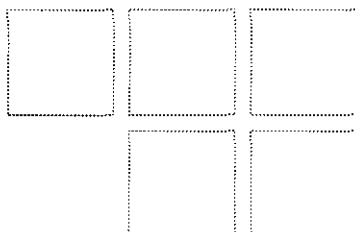
Clearly the recruitment of patients remains difficult due to changes in patient demographics and a reluctance on the part of patients to volunteer for what is an invasive treatment, necessitating the insertion of a catheter, whilst other apparently effective treatment options are available. Nevertheless, we continue to believe that the safety profile of VIRALDON, combined with the intra-peritoneal route of administration which enables the major sites of virus concentration to be targeted, will prove an important therapeutic approach to the late stages of this devastating disease.

EMMELLE - an intra-vaginal gel to prevent AIDS

As with VIRALDON, the active ingredient of EMMELLE is dextrin sulphate (DS). The mechanism of action of DS in blocking the uptake of HIV into human cells, and its safety profile, has led to considerable interest on the part of public health organisations such as the Medical Research Council (MRC) and the European Community (EU) who believe that, in the absence of an effective vaccine against HIV transmission, the primary option for prevention of disease spread is use by females of a gel product such as



Chief Executive's Operational Review



EMMELLE. We are collaborating with a group supported by the MRC and the EU in order to develop such a product and to date several initial clinical investigations have been conducted in the UK, where the product was found to be safe and well tolerated.

In addition, a small pre-clinical study co-ordinated by the MRC demonstrated that intra-vaginal application of EMMELLE reduced the infection rate following intra-vaginal exposure to a high dose of an HIV-like virus. These promising results provide support for conducting further Phase II and Phase III human clinical trials to demonstrate the safety and efficacy of EMMELLE in protecting women against HIV infection.

A large Phase II safety study in female volunteers conducted at St. Mary's Hospital, London and a centre in Antwerp, the object of which was to evaluate the gel containing high doses of the active ingredient DS in a sexually active European population, has been completed and the results will be presented at a US AIDS meeting in February.

This study will be followed early this year by further safety studies in an HIV positive population in two centres in Africa and Phase III evaluation of EMMELLE could start early next year, largely financed by public funds.

At a meeting of international scientists and public health officials, focussed on the development of microbicide products, held in London in November, both European and US representatives indicated that EMMELLE gel was one of the leading candidates for large scale clinical investigation. The low probability of development of effective vaccines has substantially increased the public health need for rapid development of products such as EMMELLE, which could limit the spread of HIV disease in developing countries, and at the same time be significant products for personal protection in developed markets.

The worldwide need for such a product has been receiving increasing publicity and independent market surveys have concluded that annual sales of a product such as EMMELLE could exceed \$1 billion. This has resulted in strong interest in licensing arrangements for the development and commercialisation of EMMELLE and currently we are in early stage negotiations.

Non Icodextrin Based Products -

Immunotherapeutics

GnRHi - an immunotherapeutic approach to the treatment of cancer.

GnRHi is a treatment for cancers whose growth is stimulated by the sex hormones of the body. When injected as a vaccine the treatment causes the production of antibodies which block the body's ability to produce testosterone and oestrogen, the male and female hormones. GnRHi is currently being evaluated as a treatment for late stage prostatic cancer in men.

GnRHi demonstrates several advantages over the current market leading products, the principal one of which is that it does not cause the initial painful surge in hormone levels which is a common feature of other treatments. Following completion of the initial Phase II dose escalation study, it was necessary to reformulate the vaccine to enable higher doses to be administered.

The Phase II dose escalation clinical study, with our reformulated vaccine, is proceeding to schedule, all patients having been treated with the low and intermediate doses. Patients at the highest dose have recently started treatment and the trial is anticipated to finish in April 2001. Encouraging antibody responses have been observed in the initial patients treated but the dosage chosen for Phase III evaluation will await the complete data set.

Published research literature continues to support the view that if the appropriate dose of vaccine can be achieved the desired clinical result will occur.

Prostate cancer is the second most common form of cancer in men and treatment of this disease by testosterone controlling drugs has created a global market valued at \$1 bn p.a.

Analgesia

DEVACADE and COLYKADE - for enhancing the pain relief produced by morphine.

Pre-clinical studies with DEVACADE and COLYKADE indicate that these compounds, which are new chemical entities, have the potential to reverse the tolerance that can develop to morphine, when used chronically for the relief of pain, and thus significantly improve the pain relieving activity of morphine whilst at the

same time reducing its unpleasant side effects.

The initial safety studies for both DEVACADE and COLYKADE have been successfully completed.

A Phase II dose ranging clinical study in patients with severe neuropathic pain has been completed with each of these compounds. In each of these studies two doses of each of the drugs were compared against placebo in their ability to improve the pain relieving action of morphine. A further study with DEVACADE is ongoing and will be completed in the Spring of 2001. Preliminary evaluation of the data from the first two studies suggests a beneficial effect of the CCK antagonists in alleviating the pain suffered by these patients who have previously responded poorly to existing therapies.

The exact nature of the next phase of clinical development of these compounds will be determined following the data analysis of the first two studies and an interim analysis of the second DEVACADE study which we anticipate will be available at the end of March. In the meantime administrative preparations are being made for a full scale Phase III development programme for one of the compounds.

There are currently no marketed products specifically targeted for neuropathic pain. Estimates of the global market potential are in excess of \$1bn p.a. and as the first ever orally administered products market penetration could be significant.

ULTRAMORPH - an analgesic for serious pain conditions

ULTRAMORPH is a uniquely synthesised known metabolite of morphine which is formed in the body each time morphine is administered as a drug.

Pre-clinical and some early human volunteer studies have demonstrated that ULTRAMORPH has greater pain relieving activity than morphine and that the serious side effects of morphine, such as respiratory depression and sedation, are reduced. The chemical characteristics of ULTRAMORPH prevent it from being administered in tablet form but we believe that this novel substance may be suitable for administration by one of our inhaler devices and formulations of the drug for administration by inhalation are currently being optimised.

Innovata Biomed Ltd

Respiratory Technologies Division

CLICKHALER - a breath activated multidose dry powder inhaler

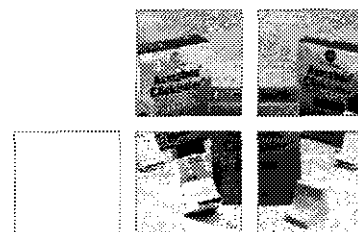
Clickhaler accurately meters individual doses of powder from a reservoir and in many respects operates in a fashion similar to a standard pressurised inhaler, without the need for environmentally harmful propellants and solvents. Clickhaler is easier for patients to use than the pressurised inhaler and unique features such as a dose counter give it a high patient acceptability rating. Clickhaler is particularly useful for the administration of various asthma drugs and Innovata Biomed Ltd (IB), our Respiratory Technologies subsidiary, has licensed CelltechMedeva with the European rights to Clickhaler, for use with four major respiratory drugs. The first two of which, salbutamol and beclomethasone, are amongst the largest prescribed asthma drugs, and are marketed by CelltechMedeva as Asmasal and Asmabec respectively.

Sales in the UK, the first market in which these products were launched, have shown encouraging growth recently which augurs well for future royalty income.

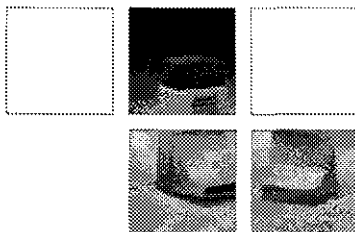
Marketing approvals have now been granted for both products in most European countries and the sequence of launch programmes is now being finalised.

I informed you in July that Bepak PLC, the contract manufacturer of Clickhaler, had completed the installation of an automated, high volume, dedicated Clickhaler manufacturing plant, thereby providing us with a capacity of 4 million inhalers p.a., and the ability to effect future significant scale-ups at minimal cost. This was a milestone event for IB as it clearly demonstrated the ability of our design to be scaled up to volume manufacture which as far as we are aware is a step yet to be achieved by other, independent, inhalation device companies.

Of equal importance was the completion of a number of the core clinical programmes required by the regulators to enable budesonide Clickhaler to be marketed in Europe. Clinical trials were conducted on over 800 patients in 80 centres and these studies, along with others still ongoing, will form the regulatory submission for this drug which generates sales of over £300M p.a. in the European market alone.



Chief Executive's Operational Review



Commercialisation agreements for Clickhaler were signed with Canadian and Moroccan distributors and negotiations are advanced with major Japanese companies for the right to promote Clickhaler in the Far East for both new chemical entities and generic drugs. Progress has also been made in targeting US companies with inhalation developments which could benefit from IB's device expertise. All of which confirms the need for such devices and underlines the value of IB's technology.

The intellectual property development has also been a focus of activity during the year with 18 patents filed in the period which will hopefully be a source of income in the future.

Inhaled Peptides and Proteins -

In September we announced a major collaboration with Vectura Ltd, a leading drug particle engineer, to develop new systemically active protein and peptide products capable of being administered without the need for injection. The four initial product candidates which have been selected on the grounds of commercial attractiveness and inhaler formulation suitability are currently marketed as injections generating worldwide sales of in excess of \$5 bn p.a.

Cobra Therapeutics Ltd

Gene Therapy Division

Products in Development -

Cobra specialises in the development of a new class of therapeutic products called DNA-based medicines that use the information contained in genes. Genes can be delivered to patients using a number of different vectors, including plasmid DNA, viruses and cells. We have the capability to use all three of these delivery mechanisms.

Our most advanced product, CTL102, uses a modified form of a relatively harmless human virus, adenovirus, that is associated with the common cold and we are using this system to develop new approaches to the treatment of cancer. Once injected into the tumour, CTL102 uses adenovirus to deliver a bacterial enzyme, nitroreductase, to the cancer cells in order to activate a harmless inactive chemical agent, CB1954, which is administered by separate intravenous injection to produce a powerful chemotherapeutic agent with the ability to kill cancer cells. This system has been shown to work very efficiently in experimental models of cancer. We have also shown in a Phase I study in

patients that CB1954 is well tolerated at doses that are sufficient to produce enough active drug to kill tumours once nitroreductase is present. We have now received all the necessary regulatory approvals to start clinical trials in man. The first Phase I/II trials are now underway in the UK and are designed to evaluate the safety, tolerance and efficacy of the combination in a variety of different tumours and our first targets include liver cancer, head and neck cancer and prostate cancer. Further clinical studies in European centres are expected to start later this year. This is the first occasion that this particular cell killing mechanism has undergone clinical trials. We are hopeful that the novelty of the product combined with the delivery vehicle will establish a platform from which a pipeline of gene therapy products can be developed for the treatment of other tumours and malignancies.

In addition to the above, research continues on a second potent cancer cell killing system, developed by ML, which employs the unique use of a well known drug and a specific metabolic enzyme system to effect the kill. The potent cancer destroying ability has been demonstrated in laboratory experiments. We will utilise the technology and expertise of the Cobra team to select the most appropriate method of selectively transferring the gene for the activating enzyme into tumour cells.

Recently we have been seeking ways to improve the efficacy and specificity of the adenoviral gene delivery system. We have achieved this by incorporating a specific regulatory element in front of the gene that only allows the expression of the gene in certain tumour cells. In principle, a product of this type could be administered into the blood or into body cavities such as the peritonea, thus avoiding the necessity to inject into the tumour. The first example of this new generation of product candidates using targeted chemotherapy is CTL501 which is in the stage of pre-clinical development. We are also researching new approaches to cancer killing that do not use chemical agents that are in the research stage.

In addition to chemotherapy, we are developing vaccine based approaches to the treatment of cancer based on the delivery of genes encoding tumour associated antigens to antigen presenting cells, known as dendritic cells. The modified dendritic cells are injected into patients in order to provoke a response that will use the patients' own immune response to kill any tumour cells. In order to achieve this objective Cobra has developed

new technology to efficiently deliver genes into dendritic cells using a unique system based on peptide sequences in the flu virus. Results with this system in pre-clinical models of melanoma are impressive and we are currently completing safety evaluation and product manufacture to enable the first clinical trial to start later this year.

Technology -

Cobra has developed and patented a wide range of technologies for use in the production of new biotechnology products. Although the primary use of this technology will be to develop our own products it is of great potential value to other companies and we have commenced an active out-licensing programme to maximise the near and long term value of our patents.

Cobra is particularly skilled in the development of technology for the expression of proteins from genes. During the year we entered into a number of research collaborations to explore the utility of the technology and the first of these has begun to produce commercial benefits for the company. We announced that a research collaboration with Coulter Pharmaceutical, a US biotechnology company, had shown that our expression technology based on Ubiquitous Chromatin Opening Elements [UCOE] had been useful in the production of a range of proteins, including the major therapeutic class known as antibodies, and that this could be used in their manufacture and analysis of function. As a result of this collaboration we have entered into an agreement to jointly develop and commercialise the technology for applications in the protein field. We received a licence fee of £1 million from Coulter for these rights and we expect that additional fees will be forthcoming over the next few years as agreed milestones are achieved. Both companies are now conducting a joint R&D programme to enhance the value of the technology and are seeking to license the technology to other companies on a worldwide basis. The UCOE technology allows substantial time saving, and therefore cost reduction, for the commercial synthesis of proteins and also allows substantially increased and prolonged gene expression. It is believed that the licensing of this technology will generate substantial revenues for Cobra in the near term in the form of licence fees and in the long term in the form of royalties on the sale of products using the technology.

Manufacturing -

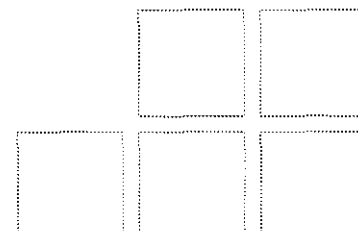
The last year has seen dramatic growth in the number of biological product candidates entering clinical development, both as a consequence of the unprecedented level of funding for US and European biotechnology companies, as well as the increase in information about the human genome. This has created an increased demand for custom manufacturing of new product candidates. Cobra's ability to manufacture to Good Manufacturing Practice [GMP] standard plasmid DNA, viral products and proteins leaves it well placed to take advantage of this demand. The company also has patented technology for use in the design of these new therapeutic products. During the year, revenues from external manufacture grew nearly four-fold on an annualised basis and we have started the new year with a full order book consequently we expect the business to continue to grow substantially this year and to support this growth we are in the process of increasing capacity by 100%.

During the year a number of product candidates manufactured by Cobra entered clinical evaluation in the US and Europe including both our own adenoviral product, CTL102, and a novel vaccine for the treatment of AIDS supported by the International AIDS Vaccine Initiative (IAVI). This latter product is the first to use our new ORT technology for plasmid DNA manufacture that eliminates the need for antibiotics in the production process. There is a regulatory and long-term safety concern regarding current procedures that require the antibiotic treatment and the use of resistance genes. Cobra's enabling technology has the potential to become a regulatory standard requirement and as such may prove very important to the biotechnology industry where it has drug, food and veterinary applications.

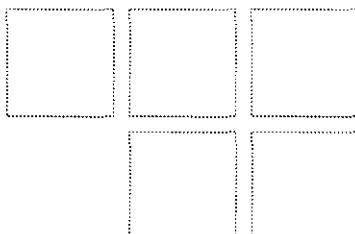
Our facility was inspected by the Medicines Control Agency during the year and shown to comply with Good Manufacturing Practice for the manufacture of biological products. We believe that it is one of the few such facilities in Europe able to produce plasmid DNA for clinical use at the scale and quality that will be required to support the development of this new generation of therapeutic products.

Pre-Clinical Research -

We are hopeful that our collaboration with a number of academic and commercial organisations on the evaluation of some novel therapeutic ideas will provide us with several future new products. Whilst each project is 'early



Chief Executive's Operational Review



stage' they all continue to show promise and remain capable of producing a product of significant value.

Polymer Therapeutics -

Academic collaborations continue for the development of novel anti-cancer agents, utilising Icodextrin as a polymer backbone to enable cancer cells to be preferentially targeted and, as a consequence, reduce side effects. Specific polymer constructs have been produced and testing is ongoing to evaluate selective uptake of these molecules into specific body tissues. Tissue distribution experiments with these novel constructs have demonstrated that the lymph system can be targeted by intra-peritoneal administration of these large anti-cancer molecules.

Our Polymer Therapeutics project has produced evidence of tumour targeting for dextrin constructs of a specific chemotherapeutic agent. Furthermore, a novel construct with an antimicrobial agent has demonstrated significantly improved solubility and efficacy in laboratory experiments and this construct is currently the subject of definitive testing in a specific animal model of serious infection.

Interesting data from this project regarding the preparation of conjugates between Icodextrin, dextrin sulphate and the potent antimicrobial agent, amphotericin B, were presented at the British Pharmaceutical Conference in September of this year. These studies have led to a patent application and during the current year we plan to evaluate these compounds in additional pre-clinical models.

Immunotherapy for Xenograft Rejection

In collaboration with Professor Robert Lechler and his colleagues at the Department of Immunology, Imperial College School of Medicine, we are supporting a project to evaluate the possibility of using vaccine type products to inhibit the rejection of organs transplanted from one species to another. During the past year the scientists have evaluated immunotherapeutic products against one of the rejection factors. Data from this project have been presented at an International Immunology meeting and published in the scientific journal *Nature Immunology* and have also been the subject of a patent application. The research has demonstrated improved survival of pancreas cells transplanted from pigs to mice when the mice were pre-treated with a novel

immunotherapeutic vaccine. This approach known as donor specific co-stimulatory blockade, offers the potential major benefit of removing the need for long term immunosuppression following transplantation.

The findings offer a novel solution in the battle to get foreign organs accepted by human bodies which may help solve the problem of the huge shortage of donor organs across the world. A number of companies specialising in transplantation have been contacted regarding collaboration on further development of this technology and discussions in this regard are ongoing.

Cell Targeting

Our recent collaborative partnership with the University of York has resulted in a collaborative agreement with the inventors through our subsidiary company, Bioinnovation Ltd., to evaluate a novel method of targeting drugs to specific cell types. Although at an early stage, patents have been filed and experimental evidence is encouraging.

S W Sim

Chief Executive 23rd January 2001

Financial Review

For the year ended 30th September 2000

Turnover, which includes fees from licensing, evaluation and development agreements, royalty income and product sales, increased by £2.45M to £11.94M of which £1.5M was contributed by Cobra Therapeutics Limited since its acquisition in March 2000. Licensing, evaluation and development fees of £2.5M (1999: £2.13M) included receipts from Celltech in respect of the second European approval of the Asmabec Clickhaler and from Coulter Pharmaceutical on the licensing of Cobra's UCOE technology. Such "milestone" receipts are triggered by regulatory or commercial events under the terms of our agreements with third parties and therefore will remain irregular in timing and subject to significant variation from one period to another. Royalty income increased to £2.78M (1999: £1.76M) reflecting continued growth in royalties from Baxter's sales of Extraneal. Pharmaceutical product sales rose to £5.19M (1999: £3.98M) and included for the first time DNA manufacturing income at Cobra and initial sales of ADEPT as well as income in respect of sales of Icodextrin to Baxter and Clickhalers to Celltech.

The increase in Group turnover resulted in an increase in gross profit to £7.22M compared with £5.04M in the previous year.

Research and development expenditure rose by £3.41M to £9.27M, of which £1.81M was in respect of Cobra, with the remainder of the increase relating mainly to increased spending on the M.L. Pharmaceutical late stage development portfolio and development work on additional Clickhaler products under Innovata Biomed's second licence agreement with Celltech.

The launch of ADEPT during the year meant that for the first time selling and distribution costs have become significant at £1.32M, compared with £0.42M in the previous year. Administrative expenses increased by £2.39M to £8.33M of which £0.92M was in respect of Cobra with the balance of the increase relating principally to growth in staff numbers and costs, option and advisory fees, additional depreciation and goodwill amortisation.

The operating loss for the year was £11.70M (1999: £7.19M) including £1.38M in respect of Cobra, and after net interest costs the loss for the year was £11.81M compared with £6.9M for the previous year.

Net assets at 30th September 2000 were £16.37M compared with £6.0M at 30th

September 1999. The increase represents the fair value of the shares issued in connection with the acquisition of Cobra of £10.46M, shares issued on the exercise of Directors share options of £0.24M and the placing of shares for cash of £11.48M, net of expenses, less the loss for the year of £11.81M.

The acquisition of Cobra resulted in the consolidation of additional net assets on the date of acquisition of £4.44M and the creation of goodwill of £5.92M, representing the difference between the fair value of the shares issued as consideration and the fair value of the net assets acquired, after adjusting for acquisition costs of £0.3M and the cash element subscribed for M.L. Laboratories PLC shares by Cobra option holders of £0.4M. The goodwill on acquisition is being amortised over 20 years.

Our cash balances at the start of the year were £5.69M. These were supplemented during the year by the draw-down of our revolving credit facility with Rothschild of £7.5M, the benefit of the cash held by Cobra on the date of acquisition, net of acquisition expenses, of £4.09M and the net proceeds of the issue of ordinary shares for cash under the share placing in July and on the exercise of share options totalling £11.73M. Cash consumed by operations, net interest charges, capital expenditure and net finance lease payments amounted to £14.16M leaving cash balances at the 30th September 2000 of £14.85M.



P J Shennan

Finance Director 23rd January 2001

Directors, Secretary and Advisers

Directors

K R Leech (Chairman)
S W Sim (Chief Executive)
Dr. R N Boyes
Dr. C B Brown
Prof. D S Davies (Non-Executive)
Prof. A D Dayan (Non-Executive)
G P Fothergill
Dr. T Medinger (Non-Executive)
P J Shennan

Secretary and registered office

David Smith, Stringer Saul,
17 Hanover Square, London, W1S 1HU.

Principal bankers

HSBC Bank PLC, Library Place, St. Helier, Jersey,
Channel Islands.

N M Rothschild & Sons Ltd,
82 King Street, Manchester, M2 4WQ.

Registrars and transfer office

Capita IRG PLC, Balfour House,
390/398 High Road, Ilford, Essex, IG1 1NQ.

Registered auditors

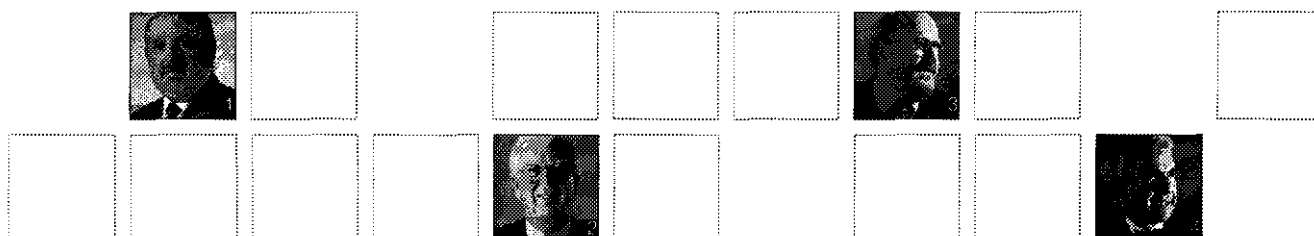
PricewaterhouseCoopers, Chartered Accountants,
8 Princes Parade, St. Nicholas Place, Liverpool,
L3 1QJ.

Stockbroker

WestLB Panmure Ltd, New Broad Street House,
35 New Broad Street, London, EC2M 1SQ.
Member of S.F.A.

ML Laboratories PLC Registered in England & Wales No.2148607

Directors



K R Leech

Chairman (Age 57)

Kevin Leech is the co-founder of the Company and controls 48.6% of the equity. 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 a Director and shareholder in several US-quoted Technology companies. 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 as provider of private venture capital. Mr. Leech holds an Honorary Doctorate of Laws degree from the University of Manchester.

Dr. R N Boyes, PhD

Group Director of R&D (Age 60)

Nick Boyes joined the Group in 1990 when it acquired 75% of the equity of his Company, Innovata Biomed Ltd. and he became a Director of the Company in 1993. He has over 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. He is an expert in respiratory diseases and is the inventor of several of the Group's respiratory products. Nick is responsible for co-ordinating research and regulatory policy and strategy on a group-wide basis, providing scientific evaluation of new product opportunities and seeking and evaluating new research initiatives. Dr. Boyes holds a number of other non-executive directorships.

S W Sim, FCA

Chief Executive (Age 49)

Stuart Sim qualified as a Chartered Accountant in 1975 following which he held a number of senior financial and general management positions in a variety of industries. He joined the Company as Finance Director in 1988 and he was appointed Chief Executive in June 1997.

Dr. C B Brown, BSc, MD, FRCP

Medical Director (Age 58)

Colin Brown joined the Group from the 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 and Hon. Senior Lecturer at the University of Sheffield Medical School and Teaching Hospital Trust. 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. He has published over 180 articles in scientific journals and been a visiting Professor to a number of academic institutions in Europe and the USA. Dr. Brown was the independent medical expert who provided the written opinion in the Company's prospectus in 1987.



5 Prof. D S Davies, BSc, PhD, FRSC, FRCPath, FRCP

Non-Executive Director (Age 60)

Donald Davies is Professor of Biochemical Pharmacology and Director of Clinical Pharmacology at Imperial College School of Medicine at Hammersmith Hospital, London. He is a former 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. 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 is the inventor of several of the Group's products. 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.

6 G P Fothergill, BA, FCIM

Director (Age 55)

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

7 P J Shennan, BA, FCA, MSI

Finance Director (Age 50)

Peter Shennan became Finance Director in 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.

8 Prof. A D Dayan, MD, FRCP, FRCPath

Non-Executive Director (Age 65)

Anthony Dayan joined the Board in March 1998. He is a leading toxicologist and has published 150 research papers and edited or contributed to almost 50 books on toxicology, drug development, pathology, neuropathology and the risk sciences. He has been a member of a number of UK and other government advisory committees including the Medicines Commission, an adviser to the World Health Organisation and a consultant on toxicology biotechnology and drug development to UK, European, US and Japanese pharmaceutical companies. Professor Dayan was Professor of Toxicology at St Bartholomew's and the Royal London School of Medicine and Dentistry, London until 1st October 1998. Prior to that he was with the Wellcome Foundation for eleven years where, latterly, he held the position of Group Adviser in Toxicology and Project Co-ordinator for the Group R & D Director.

9 Dr. T Medinger MA, DPhil (Oxon)

Non-Executive Director (Age 60)

Till Medinger joined the Board in March 1999. He was until recently Senior VP Corporate Strategy at AstraZeneca PLC and formerly Zeneca Pharmaceuticals International Business Director. As its International Marketing Director he oversaw the launch of several products now enjoying major global success. He was President of the Association of the British Pharmaceutical Industry from 1994 to 1996 and served on the Boards of both the European and the International Pharmaceutical Industry Federations. His business career has spanned research and development, licensing and acquisition, strategic planning and territorial and marketing management. He is a member of the Central Research and Development Committee for the NHS, and non-executive Director of Peptech Ltd and Renovo Ltd and acts as corporate consultant to a number of emerging US high-tech companies.

The Directors present their Annual Report and the audited Group financial statements for the year ended 30th September 2000.

Principal activities

To date, the Group has successfully developed and commercialised a small number of its ethical pharmaceutical products. It continues to expand and develop its portfolio of such products and its other products and patented technologies with a view to commercialising them on a world wide basis. The Group also provides educational training for the pharmaceutical and biotechnology industries. During the year the Group's activities were expanded by the acquisition of Cobra Therapeutics Limited.

Business review

The Chairman's Statement, the Operational Review and the Financial Review on pages 2 to 17 should be read in conjunction with this Directors' Report as they include 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 loss on ordinary activities before taxation amounted to £11,811,975 (1999 £6,898,401). The Group loss for the year after taxation and minority interests of £11,811,975 has been added to the deficit brought forward on profit and loss account reserves as shown in note 18 on page 45. The Directors do not recommend the payment of a dividend.

Research and development

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

The loss for the year is stated after charging research and development expenditure of £9,269,346 (1999 £5,862,139).

Post balance sheet events

On 17th January 2001 the Group entered into a subscription agreement with Elliot International LP and The Liverpool Limited Partnership, both funds managed by Elliot Associates LP, ("the Investors") under which, subject to the approval of the shareholders of M.L. Laboratories PLC and certain other conditions, the Group may require the Investors to subscribe £6M for convertible debentures in the Company provided that the volumes of trading in the Company's shares and the share price are above specified levels. Subject to certain additional conditions, the Group may require the Investors to subscribe for a further £6M. In addition there are provisions under which up to a further £9M may be subscribed at the option of the Investors, or in certain circumstances, the Group.

Directors

The Directors who held office during the year were :

K. R. Leech (Chairman)
S. W. Sim (Chief Executive)
Dr. R. N. Boyes
Dr. C. B. Brown
Prof. D. S. Davies (Non-Executive)
Prof. A. D. Dayan (Non-Executive)
G. P. Fothergill
Dr. T. Medinger (Non-Executive)
P. J. Shennan

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

Details of the Directors' service contracts are shown in the Remuneration Report on pages 24 to 27.

Directors' share options

Details of the Directors' Share Options are shown in the Remuneration Report on pages 24 to 27.

Directors' interests

The interests (beneficial unless otherwise stated) in the shares of the Company of the Directors who held office at 30th September 2000, were as follows:

	2000 Number of Ordinary Shares	1999 Number of Ordinary Shares	2000 Percentage of Ordinary Share Capital	1999 Percentage of Ordinary Share Capital
K.R. Leech	76,503,995*	76,461,950*	48.60%	52.75%
S.W. Sim	223,604**	50,625**	0.14%	0.03%
Dr.R.N.Boyes	38,500	38,500	0.02%	0.03%
Dr.C.B.Brown	352,415	352,415	0.22%	0.24%
Prof. D.S. Davies	252,180	288,180	0.16%	0.20%
Prof. A.D. Dayan	7,500	7,500	-	0.01%
G.P. Fothergill	5,450	5,450	-	-
P.J. Shennan	1,000	1,000	-	-

On 10th November 2000, S. W. Sim and Professor D. S. Davies exercised options over 615,965 and 96,045 ordinary shares respectively, all at a subscription price of £0.41 per share. Professor Davies subsequently sold 55,000 of these shares.

*Milner Laboratories Limited, a company registered in Jersey, C. I., is the beneficial owner of 76,492,995 Ordinary Shares representing approximately 49% of the Company's issued share capital. Mr. Leech is a Director of 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 11,000 shares (1999 11,000 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 30th September 2000, Dr. R. N. Boyes owned 7,500 shares in Innovata Biomed Limited (1999 7,500 shares) representing 18.75% of that company's issued share capital. Innovata Biomed Limited is a subsidiary of the Company. Dr Boyes also owned 375 shares in Healthcare Education Services Limited (1999 Nil shares) representing 18.75% of that company's issued share capital. Healthcare Education Services Limited is a subsidiary of the Company.

At 23rd January 2001 there had been no change to the Directors' interests in the Ordinary Shares of the Company from those disclosed above.

There were no contracts of significance subsisting during the period under review between the Company, or any 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 any 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 31 on page 49.

Substantial interests

In addition to those disclosed above, as at 23rd January 2001, the Company has been notified of the following interests in 3% or more, or in the case of fund managers, 10% 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
Legal & General Investment Management Ltd	5,781,398	3.67

Creditor payment policy

The Group's policy in relation to the payment of its creditors is to make payments in accordance with appropriate payment terms for each business transaction. At 30th September 2000 trade creditors for the Group represented 52 days of amounts invoiced by suppliers (1999 72 days) and for the Company represented 57 days (1999 79 days).

Annual general meeting

The 2001 Annual General Meeting of the Company will be held at the Institute of Directors, 116 Pall Mall, London, SW1Y 5ED on Thursday, 8th March 2001 at 11.00am. Formal notice of the meeting is contained in a separate circular to shareholders which accompanies this document.

Charitable and political donations

During the year the Group made no charitable donations (1999 £Nil) and no contributions were made to political organisations (1999 £Nil).

Environmental, health and safety policies

The Group's objective is to bring quality to life through the commercialisation of its products. In doing so it seeks to apply working practices designed to minimise the impact of its operations on the environment. It also seeks to maintain high standards of health and safety for the Group's employees by meeting or exceeding the requirements of relevant regulations.

Euro

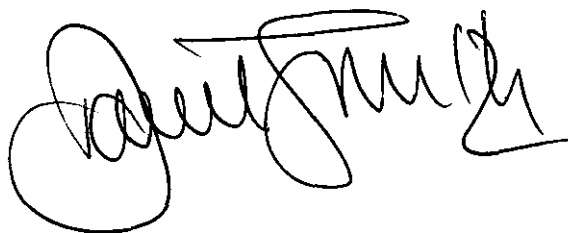
The introduction of the Euro as from 1st January 1999 has not had any material impact on the Group's current operations and no significant incremental costs are expected to arise therefrom.

Auditors

A resolution to re-appoint the Registered Auditors, PricewaterhouseCoopers, will be proposed at the Annual General Meeting.

By order of the board

David Smith, Secretary,
17 Hanover Square, London, W1S 1HU.
23rd January 2001.

A large, stylized handwritten signature in black ink, likely belonging to David Smith, the Secretary.

The Remuneration Committee comprises the independent Non-Executive Directors on the Board, Dr. T. Medinger and Professor A. D. Dayan and is chaired by Dr. Medinger. The principal function of the Committee is to determine the remuneration of Executive Directors. The remuneration of Non-Executive Directors is determined by the Board. The Remuneration Report is set out below.

Directors' remuneration

The information on Directors' remuneration should be read in conjunction with the Directors' Report and note 7 on page 40 which also constitute part of this Remuneration Report.

	Basic Salary £000	Bonus £000	Taxable Benefits £000	Pension Contributions £000	Fees £000	Total 2000 £000	Total 1999 £000
Executive Directors							
K.R. Leech	197	-	20	29	-	246	227
S.W. Sim	234	-	20	35	-	289	279
Dr. R.N. Boyes	157	-	10	23	-	190	173
Dr. C.B. Brown	139	-	11	21	-	171	158
G.P. Fothergill	174	65	15*	27	-	281	264
P.J. Shennan	122	15	12	19	-	168	137
Non-Executive Directors							
Prof. D.S. Davies	-	-	13	-	82	95	89
Prof. A.D. Dayan	-	-	-	-	33	33	29
Dr. T. Medinger	-	-	-	-	23	23	12

* The cost of the provision of these items for Mr. Fothergill is charged to the Group through a limited company controlled by him.

The remuneration of Directors comprises the following four elements:

Basic salary

A salary which reflects the market rate for each position 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 of a car, including fuel benefit, and private medical insurance, where applicable.

Share options

Executive share options are granted to Directors, other than the independent Non-Executive 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 below, are not included in the remuneration details given above.

Bonus

The bonuses paid to Mr. Fothergill and Mr. Shennan, which were not pensionable, were performance based and specifically in relation to the progress made in the commercialisation of the Company's products and the acquisition of Cobra Therapeutics Limited, respectively.

Pension arrangements

The Company currently makes pension contributions equal to 15% of salary for Executive Directors, all of whom are members of the M. L. Laboratories PLC Staff Non-Contributory Pension Scheme, a defined contribution scheme, details of which are given in note 26 on page 48, with the exception of Mr. Fothergill, whose contributions are paid into his own pension scheme.

Service contracts

Each of Mr. Leech, Mr. Sim, Dr. Boyes and Mr. Fothergill has a service contract which is terminable by the Company on two years notice. Each of Mr. Shennan and Dr. Brown has a service contract with the Company which is terminable by the Company on not less than one and not more than two years notice. The Company is obliged to compensate a Director if his contract is terminated with less than the specified notice periods. Where possible, the Company would mitigate the cost of termination by negotiation.

The service contracts of Mr. Leech, Mr. Sim, Dr. Boyes and Mr. Fothergill each contain a term which entitles the relevant individual, within six months after a change of control of the Company, to serve three months notice of termination of his service contract and, on expiry of that notice, to receive a termination payment equal to twice his annual salary at the time of termination.

The Company has awarded certain Directors service contracts in excess of one year where it has been necessary to do so in order to attract and retain those executives, in competition with larger and more established companies.

Non-executive directors

The Non-Executive Directors receive fees which are determined by the Board. Professor Davies has had a consultancy agreement since 1992 which reflects his role in inventing new product opportunities for the Group on a royalty free basis and which operates on three months notice. Professor Dayan and Dr. Medinger are subject to a notice period of one month.

Retirement by rotation

All Directors are subject to the requirements of the Articles of Association relating to retirement by rotation. It is proposed to amend these at the forthcoming Annual General Meeting to ensure that they result in a requirement to be re-elected at least every three years.

Directors' share options

Share options have been granted to Directors under two schemes, being the M. L. Laboratories PLC Executive Share Option Scheme, which was set up originally in 1989, and the M. L. Laboratories PLC 1999 Executive Share Option Scheme.

The M. L. Laboratories PLC Executive Share Option Scheme is administered by the Board of Directors and governed by the Scheme rules. The Scheme, which was adopted in 1989, had a fixed life of 10 years and no further options may now be granted under it. The maximum number of ordinary shares which could be issued on the exercise of options granted under the Scheme was 5% of the issued ordinary share capital of the Company. The Scheme was available to such Directors and full-time employees of the Company and its subsidiaries as were invited to participate by the Board of Directors. Options could not be granted to an individual (other than a Director of the Company or one of its subsidiaries) if the total subscription price exceeded four times his/her annual emoluments. The price at which a participant may acquire ordinary shares is 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.

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

Name of Director	Date of Grant	Subscription Price	Number of Options	Exercise Date	Expiry Date
K. R. Leech	05/08/92	£1.36	146,410	05/08/95	05/08/02
	24/08/93	£2.02	19,801	24/08/96	24/08/03
	26/08/94	£2.03	49,261	26/08/97	26/08/04
	04/09/95	£1.70	35,294	04/09/98	04/09/05
	23/07/96	£3.73	3,753	23/07/99	23/07/06
	09/02/98	£1.25	228,800	09/02/01	09/02/08
	06/07/98	£0.89	39,548	06/07/01	06/07/08
	08/03/99	£1.07	50,000	08/03/02	08/03/09

572,867

S. W. Sim	23/08/91	£0.90	44,245	23/08/94	23/08/01
	05/08/92	£1.36	29,280	05/08/95	05/08/02
	24/08/93	£2.02	19,801	24/08/96	24/08/03
	26/08/94	£2.03	39,408	26/08/97	26/08/04
	04/09/95	£1.70	23,529	04/09/98	04/09/05
	23/07/96	£3.73	36,676	23/07/99	23/07/06
	09/02/98	£1.25	412,560	09/02/01	09/02/08
	06/07/98	£0.89	39,548	06/07/01	06/07/08
	08/03/99	£1.07	50,000	08/03/02	08/03/09

695,047

Remuneration Report

Name of Director	Date of Grant	Subscription Price	Number of Options	Exercise Date	Expiry Date
Dr. R. N. Boyes	05/08/92	£1.36	131,770	05/08/95	05/08/02
	24/08/93	£2.02	39,603	24/08/96	24/08/03
	26/08/94	£2.03	19,704	26/08/97	26/08/04
	04/09/95	£1.70	23,529	04/09/98	04/09/05
	23/07/96	£3.73	3,190	23/07/99	23/07/06
	09/02/98	£1.25	118,480	09/02/01	09/02/08
	06/07/98	£0.89	51,977	06/07/01	06/07/08
	08/03/99	£1.07	50,000	08/03/02	08/03/09
			438,253		
Dr. C. B. Brown	06/01/97	£2.29	209,606	06/01/00	06/01/07
	09/02/98	£1.25	2,880	09/02/01	09/02/08
	06/07/98	£0.89	27,571	06/07/01	06/07/08
	08/03/99	£1.07	50,000	08/03/02	08/03/09
			290,057		
Prof. D. S. Davies	23/08/91	£0.90	11,060	23/08/94	23/08/01
	05/08/92	£1.36	14,640	05/08/95	05/08/02
	24/08/93	£2.02	9,900	24/08/96	24/08/03
	04/09/95	£1.70	11,765	04/09/98	04/09/05
	23/07/96	£3.73	2,159	23/07/99	23/07/06
	09/02/98	£1.25	43,094	09/02/01	09/02/08
	06/07/98	£0.89	15,911	06/07/01	06/07/08
	08/03/99	£1.07	50,000	08/03/02	08/03/09
			158,529		
G. P. Fothergill	06/01/97	£2.29	262,008	06/01/00	06/01/07
	09/02/98	£1.25	153,600	09/02/01	09/02/08
	06/07/98	£0.89	304,520	06/07/01	06/07/08
	08/03/99	£1.07	50,000	08/03/02	08/03/09
			770,128		
P. J. Shennan	09/02/98	£1.25	320,000	09/02/01	09/02/08
	06/07/98	£0.89	22,599	06/07/01	06/07/08
	08/03/99	£1.07	50,000	08/03/02	08/03/09
			392,599		

The following gains were made by individual Directors from the exercise of share options during the year ended 30th September 2000. The gains are calculated as at the exercise date, although the shares may have been retained. The market price of the Company's shares at the date of exercise was £1.54.

Name of Director	2000 £	1999 £
S. W. Sim	135,020	-
Prof. D. S. Davies	129,012	-
Total gains on share options	264,032	-

The M. L. Laboratories PLC 1999 Executive Share Option Scheme (the 1999 Scheme) is administered by the Board of Directors and governed by the 1999 Scheme Rules. Adopted in 1999, there are two parts to it, an "Approved" element, which has been approved by the Inland Revenue, and an "Unapproved" part which is intended primarily to be used where Executives have more than £30,000 worth of outstanding approved options. The 1999 Scheme has a fixed life of ten years. Under the Approved part, options are available only to full time Directors and employees; under the Unapproved part, options may also be granted to other Directors. Basic options may not be granted to an individual if the total subscription price for those and all other share options granted to him/her in the preceding ten years exceeds four times his/her annual emoluments; that limit is increased to

eight times in respect of "super options", that is, options the exercise of which is subject to particularly challenging performance criteria. The price at which a participant may acquire ordinary shares is to be not less than the higher of nominal value and the mid-market quotation on the date of grant. Options may be exercised only on the satisfaction of the associated performance conditions (which are, in relation to basic and super options, that the share price shall double and treble respectively) and may not be exercised generally earlier than the third anniversary (or, in the case of super options, the fifth anniversary) of the date of grant, and no option may be exercised more than ten years from the date of grant. The maximum number of ordinary shares which may be issued under the 1999 Scheme is 10% of the issued ordinary shares, of which not more than 5% must be basic options. The total number of options (including those under the earlier scheme) which may be granted in any five year period is limited to 5% of the issued ordinary share capital, and the number of basic options which may be issued under the scheme in the first four years of its existence is limited to 4% of the issued ordinary share capital. The 1999 Scheme makes special provision for the grant of options to newly recruited members of staff.

Certain changes are proposed to be made to the 1999 Scheme to reflect recent changes in market practice. Full details of those changes are contained in the circular which accompanies this document and will be submitted to shareholders for their approval at the forthcoming Extraordinary General Meeting to be held on 8th March 2001.

The Directors have been granted options over the ordinary shares of 1p each of the Company under the M. L. Laboratories PLC 1999 Executive Share Option Scheme as follows:-

	Date of Grant	Subscription Price	Number of Options	Exercise Date	Expiry Date
K. R. Leech	20/08/99	£1.40	23,571	20/08/04	20/08/09
			23,571		
S. W. Sim	20/08/99	£1.40	113,571	20/08/04	20/08/09
			113,571		
Dr. R. N. Boyes	20/08/99	£1.40	1,106	20/08/02	20/08/09
	20/08/99	£1.40	37,466	20/08/04	20/08/09
			38,572		
Dr. C. B. Brown	20/08/99	£1.40	16,429	20/08/04	20/08/09
			16,429		
Prof. D. S. Davies	20/08/99	£1.40	9,643	20/08/04	20/08/09
			9,643		
G. P. Fothergill	20/08/99	£1.40	29,286	20/08/04	20/08/09
			29,286		
P. J. Shennan	20/08/99	£1.40	28,571	20/08/04	20/08/09
			28,571		

No options lapsed during the year. The market price of the shares at 30th September 2000 was £1.375 and the range during the financial year was £1.375 to £2.74.

The Group has applied the principles set out in Section 1 of the Combined Code as explained below. In doing so it has complied with the provisions of Section 1 of the Combined Code with the following exceptions. As explained in the Remuneration Report, certain Executive Directors have contracts with notice periods of more than one year. In view of the small size of the Board, a Nomination Committee has not been established to deal with the appointment of new Directors and this function is exercised by the Board.

The Board comprises the Chairman, Chief Executive, four other Executive Directors and three Non-Executive Directors, of whom two, Professor A. D. Dayan and Dr. T. Medinger, are considered to be independent Non-Executive Directors. Dr. T. Medinger, who acts as Chairman of both the Remuneration and Audit Committees, has been nominated as senior independent Director. The Board meets regularly, normally six times a year, to consider appropriate matters, including matters specifically reserved to the Board for consideration. All Directors are provided with the necessary information to enable them to carry out their duties and have access to the Company Secretary and to independent professional advice at the Company's expense.

The Board has established a Remuneration Committee comprising the independent Non-Executive Directors, Professor A. D. Dayan and Dr. T. Medinger, to determine matters relating to the remuneration of Executive Directors, and an Audit Committee, comprising these individuals and Professor D. S. Davies, the third Non-Executive Director, to discuss the work of the Auditors and the adequacy of internal controls. Both of these Committees have written terms of reference.

Report on internal financial control

Following the publication on 27th September 1999 of the Turnbull Report on the review of internal controls the Board has established procedures to implement its guidance, effective from 1st October 2000, involving the identification of, and allocation of responsibility for, risks and the regular reporting and review of risks and their management. In the meantime the Board continues to report on internal financial control as set out below, in accordance with the transitional approach as permitted by the London Stock Exchange.

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 Group's system of internal financial control and its environment for the year ended 30th September 2000 and the period from 30th September 2000 to the date of approval of these financial statements. An internal control framework can only provide reasonable, not absolute, assurance against material misstatement or loss. The main features of the internal control framework implemented are :

Financial reporting

There is a detailed budgeting system with a two year rolling budget of trading results, cash flow and balance sheet positions on a monthly basis, approved by the Board and updated regularly during the year. 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. Further detailed financial information is also provided on a monthly basis. In addition, a rolling ten year strategic projection of income anticipated from product commercialisation is reviewed and approved by the Board.

Treasury management

The treasury function is operated within Board-approved guidelines. Facilities are approved by the Board and all transactions are controlled and monitored. Cash balances are monitored on a daily basis 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 this 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.

Going concern

The Directors have a reasonable expectation that the Group will have 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.

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

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

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

Kevin R. Leech

Chairman

23rd January 2001

We have audited the financial statements on pages 31 to 50 which have been prepared under the historical cost convention and the accounting policies set out on pages 35 to 36.

Respective responsibilities of directors and auditors

The Directors are responsible for preparing the Annual Report. As described on page 29, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and our profession's ethical guidance.

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

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the statement on page 28 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its risk and control procedures.

Basis of audit 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 Company'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 2000 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


PricewaterhouseCoopers

Chartered Accountants and Registered Auditors, Liverpool

23rd January 2001

Consolidated Profit & Loss Account

for the year ended 30th September 2000

	NOTES	2000 £ Continuing operations	2000 £ Acquisition	2000 £ Total	1999 £
Turnover	2	10,437,209	1,505,989	11,943,198	9,487,070
Cost of sales		(4,602,036)	(116,765)	(4,718,801)	(4,449,343)
Gross profit		5,835,173	1,389,224	7,224,397	5,037,727
Research and development expenditure		(7,455,775)	(1,813,571)	(9,269,346)	(5,862,139)
Selling, marketing and distribution costs		(1,291,497)	(28,290)	(1,319,787)	(422,464)
Administrative expenses		(7,410,604)	(923,063)	(8,333,667)	(5,940,392)
Operating loss		(10,322,703)	(1,375,700)	(11,698,403)	(7,187,268)
Investment income	3	459,130	31,536	490,666	528,260
Interest payable	4	(600,405)	(3,833)	(604,238)	(239,393)
Loss on ordinary activities before taxation	2, 5	(10,463,978)	(1,347,997)	(11,811,975)	(6,898,401)
Taxation	6	-	-	-	-
Loss on ordinary activities after taxation		(10,463,978)	(1,347,997)	(11,811,975)	(6,898,401)
Minority interests		-	-	-	-
Loss for year	18(a)	(10,463,978)	(1,347,997)	(11,811,975)	(6,898,401)
Loss per ordinary share	22			(7.93)p	(4.76)p

As explained in Note 1, the Company acquired Cobra Therapeutics Limited ("Cobra") during the year. The Group has presented the profit and loss account for the year ended 30th September 2000 in columnar form to illustrate the effect of the acquisition on the results.

The analysis by column is defined as follows :

"Continuing operations" reflects the results of the Group, excluding Cobra, for the year ended 30th September 2000.

"Acquisition" reflects the trading results of Cobra from its date of acquisition, 21st March 2000, to 30th September 2000.

"Total" reflects the combined results for the year ended 30th September 2000 for the continuing operations and the results of Cobra from acquisition to 30th September 2000.

Amounts shown above for the year ended 30th September 1999 are all in respect of the continuing operations.

There were no recognised gains or losses other than those shown in the above profit and loss account and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the loss on ordinary activities before taxation and the loss for the year stated above, and their historical cost equivalents.

Consolidated Balance Sheet

at 30th September 2000

	NOTES	2000 £	1999 £
Fixed Assets			
Intangible assets	8	5,773,041	-
Tangible assets	9	4,526,323	3,948,220
Investments	10	62,647	29,377
		10,362,011	3,977,597
Current Assets			
Stocks	11	877,724	1,065,996
Debtors	12	5,581,958	3,146,153
Investments	13	3,560	3,560
Cash at bank and in hand	14	14,853,502	5,686,233
		21,316,744	9,901,942
Current Liabilities			
Creditors: amounts falling due within one year	15(a)	(6,377,418)	(6,068,928)
Net Current Assets		14,939,326	3,833,014
Total Assets less Current Liabilities		25,301,337	7,810,611
Creditors: amounts falling due after more than one year	15(b)	(8,926,537)	(1,812,424)
Net Assets		16,374,800	5,998,187
Capital and Reserves			
Share capital	17,18	1,574,166	1,449,573
Share premium account	18(a)	36,202,186	22,474,088
Merger reserve	18(a)	8,335,897	-
Profit and loss account	18(a)	(29,737,449)	(17,925,474)
Equity Shareholders' Funds	18(a)	16,374,800	5,998,187
Minority interests		-	-
		16,374,800	5,998,187

The financial statements on pages 31 to 50 were approved by the Board of Directors on 23rd January 2001 and were signed on its behalf by:

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



Parent Company Balance Sheet

at 30th September 2000

	NOTES	2000 £	1999 £
Fixed Assets			
Tangible assets	9	2,445,257	2,679,351
Investments	10	14,620,744	4,228,280
		17,066,001	6,907,631
Current Assets			
Stocks	11	171,290	213,989
Debtors – due within one year	12	2,196,732	1,887,975
Debtors – due after more than one year	12	4,995,286	8,869,980
Investments	13	3,560	3,560
Cash at bank and in hand	14	23,356,594	13,078,361
		30,723,462	24,053,865
Current Liabilities			
Creditors: amounts falling due within one year	15(a)	(3,554,703)	(3,629,216)
Net Current Assets		27,168,759	20,424,649
Total Assets less Current Liabilities		44,234,760	27,332,280
Creditors: amounts falling due after more than one year	15(b)	(8,859,956)	(1,794,213)
Net Assets		35,374,804	25,538,067
Capital and Reserves			
Share capital	17,18	1,574,166	1,449,573
Share premium account	18(b)	36,202,186	22,474,088
Special reserve	18(b)	4,048,952	4,048,952
Merger reserve	18(b)	8,335,897	-
Profit and loss account	18(b)	(14,786,397)	(2,434,546)
Equity Shareholders' Funds	18(b)	35,374,804	25,538,067

The financial statements on pages 31 to 50 were approved by the Board of Directors on 23rd January 2001 and were signed on its behalf by:

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



Consolidated Cash Flow Statement

for the year ended 30th September 2000

	NOTES	2000 £	1999 £
Net Cash Outflow from Operating Activities	27	(12,459,197)	(6,905,418)
Returns on Investments and Servicing of Finance			
Interest received		512,352	703,072
Interest paid		(383,316)	57
Investment income		22	80
Interest paid on finance leases		(246,806)	(238,971)
Net Cash (Outflow)/ Inflow from Returns on Investments and Servicing of Finance		(117,748)	464,238
Taxation			
UK Corporation tax		-	-
Capital Expenditure			
Purchase of tangible fixed assets		(1,052,658)	(1,611,083)
Purchase of fixed asset investment		(33,270)	(29,277)
Receipts from sale of tangible fixed assets		98,061	130,505
Net Cash Outflow for Capital Expenditure		(987,867)	(1,509,855)
Acquisitions			
Purchase of Subsidiary Undertaking			
Acquisition expenses		(300,000)	-
Cash at bank and in hand acquired with subsidiary		4,389,095	-
Net Cash Inflow from Acquisitions	28	4,089,095	-
Net Cash Outflow before Management of Liquid Resources and Financing		(9,475,717)	(6,951,035)
Management of Liquid Resources			
(Increase)/decrease in cash placed on short-term deposit		(9,159,987)	6,961,186
Net Cash (Outflow)/ Inflow from Management of Liquid Resources		(9,159,987)	6,961,186
Financing			
Issue of ordinary share capital		11,867,217	-
Expenses paid in connection with share issue		(138,026)	-
		11,729,191	-
Capital element of finance lease rental payments		(1,329,771)	(1,261,881)
Drawdown of loan facility		7,500,000	-
Lease finance acquired		743,566	1,432,708
Increase in debt and lease financing	29	6,913,795	170,827
Net Cash Inflow from Financing		18,642,986	170,827
Increase in Cash in Year	29	7,282	180,978

Principal accounting policies

The financial statements have been prepared in accordance with Accounting and Financial Reporting Standards applicable in the United Kingdom. A summary of the most significant 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 in each year. The results of any subsidiaries acquired are included from the date that control was acquired. Intra-group sales, profits and losses and intra-group balances outstanding at the year end are eliminated fully on consolidation.

Minority interests

Minority interests represent the share of the net assets, liabilities and financial results attributable to the interests of the minority shareholders in subsidiaries which are not wholly owned by the Company or its subsidiaries. Minority interests share of subsidiary companies' losses have been fully provided against.

Goodwill

Goodwill arises on consolidation and represents the excess of consideration over the fair value of the net assets acquired. Goodwill arising up to 30th September 1998 was written off on acquisition against reserves. Goodwill arising from 1st October 1998 is capitalised and amortised over its useful life.

Research and development

Research and development expenditure is written off in the period in which it is incurred and includes, inter alia, all internal and external costs incurred in patenting, developing manufacturing processes, 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.

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	8.33 - 33 % per annum
Computer and office equipment	20 - 25 % per annum
Motor vehicles	33 % per annum
Short leasehold buildings	4.17 % - 15 % per annum

Finance leases

Tangible fixed assets include assets held under finance leases which are capitalised at their purchase cost with a corresponding amount treated as a liability. Interest is charged 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 as incurred.

Fixed asset investments

Investments are stated at cost, but are written down to their net realisable value if the Directors consider that there has been an impairment 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 makes defined contributions to money purchase pension schemes covering certain of its employees. Contributions are charged to the profit and loss account 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 and liabilities 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. Acquisition

During the year the Company acquired a new subsidiary, Cobra Therapeutics Limited ("Cobra"), pursuant to an offer made on 9th February 2000 for the entire issued and to be issued share capital of Cobra. The consideration for the acquisition comprised initial consideration in the form of new M. L. Laboratories PLC ordinary shares and contingent consideration in the form of units of an Earn Out Note entitling the holders thereof to additional consideration on the occurrence of certain specified events. The additional consideration payable under the Earn Out Note, in cash or shares at the option of M. L. Laboratories PLC, depends upon:

- (i) the initial payments (if any) received within four years from licensing Cobra's GDEPT programme, or M. L. Laboratories PLC initiating a Phase III trial of the Cobra GDEPT programme; and/or
- (ii) the excess (if any) over £5M received, after deduction of certain costs, on any sale of Cobra's manufacturing business within two years.

The offer valued the initial consideration at £8M based on a price per M. L. Laboratories PLC ordinary share of £1.643 and capped the contingent consideration at £12M. The offer was declared unconditional on 21st March 2000 at which date the price per M. L. Laboratories PLC ordinary share was £2.15. The M. L. Laboratories PLC consideration shares included both shares issued directly in exchange for shares in Cobra and shares issued under options which were granted in exchange for options over Cobra shares existing at the time of acquisition. The purchase of Cobra has been accounted for using acquisition accounting, after taking into account the fair value of all the shares issued by M. L. Laboratories PLC based on the price on the date on which the offer became unconditional of £2.15, less the cash amounts subscribed for shares by former Cobra share option holders, where applicable. On this basis the net assets acquired and the goodwill arising in respect of Cobra were:

Net book value & fair value of net assets

	£
Tangible fixed assets	964,504
Debtors	253,887
Cash	4,389,095
Creditors	(1,169,359)
	4,438,127
Fair value of share consideration	10,059,194
Costs of acquisition	300,000
	10,359,194
Goodwill	5,921,067

The results of Cobra for the period since acquisition are disclosed within the consolidated profit and loss account under the heading "Acquisition". The results of Cobra for the year ended 31st December 1999 and for the period 1st January 2000 to the date of acquisition on 21st March 2000 were:

	Unaudited 1st January 2000 to 21st March 2000 £	Audited Year ended 31st December 1999 £
Turnover	-	216,581
Exceptional operating charges	-	(298,989)
Operating loss	(1,424,882)	(6,172,360)
Loss on ordinary activities before taxation	(1,367,204)	(5,724,307)
Taxation	-	-
Loss on ordinary activities after taxation	(1,367,204)	(5,724,307)

Notes to the Financial Statements

For the year ended 30th September 2000

2. Segmental analysis by class of business

The analysis by class of business of the Group's turnover, research and development expenditure, other expenses, loss before taxation and net assets is set out below :

Segmental reporting

2000	Turnover £	Research and development expenditure £	Other expenses £	Loss before taxation £	Net assets £
Licensing, evaluation & development fees	2,501,563	-	-	-	-
Royalties	2,781,397	-	-	-	-
Product sales	5,189,850	-	-	-	-
Total pharmaceutical activities	10,472,810	(8,921,238)	(11,301,283)	(9,865,022)	16,198,402
Other activities	1,470,388	(348,108)	(3,070,972)	(1,946,953)	176,398
Total	11,943,198	(9,269,346)	(14,372,255)	(11,811,975)	16,374,800

The segmental analysis includes amounts relating to Cobra Therapeutics Limited which was acquired during the year, as follows : Licensing, evaluation and development fees £1,009,751, product sales £496,238, other expenses £1,068,118 and net assets £3,090,130.

1999	Turnover £	Research and development expenditure £	Other expenses £	Loss before taxation £	Net assets £
Licensing, evaluation & development fees	2,134,713	-	-	-	-
Royalties	1,759,105	-	-	-	-
Product sales	3,978,000	-	-	-	-
Total pharmaceutical activities	7,871,818	(5,542,597)	(8,063,412)	(5,482,290)	5,728,288
Other activities	1,615,252	(319,542)	(2,748,787)	(1,416,111)	269,899
Total	9,487,070	(5,862,139)	(10,812,199)	(6,898,401)	5,998,187

Geographical segments

	United Kingdom		North America		Europe		Group	
	2000	1999	2000	1999	2000	1999	2000	1999
	£	£	£	£	£	£	£	£
Turnover by destination	4,497,181	4,301,365	1,606,210	254,009	5,839,807	4,931,696	11,943,198	9,487,070
Turnover by origin	11,943,198	9,487,070	-	-	-	-	11,943,198	9,487,070
Loss before taxation	(11,811,975)	(6,898,401)	-	-	-	-	(11,811,975)	(6,898,401)
Net assets	16,374,800	5,998,187	-	-	-	-	16,374,800	5,998,187

Turnover by destination includes amounts relating to Cobra Therapeutics Limited which was acquired during the year, as follows : United Kingdom £83,800, North America £1,390,939 and Europe £31,250.

3. Investment income

	2000 £	1999 £
Bank interest receivable	486,120	524,064
Other interest receivable	4,524	4,116
Income from current asset investments	22	80
	490,666	528,260

Notes to the Financial Statements

For the year ended 30th September 2000

4. Interest payable

	2000 £	1999 £
On bank overdraft - repayable within 5 years, not by instalments	24,952	422
On bank loan	332,480	-
On finance leases	246,806	238,971
	604,238	239,393

5. Loss on ordinary activities before taxation

	2000 £	1999 £
Loss on ordinary activities before taxation is stated after charging:		
Depreciation - tangible owned fixed assets	366,368	168,058
- tangible fixed assets held under finance leases	1,034,044	917,845
Amortisation of intangible fixed assets	148,026	-
Auditors' remuneration for:		
- Audit (Company £25,000) (1999 £20,000)	55,670	39,150
Operating leases - hire of other assets	31,187	41,722
- rental of premises	503,950	277,251
Loss on disposal of tangible fixed assets	2,844	9,237
And after crediting:		
Profit on disposal of tangible fixed assets	68,039	78,040

Remuneration of the Company's Auditors for provision of non-audit services to the Company and its subsidiary undertakings was £19,180 (1999 £20,497). This consists principally of fees in respect of taxation compliance and advisory work and management consultancy fees.

6. Taxation

	2000 £	1999 £
UK Corporation tax at 30.0% (1999 30.5%)	-	-

Taxation has not been provided in the financial statements due to the availability of current year and brought forward tax losses. As at 30th September 2000, the total tax losses in Group companies amounted to £63.9m, including approximately £23.5m in respect of pre-acquisition tax losses of Cobra Therapeutics Limited. These losses are available for offset against future profits in the companies concerned, subject to agreement with the Inland Revenue.

Notes to the Financial Statements

For the year ended 30th September 2000

7. Directors and employees

	2000	1999
Employees		
Average weekly number of persons (including Directors) employed by the Group during the year		
Research and development	79	53
Administration and marketing	57	40
Production	54	40
	190	133

	2000 £	1999 £
Staff costs (for the above persons)		
Wages and salaries	6,335,627	4,353,062
Social security costs	633,604	404,546
Other pension costs (note 26)	454,972	295,913
	7,424,203	5,053,521

Directors' Remuneration

Remuneration paid to the Directors of the holding company	£	£
Aggregate emoluments	1,326,984	1,214,600
Aggregate gains made on the exercise of share options	264,032	-
Amounts invoiced from third parties	15,235	14,993
Contributions to money purchase pension schemes	154,222	139,969
	1,760,473	1,369,562

Emoluments payable to the highest paid Director	£	£
Aggregate emoluments including gains on share options	388,490	248,895
Contributions to money purchase pension scheme	35,138	30,544
	423,628	279,439

No Director waived emoluments in respect of the year ended 30th September 2000 (1999 None).

No share options were exercised in the year ended 30th September 1999. In the current year the aggregate of the gains made on the exercise of Directors' share options, calculated on the difference between the option price and the mid-market price on the date of exercise, was £264,032, of which £135,020 related to the gain attributable to the highest paid Director.

Further details of the remuneration and Share Options of Directors is given in the Remuneration Report on pages 24 to 27.

8. Intangible fixed assets

Group COST	Goodwill £
At 1st October 1999	-
Additions (note 1)	5,921,067
At 30th September 2000	5,921,067

AGGREGATE AMORTISATION

At 1st October 1999	-
Charge for the year	148,026
At 30th September 2000	148,026
Net book value at 30th September 2000	5,773,041
Net book value at 30th September 1999	-

Goodwill arising during the year on the acquisition of Cobra Therapeutics Limited, being the excess of cost of acquisition over the fair value of the net assets of the subsidiary at the date of acquisition, is capitalised and amortised over 20 years, this being its estimated economic life in view of the long-term nature of its research and product development programme.

9. Tangible fixed assets

Group COST	Plant & machinery £	Computer & office equipment £	Motor vehicles £	Short leasehold buildings £	Total £
At 1st October 1999	5,583,688	1,092,418	1,052,471	42,354	7,770,931
Acquisition	2,207,214	299,344	-	1,845,427	4,351,985
Additions	471,924	259,480	315,474	-	1,046,878
Disposals	-	(155)	(312,338)	-	(312,493)
At 30th September 2000	8,262,826	1,651,087	1,055,607	1,887,781	12,857,301

DEPRECIATION

At 1st October 1999	2,595,693	660,528	547,690	18,800	3,822,711
Acquisition	1,608,270	234,658	-	1,544,553	3,387,481
Charge for year	856,425	170,638	301,580	71,769	1,400,412
Disposals	-	(34)	(279,592)	-	(279,626)
At 30th September 2000	5,060,388	1,065,790	569,678	1,635,122	8,330,978

NET BOOK VALUE

At 30th September 2000	3,202,438	585,297	485,929	252,659	4,526,323
At 30th September 1999	2,987,995	431,890	504,781	23,554	3,948,220

The net book value of tangible fixed assets includes £3,019,506 (1999 £3,345,154) in respect of assets held under finance leases.

Company
COST

At 1st October 1999	4,000,150	562,001	591,325	42,354	5,195,830
Additions	193,071	58,978	171,109	-	423,158
Transfer from subsidiary	-	-	26,537	-	26,537
Disposals	-	-	(185,806)	-	(185,806)
At 30th September 2000	4,193,221	620,979	603,165	42,354	5,459,719

DEPRECIATION

At 1st October 1999	1,779,962	377,015	340,702	18,800	2,516,479
Charge for year	431,101	66,296	158,014	1,765	657,176
Transfer from subsidiary	-	-	22,927	-	22,927
Disposals	-	-	(182,120)	-	(182,120)
At 30th September 2000	2,211,063	443,311	339,523	20,565	3,014,462

NET BOOK VALUE

At 30th September 2000	1,982,158	177,668	263,642	21,789	2,445,257
At 30th September 1999	2,220,188	184,986	250,623	23,554	2,679,351

The net book value of tangible fixed assets includes £2,036,226 (1999 £2,326,057) in respect of assets held under finance leases.

Notes to the Financial Statements

For the year ended 30th September 2000

10. Fixed asset investments

Group COST	Joint Venture £		
At 1st October 1999	29,377		
Additions	33,270		
At 30th September 2000	62,647		

Company COST	Subsidiaries £	Joint Venture £	Total £
At 1st October 1999	4,198,903	29,377	4,228,280
Additions	10,359,194	33,270	10,392,464
At 30th September 2000	14,558,097	62,647	14,620,744

Principal Subsidiary Companies	Country of Incorporation	Description of Holding	Proportion Held %	Nature of Business
Benest Engineering Ltd	England	Ordinary Shares	75	Research, development & commercialisation of agronomic chemical delivery systems
Biofil Ltd	England	Ordinary Shares	90	Research, development & commercialisation of microbiological water purification systems
Bioinnovation Ltd	England	Ordinary Shares	75	Research, development & commercialisation of a novel approach to treatment of various diseases, including cancer
Cobra Therapeutics Ltd	England	Ordinary Shares	100	Research, development & commercialisation of gene therapy products and technologies and DNA manufacturing
Healthcare Education Services Ltd	Scotland	Ordinary Shares	81	Educational training for the pharmaceutical and biotechnology industries
Innovata Biomed Ltd	Scotland	Ordinary Shares Preference Shares	81 100	Research, development & commercialisation of respiratory drug delivery technologies
M.A.T.S. (UK) Ltd	England	Ordinary Shares	51	Applied surface science
Movement Control Systems Ltd	England	Ordinary Shares	90	Development and commercialisation of infant monitoring systems
Traversall Ltd	England	Ordinary Shares	100	Research, development & commercialisation of patient transfer systems
Joint Venture Bioincubator York Ltd (Accounting date 31st July)	England	Ordinary Shares	50	Mentoring of innovative biotechnology projects

Under a joint venture agreement with the University of York, the Company has subscribed £100 for 50% of the ordinary share capital in Bioincubator York Ltd and £62,547 for preference shares of £1 each. Under the terms of the joint venture, the Company has agreed to subscribe in the future for up to a further 247,453 preference shares of £1 each. The joint venture is in a start-up phase and has not been incorporated in the Group financial statements as the activities, assets and liabilities of the joint venture are not considered to be material.

11. Stocks

	Group		Company	
	2000 £	1999 £	2000 £	1999 £
Raw materials & consumables	745,092	398,074	48,414	29,536
Finished goods	132,632	667,922	122,876	184,453
	877,724	1,065,996	171,290	213,989

12. Debtors

	Group		Company	
	2000 £	1999 £	2000 £	1999 £
(a) Amounts falling due within one year:				
Trade debtors	2,005,853	1,258,617	495,955	495,393
Other debtors	842,939	575,825	355,898	336,069
Prepayments and accrued income	2,733,166	1,311,711	1,344,879	1,056,513
	5,581,958	3,146,153	2,196,732	1,887,975
(b) Amounts falling due after more than one year:				
Amounts owed by subsidiary undertakings	-	-	4,995,286	8,869,980
	5,581,958	3,146,153	7,192,018	10,757,955

The amounts due from subsidiary undertakings are interest free and unsecured.

13. Current asset investments

Group & Company	2000 £	1999 £
Investments quoted on a recognised stock exchange, at cost	39,260	39,260
Provision for impairment of value	(35,700)	(35,700)
At 30th September 2000	3,560	3,560
Aggregate market value of quoted investments	4,685	1,465

14. Cash at bank and in hand

Included in cash at bank is an amount of £500,000 (1999 £500,000), held in the names of M. L. Laboratories PLC and HSBC Bank PLC, being security for the Group's overdraft facility of that amount, which is renewable annually.

15. Creditors

	Group		Company	
	2000 £	1999 £	2000 £	1999 £
(a) Amounts falling due within one year:				
Bank overdraft	-	-	56,095	73,996
Obligations under finance leases	1,129,446	1,329,763	955,426	1,168,080
Trade creditors	2,626,594	3,013,581	1,394,550	1,654,387
Taxation and social security	293,075	168,914	117,542	107,281
Other creditors	462,504	218,484	21,702	19,913
Accruals and deferred income	1,865,799	1,338,186	1,009,388	605,559
	6,377,418	6,068,928	3,554,703	3,629,216

Notes to the Financial Statements

For the year ended 30th September 2000

15. Creditors (continued)

	Group		Company	
	2000	1999	2000	1999
	£	£	£	£
(b) Amounts falling due after more than one year:				
Obligations under finance leases	1,426,537	1,812,424	1,158,956	1,593,213
Bank loan	7,500,000	-	7,500,000	-
Amounts owed to subsidiary undertaking	-	-	201,000	201,000
	8,926,537	1,812,424	8,859,956	1,794,213

The bank loan results from the draw-down in full of a revolving credit facility provided by N. M Rothschild & Sons Limited. This facility, which expires in the second half of 2002, is secured on the royalty stream and underlying patents from sales of Extraneal by Baxter Healthcare and is guaranteed by the Company's subsidiary undertakings.

The Company has provided unlimited multilateral guarantees in respect of the bank overdrafts of its subsidiaries.

16. Deferred taxation

Group & Company

A provision for deferred taxation is not required and there is no potential liability for deferred taxation.

17. Called-up share capital

	2000	1999
	£	£
Authorised		
200,000,000 Ordinary Shares of 1p each	2,000,000	1,500,000
Allotted, called-up and fully paid		
157,416,553 Ordinary Shares of 1p each	1,574,166	1,449,573

Changes in the issued share capital during the year are set out in note 18.

Contingent rights to the allotment of shares :

Under the M. L. Laboratories PLC Executive Share Option Scheme, options which have been granted to Executives and Directors to subscribe for Ordinary Shares and which remain unexercised as at 23rd January 2001 are as follows:

Date of Grant	Subscription Price	Number of Options	Exercise Date	Expiry Date
23/08/91	£0.90	77,425	23/08/94	23/08/01
05/08/92	£1.36	339,955	05/08/95	05/08/02
13/01/93	£2.12	78,750	13/01/96	13/01/03
24/08/93	£2.02	103,179	24/08/96	24/08/03
26/08/94	£2.03	153,323	26/08/97	26/08/04
04/09/95	£1.70	165,830	04/09/98	04/09/05
23/07/96	£3.73	74,074	23/07/99	23/07/06
06/01/97	£2.29	471,614	06/01/00	06/01/07
09/02/98	£1.25	2,110,956	09/02/01	09/02/08
18/03/98	£1.20	67,846	18/03/01	18/03/08
06/07/98	£0.89	676,407	06/07/01	06/07/08
08/03/99	£1.07	375,000	08/03/02	08/03/09
		4,694,359		

17. Called-up share capital (continued)

Under the M. L. Laboratories PLC 1999 Executive Share Option Scheme, options which have been granted to Executives and Directors to subscribe for Ordinary Shares and which remain unexercised as at 23rd January 2001 are as follows:

Date of Grant	Subscription Price	Number of Options	Exercise Date	Expiry Date
20/08/99	£1.40	302,781	20/08/02	20/08/09
20/08/99	£1.40	306,122	20/08/04	20/08/09
10/11/00	£1.415	910,020	10/11/03	10/11/10
1,518,923				

Details of Directors' interests in Ordinary Shares of the Company are shown in the Directors' Report on pages 21 to 23. Details of Directors' Share Options are shown in the Remuneration Report on pages 24 to 27.

18. Movements in capital and reserves and equity shareholders' funds

The movements in capital and reserves during the year were as follows:

	Share Capital	Share Premium Account	Merger Reserve	Profit & Loss Account	Equity Shareholders' Funds
(a) Group	£	£	£	£	£
At 1st October 1999	1,449,573	22,474,088	-	(17,925,474)	5,998,187
Exercise of Directors' share options	3,300	240,929	-	-	244,229
Acquisition of subsidiary - shares issued	48,649	2,074,851	8,335,897	-	10,459,397
Placing of shares for cash	72,644	11,550,344	-	-	11,622,988
Expenses paid in connection with share placing	-	(138,026)	-	-	(138,026)
Loss for year	-	-	-	(11,811,975)	(11,811,975)
At 30th September 2000	1,574,166	36,202,186	8,335,897	(29,737,449)	16,374,800

	Share Capital	Share Premium Account	Special Reserve	Merger Reserve	Profit & Loss Account	Equity Shareholders' Funds
(b) Company	£	£	£	£	£	£
At 1st October 1999	1,449,573	22,474,088	4,048,952	-	(2,434,546)	25,538,067
Exercise of Directors' share options	3,300	240,929	-	-	-	244,229
Acquisition of subsidiary - shares issued	48,649	2,074,851	-	8,335,897	-	10,459,397
Placing of shares for cash	72,644	11,550,344	-	-	-	11,622,988
Expenses paid in connection with share placing	-	(138,026)	-	-	-	(138,026)
Loss for year	-	-	-	-	(12,351,851)	(12,351,851)
At 30th September 2000	1,574,166	36,202,186	4,048,952	8,335,897	(14,786,397)	35,374,804

As explained in note 1 shares were issued during the year in connection with the acquisition of Cobra Therapeutics Limited. These shares included shares issued directly in exchange for shares in Cobra, in which case the excess of their fair value over their nominal value has been credited to merger reserve, and shares issued for cash under options which were granted in exchange for options over Cobra shares existing at the time of acquisition, in which case the excess of their fair value over their nominal value has been credited to share premium account.

On 25th July 2000 a placing for cash of 7,264,367 shares at £1.60 per share to existing and new institutional investors, but not including Milner Laboratories Ltd, was effected to raise additional working capital for the Group.

The special reserve was created in 1999 following a reduction of the share premium account. In the Group accounts, the goodwill which had arisen on consolidation up to 30th September 1998 of £4,048,952 has been offset against the special reserve rather than against the profit and loss account.

The total amount of goodwill written off at 30th September 2000 amounted to £4,196,978 (1999 £4,048,952) comprising the goodwill written off against the special reserve up to 30th September 1998 and the amortisation of goodwill in the current year of £148,026.

19. Finance lease obligations

	Group		Company	
	2000	1999	2000	1999
	£	£	£	£
At 30th September 2000 the Group and Company had obligations under finance leases as follows:				
Payable within one year	1,129,446	1,329,763	955,426	1,168,080
Payable between one and two years	792,546	891,673	654,397	762,601
Payable between two and five years	633,991	920,751	504,559	830,612
	2,555,983	3,142,187	2,114,382	2,761,293

20. Financial instruments

Primary financial instruments employed by the Group, other than short-term debtors and creditors, comprise cash, bank loan and finance leases. The Group's activities involve some currency exposure arising from the fact that certain royalties are calculated and paid in US dollars and that certain operating costs are incurred in currencies other than sterling, principally US dollars. The Group's general policy is to convert dollar revenues to sterling when received and to convert sterling to foreign currencies at the transaction date. The Group does not trade in financial instruments. The Group's policy during the year ended 30th September 2000 was to place the majority of its cash on short-term deposits with its principal bankers and to finance the purchase of tangible fixed assets through finance leases, where possible, for cash flow purposes.

The interest rate profile of financial assets was :

	Floating rate financial assets		
	Cash and current bank accounts	Short-term bank deposits	Total
	£	£	£
Currency			
Sterling	103,391	14,813,998	14,917,389
US dollars	(63,887)	-	(63,887)
At 30th September 2000	39,504	14,813,998	14,853,502
Currency			
Sterling	(70,759)	5,654,011	5,583,252
US dollars	102,981	-	102,981
At 30th September 1999	32,222	5,654,011	5,686,233

The fair value of short-term deposits approximates to the book value reported in the balance sheet because of the short maturity dates of these deposits.

The interest rate profile of financial liabilities was:

	Financial liabilities			
	Fixed rate		Floating rate	
	2000	1999	2000	1999
	£	£	£	£
Sterling				
Finance leases	2,555,983	3,142,187	-	-
Bank Loan	-	-	7,500,000	-
	2,555,983	3,142,187	7,500,000	-

The weighted average interest rate on finance leases at 30th September 2000 was 8.8% (1999 8.7%)

The fair value of finance leases at 30th September 2000, calculated by discounting cash flows at prevailing interest rates, was £2,455,000 (1999 £3,040,000).

The weighted average interest rate on the bank loan was 7.9%

The fair value of the bank loan at 30th September 2000 approximates to the book value reported in the balance sheet. The bank loan expires in the second half of 2002.

20. Financial instruments (continued)

The currency analysis of the Group's net monetary assets and liabilities (including short-term debtors and creditors) at 30th September was :

	2000 £	1999 £
Sterling	4,214,465	268,726
Other currencies, principally US dollars	920,600	685,868
	5,135,065	954,594

At the year end the Group was not utilising the overdraft facility described in note 14, although all conditions precedent had been met at that date.

21. Loss for the financial year

As permitted by Section 230 of the Companies Act 1985, the parent company's profit and loss account has not been included in these financial statements. The parent company's loss for the financial year was £12,351,851 (1999 £2,434,546).

22. Loss per ordinary share

The calculation of basic earnings per share is based on the loss on ordinary activities after taxation and minority interests of £11,811,975 (1999 £6,898,401) and on 149,041,629 ordinary shares (1999 144,957,310), being the average number of ordinary shares in issue and ranking for dividend during the year, weighted on a time basis.

The effect of dilutive share options outstanding and not yet exercised at 30th September 2000 would be to reduce the loss per share.

23. Other financial commitments

At 30th September 2000 the Group had annual commitments under non-cancellable operating leases as follows:

	2000		1999	
	Land & buildings £	Other £	Land & buildings £	Other £
Expiring within one year	38,412	6,602	42,500	2,846
Expiring between two and five years	240,078*	5,881	144,078*	4,145
Expiring in over five years	349,442**	-	214,000**	-
	627,932	12,483	400,578	6,991

* Subject to a three year rent review

** Subject to a five year rent review

24. Capital commitments

	Group		Company	
	2000 £	1999 £	2000 £	1999 £
Capital expenditure on tangible fixed assets that had been contracted for but has not been provided for in the financial statements	79,268	88,276	35,011	51,922

25. Contingent liabilities**Group & Company**

At 30th September 2000 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 defined contribution pension schemes, comprising the M. L. Laboratories PLC Staff Non-Contributory Pension Scheme and the M. L. Laboratories PLC Staff Contributory Pension Scheme, which is a Group Personal Pension established with Scottish Equitable PLC. The assets of the schemes are held separately from those of the Group and are independently administered. The pension cost charge represents contributions payable by the Group under the schemes and amounted to £454,972 (1999 £295,913). Contributions totalling £Nil (1999 £Nil) were payable at the year end.

27. Reconciliation of operating loss to net cash flow from operating activities

	2000 £	1999 £
Operating loss	(11,698,403)	(7,187,268)
Depreciation of tangible fixed assets	1,400,412	1,085,903
Amortisation of goodwill	148,026	-
Profit on disposal of tangible fixed assets	(65,195)	(68,803)
Decrease/(Increase) in stocks	188,272	(501,854)
Increase in debtors	(1,774,941)	(650,575)
(Decrease)/Increase in creditors	(657,368)	1,417,179
Net cash outflow from operating activities	(12,459,197)	(5,905,418)

28. Cash flow effect of acquisition

The acquisition of Cobra for shares is explained in note 1. The cash flow effect of this transaction is summarised below:

	2000 £	1999 £
Tangible fixed assets	964,504	-
Debtors	253,887	-
Cash	4,389,095	-
Creditors	(1,169,359)	-
Net assets acquired	4,438,127	-
Goodwill	5,921,067	-
Cash received in respect of shares issued	400,203	-
	10,759,397	-
Consideration shares issued at fair value	10,459,397	-
Costs of acquisition	300,000	-
	10,759,397	-

28. Cash flow effect of acquisitions (continued)

	2000 £	1999 £
The movements of cash in respect of the acquisition were :		
Cash acquired on acquisition	4,389,095	-
Costs of acquisition	(300,000)	-
	4,089,095	

Cobra contributed £2,589,835 to the Group's net operating cash outflow, received £30,244 in interest receivable and utilised £63,914 for capital expenditure.

29. Reconciliation of net cash flow to movement in funds

	2000 £	1999 £
Increase in Cash in Year	7,282	180,978
Cash outflow/ (inflow) from increase/ (decrease) in Liquid Resources	9,159,987	(6,961,186)
Cash inflow from increase in Debt and Lease Financing	(6,913,795)	(450,661)
Change in Net Funds Resulting from Cash Flows	2,253,474	(7,230,869)
Opening Net Funds	2,544,046	9,774,915
Closing Net Funds	4,797,520	2,544,046

30. Analysis of net funds

	1999 £	Cash flow £	Acquisition (excluding cash and overdrafts) £	2000 £
Cash in Hand and at Bank	32,222	7,282	-	39,504
Short Term Deposits	5,654,011	9,159,987	-	14,813,998
	5,686,233	9,167,269	-	14,853,502
Bank Loan	-	(7,500,000)	-	(7,500,000)
Finance Leases due within 1 Year	(1,329,763)	215,015	(14,698)	(1,129,446)
Finance Leases due in more than 1 Year	(1,812,424)	409,033	(23,145)	(1,426,536)
	2,544,046	2,291,317	(37,843)	4,797,520

Cash flow on finance leases includes lease finance acquired of £743,566, the majority of which is in respect of sale and leaseback transactions.

31. Related party transactions

Pursuant to an agreement dated 15th September 1997, Dr. R. N. Boyes, a Director of M. L. Laboratories PLC, granted to the Company an option to acquire 2,450 shares in Innovata Biomed Ltd, a subsidiary of the Company, at a price of £1,500 per share which was originally due to lapse on 31st December 1999. By an agreement between the Company and Dr. Boyes dated 27th December 1999, the Company and Dr. Boyes agreed to extend the period for exercise of this option to 30th September 2000, in consideration for the payment by the Company to Dr. Boyes of a daily non returnable option fee, payable quarterly in arrears, of £706.96 per day and agreed to extend it further to 31st January 2001. The Company and Dr. Boyes have agreed to extend the option agreement further to 30th April 2002, on similar terms. The extension agreement is conditional upon the approval of shareholders of the Company pursuant to Section 320 Companies Act 1985, as is any exercise of the option itself. The Company intends to seek such approvals at an EGM to be held following the Annual General Meeting to be held on 8th March 2001.

The Directors have taken advantage of the exemption conferred by Financial Reporting Standard 8 not to disclose transactions with other Group companies as they are eliminated on consolidation.

32. Post Balance Sheet Events

On 17th January 2001 the Group entered into a subscription agreement with Elliott International LP and The Liverpool Limited Partnership, both funds managed by Elliott Associates LP, ("the Investors") under which, subject to the approval of the shareholders of M. L. Laboratories PLC and certain other conditions, the Group may require the Investors to subscribe £6M for convertible debentures in the Company provided that the volumes of trading in the Company's shares and the share price are above specified levels. Subject to certain additional conditions, the Group may require the Investors to subscribe for a further £6M. In addition there are provisions under which up to a further £9M may be subscribed at the option of the Investors, or in certain circumstances, the Group.