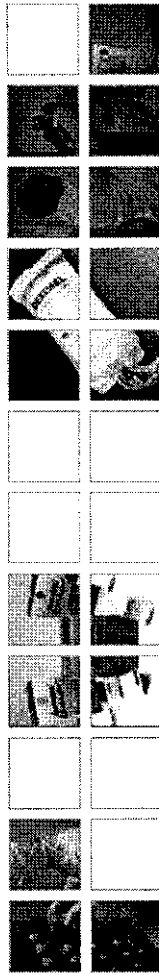


ML Laboratories PLC
Registered in England & Wales No. 2148607

ML Laboratories PLC



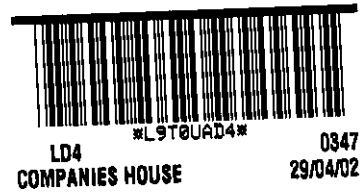
Annual Report 2001



ML Laboratories PLC Annual Report 2001



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2001

at a glance

Year's Highlights

Corporate

- Strategic review completed
- £17.5m development funding completed in year and further £5m completed since year end
- £7.5m bank loan repaid

Commercial

- ADEPT - European rights licensed to Shire Pharmaceuticals

Clinical progress

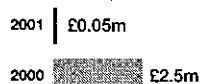
- ADEPT - US Phase III study commenced
- DEVACADE - Phase II trials complete
- VIRALDON - Phase II trial discontinued
- GnRHI - Commercial viability under review
- DEXEMEL - Collaboration indicates promising gene therapy applications
- CLICKHALER - Budesonide trial completed. Marketing approval application being prepared
- Formoterol trial commenced

Manufacture

- Prestigious government award for innovation in biopharmaceutical manufacture
- Icodextrin facility receives FDA approval

Summary Financial Performance

Licensing, evaluation & development fees



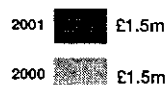
Royalties



Product sales



Income from other activities



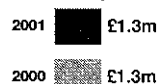
Total turnover



Research & development expenditure



Sales, marketing & distribution costs



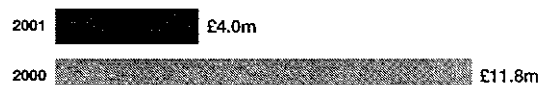
Administrative expenses



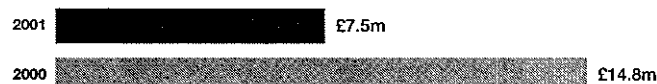
Other operating income

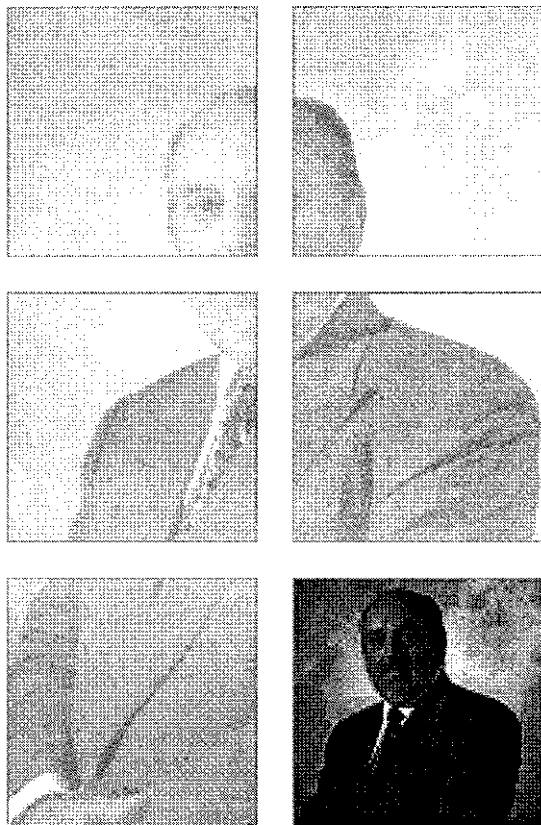


Net loss



Year end net cash





Chairman's Statement

This time last year I informed you that we were undertaking a strategic review of the business in order to determine how we might best optimise shareholder value. At the interim stage I informed you that the first phase of that review had been completed and that we had concluded that our business would benefit significantly from an increased focus resulting from a reduction in the number of therapeutic areas in which we are currently active.

During the second half of the year we completed the final phase of the review, namely, the determination of which therapeutic areas our product development efforts should be concentrated and I can therefore inform you that our focus will be the development of our cancer management products, which includes both the treatment of cancer and cancer pain management, which we consider have considerable potential.

Strategic Review

As a result we will reposition the Company as a highly focused biopharmaceutical research and development company with a development pipeline of future products which includes Cobra's gene therapy cancer treatments for liver, head, neck and prostate cancer, all of which are in the clinic, and a pain management portfolio whose lead compound is about to enter Phase III studies. We will retain a portfolio of related early stage research projects including DNA vaccines, cancer cell killing systems and targeted drug delivery where in each case we have both identified specific product development targets and have established broadly applicable platform technologies.

Our activities will continue to be supported by our existing growing income stream from products we have successfully developed and licensed to other pharmaceutical companies which include Baxter, Shire Pharmaceuticals and Celltech and by the license income we anticipate will be generated by our Cobra technology which assists biotechnology research and production and is generating considerable interest from potential licensees.

The remainder of our development projects and technologies are therefore no longer core to our business and our investment in those assets will be realised when it is optimum to do so in order to ensure we deliver maximum value to shareholders. The proceeds therefrom will be utilised to both accelerate the development of and expand the projects in our core therapeutic areas.

In that regard I can inform you that we have made considerable progress in the last few months towards realising our investment in several of those non-core assets and specifically the most significant component thereof, namely the portfolio of products and technologies that comprise our respiratory technologies division, Innovata Biomed (IB), where discussions are well advanced regarding a merger of that company, details of which we hope to be able to provide to shareholders in the near future.

In addition our plans for the realisation of our investment in our biological product manufacturing facility and related technology at Cobra are similarly in progress. This facility, which is one of only a small number of Good Manufacturing Practice (GMP) compliant facilities in Europe able to produce plasmid DNA, viral products and proteins, has established an international reputation in a sector where demand for quality product exceeds supply capacity and where know-how is a significant barrier to competition and as such it has considerable potential value. We will keep shareholders advised of our plans for this division as they progress to fruition.

Your Board look forward to the future with considerable optimism and enthusiasm as we make the transition to a well resourced, highly focused biopharmaceutical company with a share price that, hopefully, reflects the benefits that will ensue from an increased degree of specialisation which we believe include a reduced timetable to sustainable profitability, reduced cash burn, and clarity of investor perception.

Funding

On the 9th July 2001 we announced the completion of a transaction with Paul Capital Royalty Acquisition Fund (PCRAF) under which PCRAF provided £17.5m to fund the development of ML's products for which PCRAF will receive a proportion of the royalty and revenue streams from ADEPT and two other products until 2010.

A second such transaction with PCRAF, which was announced in our preliminary results announcement on 29th January 2002, was completed on 5th February 2002, whereby PCRAF has provided a further £5m for which it will receive an increased proportion of the royalty and revenue streams from two of the three products subject to the first arrangement. The transaction includes a term whereby ML may be required to repay the £5m in certain circumstances, but ML does not anticipate that this will be the case and expects to be able to confirm this before the end of July 2002.

Our review of our funding position has taken into account the above receipt and commercialisation proceeds received since 30th September 2001, including an initial licence fee from Shire and those projected to be received in the forthcoming year, together with anticipated divestment proceeds from non-core assets in the forthcoming year. While anticipated receipts cannot be guaranteed and their timing and amount are uncertain we have a reasonable expectation that the Group will have sufficient working capital for the foreseeable future so that we will not have to return to shareholders for further funding. We will continue to keep the adequacy of our working capital under close review.

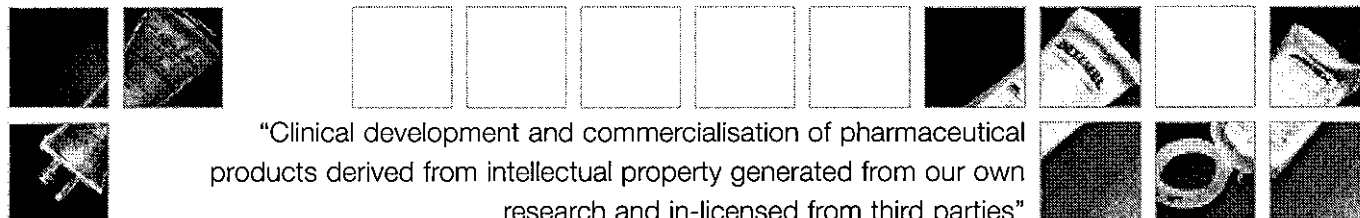
Appreciation

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 20th March 2002

ML Pharmaceuticals



"Clinical development and commercialisation of pharmaceutical products derived from intellectual property generated from our own research and in-licensed from third parties"

ML Pharmaceuticals is a highly focused research and development company principally engaged in developing cancer therapy products including pain management. Its development pipeline of future products and its portfolio of early stage research projects are supported by a growing income stream from products which have been successfully developed and licensed to other pharmaceutical companies.

In-market products

	Research	Pre-clinical	Phase I	Clinical trials Phase II	Phase III	Regulatory approval	Marketed
EXTRANEAL/RENAL							
EXTRANEAL/HEPATIC							

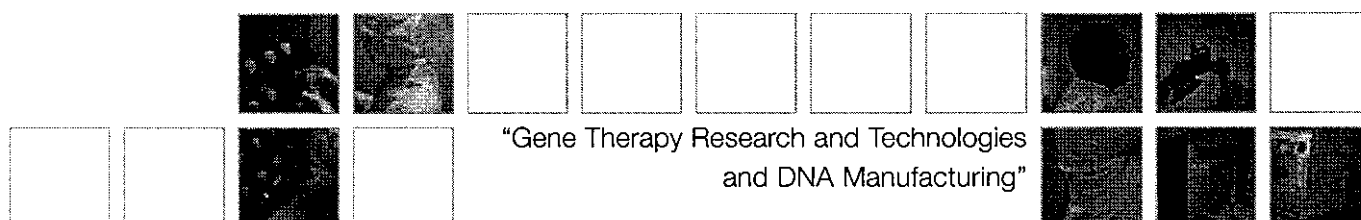
Products in development

	Research	Pre-clinical	Phase I	Clinical trials Phase II	Phase III	Regulatory approval	Marketed
DEXEMEL/ONCOLOGY & GENE THERAPY							
DEXEMEL/ONCOLOGY & GENE THERAPY							
EMMELLE/AIDS PREVENTION							
EMMELLE/AIDS PREVENTION							
DEVACADE/PAIN MANAGEMENT							
DEVACADE/PAIN MANAGEMENT							

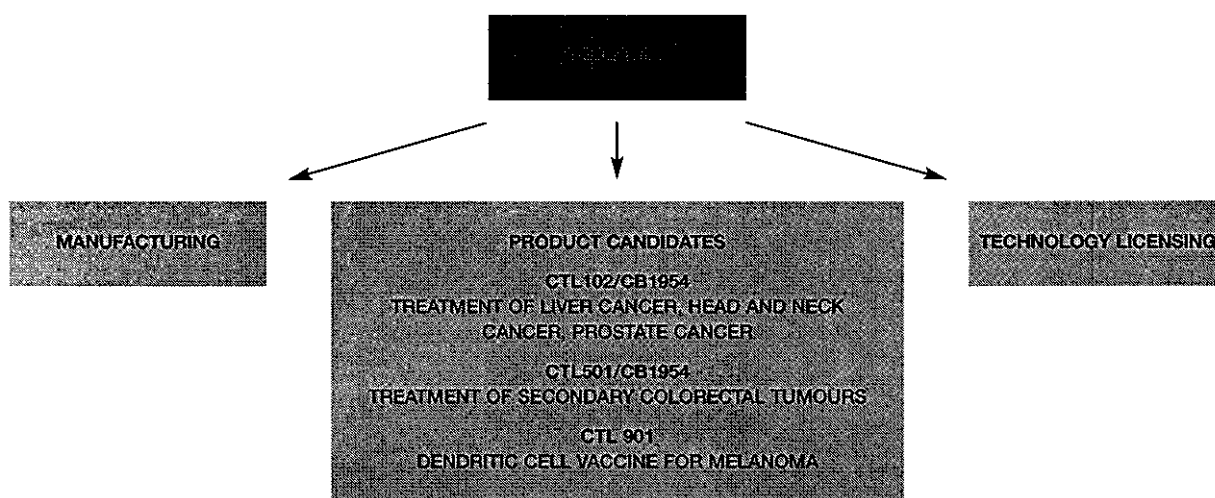
Research projects

	Research	Pre-clinical	Phase I	Clinical trials Phase II	Phase III	Regulatory approval	Marketed
POLYMER CHEMOTHERAPEUTICS							
POLYMER CHEMOTHERAPEUTICS							

Cobra Therapeutics



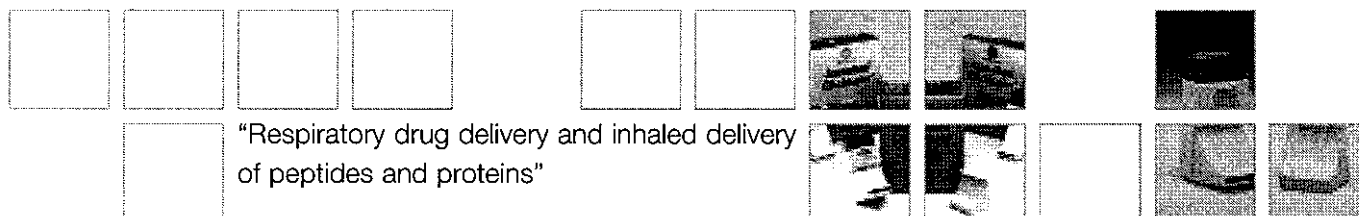
Cobra is a research based company specialising in a new class of therapeutic products known as DNA based medicines involving the delivery of genes to achieve therapeutic benefits. Cobra's primary focus is the development of cancer treatments. Cobra's research has also resulted in a number of patented technologies for use in the discovery and manufacture of biotechnology products. Cobra generates income through contract manufacturing for third parties of early stage clinical trial supplies and by 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							
CTL 901							

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.

In-market products

	Research	Pre-clinical	Phase I	Phase II	Phase III	Regulatory approval	Marketed
ASMASAL CLICKHALER							
INNOVATA BIOMED							

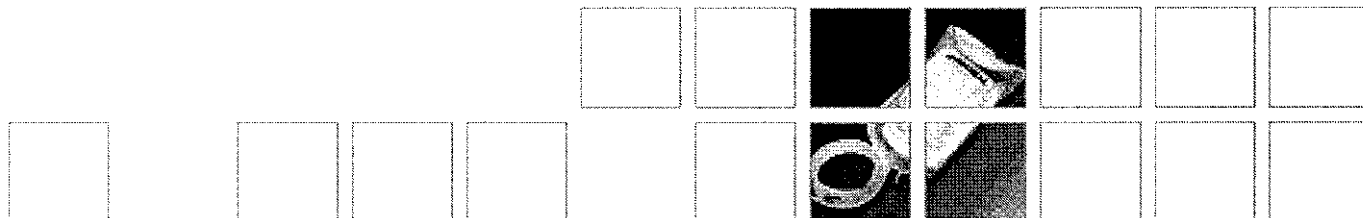
Products in development

	Research	Pre-clinical	Phase I	Phase II	Phase III	Regulatory approval	Marketed
BODESONIDE CLICKHALER							
INNOVATA BIOMED							
UNDISCLOSED (2)							
INNOVATA BIOMED							

Devices in development

	Research	Development	Phase I	Phase II	Phase III	Regulatory approval	Marketed
INNOVATA BIOMED							
AEROFILTER							
INNOVATA BIOMED							

Chief Executive's Operational Review



ML PHARMACEUTICALS DIVISION Icodextrin Based Products -

DEXEMEL drug delivery solution

To date DEXEMEL has received marketing approval for use as an intra-peritoneal drug delivery system in 10 European countries including the UK.

Recent evidence has demonstrated that DEXEMEL provides significant benefits when used to deliver certain gene therapy products into the abdomen. Our scientists have been collaborating with colleagues at Canji Inc., (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 shows DEXEMEL significantly improved gene transfer into tissues of the abdomen as well as improved survival of animals in models of cancer treatment by gene therapy.

This information was presented at an International Conference on Gene Therapy in Cancer held in San Diego, California in December 2001.

Icodextrin solution - an innovative solution for use in Peritoneal Dialysis

Icodextrin solution is a dialysis solution for use in peritoneal dialysis (PD) for the treatment of renal failure patients and is the founding product of ML. We hold exclusive patents over Icodextrin, the active ingredient in all major world markets.

Baxter Healthcare, the exclusive licensee worldwide and a market leader in Renal Disease treatments, has launched the product, under the trade name Extraneal, in 27 countries to date and a market share of over 50% has already been achieved in several individual countries.

US approval and launch of the product is

anticipated in the first half of this year and the Japanese launch could be expected in 2003 and both these events will have a significant impact on royalty income.

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

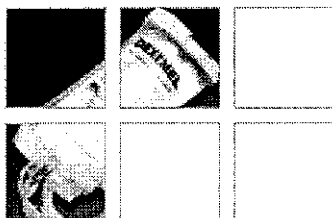
Adhesions are a serious and frequent complication following abdominal and gynaecological surgery and are expensive to treat, often requiring further surgery and hospitalisation and the issue of adhesions is becoming acknowledged as a major problem. Currently the only specific anti-adhesions products 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 than other products.

The exclusive right to manufacture and sell ADEPT throughout Europe has been licensed to Shire Pharmaceuticals, the rapidly growing specialist pharmaceutical company, which is focused on the development and marketing of products prescribed by hospital consultants and specialists. Launches have already taken place in the UK, Italy, Eire, Greece and Israel with the other major European markets scheduled during 2002.

We are progressing discussion with potential licensees regarding other territories in parallel with progressing the regulatory approval process in the USA in order to maximise the opportunity presented by the largest market in the world.

Following extensive discussions with the FDA and its independent advisory committee in the USA, we agreed a unique pivotal Phase III clinical protocol for ADEPT in that country. The study

Chief Executive's Operational Review



has now started with seven of the planned 15 centres already treating patients and maintaining a schedule which should see completion of the study in 2003.

We are excited by the prospects for ADEPT in this growing market where it has the potential to become the leading product due to its safety profile, ease of use and price advantage such that it could be used routinely in all abdominal surgery.

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.

The basis for VIRALDON's mode of action in HIV / AIDS treatment is fusion inhibition which is viewed as one of the leading mechanisms for new therapies in research.

As a means of targeting the specific cells in the body where HIV predominantly replicates, VIRALDON has been administered to patients intra-peritoneally via an implanted catheter. The invasive nature of this therapy meant that VIRALDON was reserved for late stage, so called 'salvage' treatment, in AIDS patients who had not responded to, or cannot tolerate, other treatments. As we stated in the interim announcement, we have had great difficulty in recruiting patients for an invasive treatment whilst there are other treatment options available. As a result we have discontinued the current UK clinical study and are continuing to evaluate how we might best maintain our interest in this therapy whilst minimising future research expenditure on the product until such time as patient recruitment becomes less problematical.

EMMELLE – an intra-vaginal gel to prevent AIDS

Public health organisations believe that the key to tackling and reversing the HIV/AIDS epidemic lies in blocking transmission of the virus and preventing new infections. The majority of new HIV infections occur in women and the availability of products such as EMMELLE, which is a self administered product, would put HIV prevention

in the hands of women. As a result there is concerted effort by both national and international organisations to accelerate the development and commercial availability of products like EMMELLE.

The importance of this initiative to develop new microbicides was emphasised at a meeting of public health officials and scientists, sponsored by DfID (Department of International Development), The Rockefeller Foundation and the MRC (Medical Research Council) held at the DfID office in London on February 19th 2002. The meeting reported the launch of a major collaboration between DfID and the MRC to develop an effective microbicide and the launch of a major policy briefing report from the Rockefeller Foundation.

EMMELLE has undergone extensive pre-clinical testing as well as completion of a Phase II clinical trial programme in Europe and further Phase II safety studies in an HIV positive population in Africa. Substantial governmental funding has now been made available to cover the Phase III evaluation of EMMELLE.

The low probability of development of effective vaccines has substantially increased the public health need for rapid development of products which could limit the spread of HIV disease in developing countries such as EMMELLE 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 the market for a product such as EMMELLE could exceed \$1 billion.

Non Icodextrin Based Products -

Analgesia

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

Pre-clinical studies with DEVACADE and COLYKADE demonstrated that these new chemical entities (NCE's) had the ability to potentiate the pain relieving properties of drugs such as morphine without increasing the disturbing and dangerous side-effects.

We have now completed Phase II clinical trials in patients with severe neuropathic pain with each

of these compounds. Full data analysis of these studies is now being completed and the results confirm that in this particularly difficult patient population DEVACADE can improve pain relief in patients already treated with optimum doses of morphine-like drugs.

We have discussed Phase III clinical trial protocols with our investigators and have held separate discussions with European regulatory authorities regarding the total marketing authorisation application (MAA). All steps necessary to complete our regulatory file are currently being put in place.

There are currently no marketed products specifically targeted for neuropathic pain. Estimates of the global market potential are in excess of \$1 billion 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.

We have completed the initial part of a Phase I human study with ULTRAMORPH which was designed to evaluate the potential of the drug as an inhalation treatment for acute and chronic pain. The data from this study indicates that absorption of ULTRAMORPH from the lungs is sufficiently rapid and sustained from an efficient delivery device to produce effective levels of the drug in the blood stream.

We are currently evaluating whether the data from the current study provides sufficient evidence to support the further development of a commercially viable inhalation formulation of ULTRAMORPH.

Immunotherapeutics

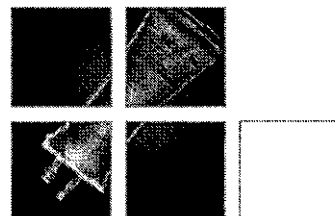
GnRHi - an immunotherapeutic approach to the treatment of cancer

GnRHi is a novel treatment for cancers whose growth is stimulated by the sex hormones of the body. The product is injected as a vaccine formulation with the intent of causing the production of antibodies which block the body's ability to produce testosterone and oestrogen, the male and female hormones. Such a product has the advantage of long term blockade of hormone

production without causing initial stimulation which can lead to painful side-effects.

We have now completed two Phase II dose escalation studies with two different formulations of the product. The most recent formulation led to substantial, but insufficient, antibody production since there was no significant effect on testosterone levels in prostate cancer patients. We believe that higher doses of this reformulated product could produce the desired testosterone response, however, with obvious economic implications, consequently we are currently considering the commercial viability of this product.

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 which we estimate to be valued at \$1 billion p.a.



Innovata Biomed Ltd - Respiratory Technologies Division

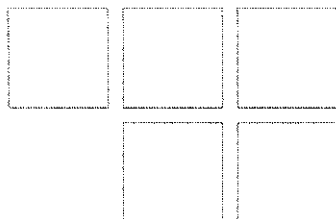
CLICKHALER - a breath activated multidose dry powder inhaler

Clickhaler accurately meters individual doses of powder from a reservoir and recent studies have shown that it is easier for patients to use than a pressurised inhaler with several features that 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 Celltech plc with the European rights to Clickhaler for use with four major respiratory drugs. The first two of which, salbutamol and beclomethasone are currently being marketed by Celltech as Asmasal and Asmabec respectively.

We have completed the clinical trial programme for the asthma steroid budesonide in Clickhaler and the marketing authorisation application (MAA) for this product is currently being prepared for submission to the European authorities. Clinical trials with the long acting bronchodilator formoterol in the Clickhaler will be completed by the end of the second quarter 2002 and the MAA for this product will be filed later in 2002.

Negotiations continue with Japanese companies for the right to promote Clickhaler in the Far East for both new chemical entities and generic drugs, and with European and US companies with inhalation developments which could benefit from IB's device expertise.

Chief Executive's Operational Review



Inhaled Peptides and Proteins -

Our project to develop new systemically active protein and peptide products capable of being administered without the need for injection has made significant progress in developing novel approaches to improving drug delivery to the deep lung.

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.

Cobra's most advanced product uses a modified form of a relatively harmless adenovirus to deliver a specific gene to cancer cells. This product, CTL102, delivers the gene for a bacterial enzyme, nitroreductase, to cancer cells such that a relatively harmless drug, CB1954, which is administered separately, will be activated to kill the cancer cells. This system has been shown to work very efficiently in experimental models of cancer.

Clinical trials of CTL102/CB1954 are now underway in the UK and Holland designed to evaluate the safety, tolerance and efficacy of the combination in liver, head and neck cancer and prostatic cancer. This is the first occasion that this particular cell killing mechanism has undergone clinical trials and successful initiation of this gene therapy study has promoted Cobra into a leading position amongst its research peer group. 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, Cobra scientists have conducted detailed experiments with a second product incorporating its novel cancer cell killing system CTL501, which has achieved greater specificity and selectivity of cancer cell killing by incorporating a specific regulatory element in front of the gene that only allows the expression of the gene in certain tumour cells.

Technology -

Cobra has developed and patented a wide range of technologies for use in the discovery and production of new biotechnology products. Although the primary use of these technologies 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's UCOE technology allows substantial time saving, and therefore cost reduction, for the commercial manufacture of therapeutic proteins and also allows substantially increased and prolonged gene expression. This technology has application also in the fields of gene therapy as well as genomics research. The technology is currently being evaluated by a large number of biotech companies under research licences.

It is believed that the licensing of this technology could 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

Cobra Biomanufacturing's primary objective is to become a major force in the supply of pharmaceutical grade biological products to the pharmaceutical industry.

In the early 90's approaches to DNA manufacture were considered unsafe, unscaleable and unsuitable for commercial manufacture. Cobra has developed novel approaches to large scale manufacture of pharmaceutical grade DNA and this was recognised publicly in July 2001 when we were presented with a Smart Foresight Award for the development of a new generation of safer gene (DNA) products and industrially scaleable manufacturing processes for DNA-based medicines.

From this technology platform we have created a contract manufacturing business supplying gene medicines to other pharmaceutical organisations. Cobra is now at the leading edge of DNA manufacture, in particular for DNA vaccines for infectious diseases and cancer.

The scale up of our biological product manufacturing facility by 100% is nearing completion. We believe our facility is one of only a small number of Good Manufacturing Practice (GMP) compliant facilities in Europe able to produce plasmid DNA, viral products and proteins for clinical use at the scale and quality

required to support this new generation of therapeutic products. Demand from both European and US customers remains strong and we expect the business to continue to grow substantially.

A number of product candidates manufactured by Cobra are undergoing 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 use of antibiotics in the production process and the use of resistance genes. We believe that 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 and veterinary applications.

Pre-Clinical Research

As stated earlier it is our intention to focus our research effort on DNA vaccines, cancer killing systems and targeted drug delivery.

Cobra scientists are developing a vaccine approach 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 patient's 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.

We have made considerable progress with our polymer therapeutics project such that data is now available which demonstrates the clear advantages of our dextrin polymers as carrier systems for other cancer chemotherapy agents. A specific construct has shown improved efficacy in cancer models as compared to the small molecule equivalent. We believe that this dextrin polymer technology will have broad applicability to a wide range of cancer drugs, resulting in improved treatment for patients.

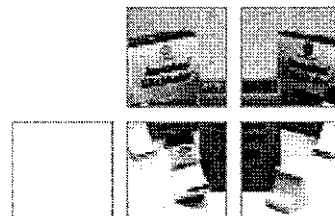
Another proprietary drug targeting system has prevented rejection of organ transplants in a manner which is advantageous as compared to market leading commercially available immunosuppressants. This system should have wide applicability and because of its specificity may substantially improve the treatment of patients receiving organ transplants.

We believe that the platform technologies developed by our scientists will lead in the near future to both specific drug candidates and development collaborations with other pharmaceutical companies and create opportunities which we will feed into our experienced clinical development and regulatory affairs teams.



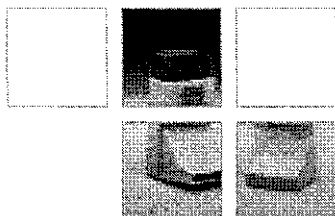
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Chief Executive 20th March 2002



Financial Review

For the year ended 30th September 2001



Turnover and gross profit

Turnover includes income from royalties and product sales and fee income from licensing, evaluation and development agreements. During the year Paul Capital Royalty Acquisition Fund ('PCRAF') acquired an entitlement to a proportion of certain of our income streams, as explained below, under the heading 'Other operating income'. As a result both royalty income and pharmaceutical product sales for the year to 30th September 2001 are stated net of PCRAF's entitlement, which distorts comparison with the previous year.

Total turnover in the year was £9.3m compared with £11.9m in the previous year, the reduction being largely attributable to the fact that no significant fee income arose during the year, compared with £2.5m in the previous year. As previously advised, such 'milestone' receipts are typically triggered by regulatory or commercial events and as such are irregular in timing and subject to substantial variation from one period to another.

Royalty income increased to £3.2m from £2.8m reflecting continuing growth in sales of Extraneal by our licensee, Baxter Healthcare. Whilst total pharmaceutical product sales reduced to £4.6m from £5.2m, sales of Icodextrin raw material under our long term contract with our licensee remained broadly constant, sales of ADEPT, prior to its being licensed to Shire, increased, and DNA contract manufacturing sales grew significantly. However, sales of Clickhalers to our licensee, Celltech, were at a reduced level as a result of the phasing of supplies.

The reduction in turnover resulted in a corresponding reduction in gross profit to £5.8m compared with £7.2m.

Operating Costs

Research and development expenditure increased to £11.0m from £9.3m, which was almost wholly attributable to the inclusion of Cobra for a full year. A reduction in expenditure on the ML Pharmaceutical product portfolio was matched by an increase in spending at Innovata Biomed.

Selling, marketing and distribution expenses remained constant at £1.3m.

Administrative expenses increased to £10.5m from £8.3m largely as a result of increases in staff costs and establishment costs, including the effect of a full year's costs at Cobra.

Other operating income

In July 2001 the Group received £17.5m from PCRAF under an agreement by which they will receive a proportion of future royalty and revenue streams from certain of our products. £13.0m of this amount has been included in 'Other operating income' in the current year and the remaining £4.5m has been included in the balance sheet as deferred income, to be treated as income in future years as we fulfil our obligation under the agreement to apply an agreed portion of the monies received from PCRAF to the clinical development of ADEPT in the US. This treatment is explained more fully in note 3 to the financial statements.

Loss for the year

The operating loss for the year was £3.9m compared with £11.7m for the previous year and after net interest costs of £0.1m the pre-tax loss for the year was £4.0m compared with £11.8m. This represents a loss per share of 2.56p, reduced from 7.93p.

Net assets

Net assets at 30th September 2001 were £12.64m, reduced from £16.37m at 30th September 2000 as a result of the loss for the year of £4.04m offset by amounts subscribed on the exercise of share options of £0.31m.

Intangible assets comprise goodwill on the acquisition of Cobra which was reduced to £5.5m from £5.8m as a result of its amortisation over 20 years.

Expenditure on tangible fixed assets amounted to £1.7m, the principal items being the installation of a waste water treatment plant at the Icodextrin manufacturing plant in Liverpool, plant and equipment at Cobra, and further expenditure on motor vehicles and office equipment. After depreciation of £1.7m and adjusting for asset disposals, the net book value of tangible fixed assets at 30th September 2001 remained at a similar level to the previous year at £4.5m.

Net current assets, comprising stock, debtors and creditors due within one year but excluding cash and bank overdrafts, were £0.9m compared with £0.1m. Creditors due after more than one year were reduced to £1.4m from £8.9m, principally as a result of the repayment during the year of a bank loan of £7.5m, and comprised the relevant portion of the obligations under finance leases and other borrowing to fund capital expenditure.

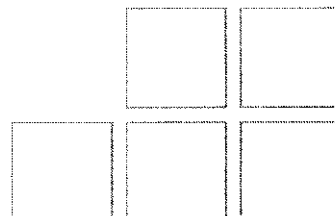
Financial Review

For the year ended 30th September 2001

As explained above, deferred income of £4.5m comprises the balance of the monies received from PCRAF not yet released to the profit and loss account.

Cash balances and cash flow

Cash consumed by operations, net interest charges and capital expenditure, offset by amounts raised from finance leases, net of repayments, and amounts subscribed on the exercise of share options amounted to £17.3m. This was effectively countered by the receipt from PCRAF of £17.5m, leaving the repayment of our bank loan of £7.5m as the principal contributor to our total net cash outflow of £7.3m. We ended the period with cash balances, net of bank overdrafts, of £7.5m.



P J Shennan

Finance Director 20th March 2002

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.

Registrars and transfer office

Capita IRG PLC, Bourne House,
34 Beckenham Road, Kent, BR3 4TH

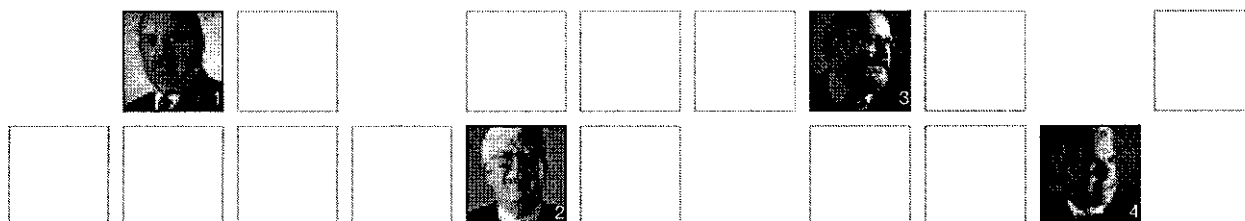
Registered auditors

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

Stockbroker

WestLB Panmure Ltd, Woolgate Exchange,
25 Basinghall Street, London, EC2V 5HA.
Member of S.F.A.

Directors



1 K. R. Leech

Chairman (Age 58)

Kevin Leech is the co-founder of the Company and its largest shareholder. 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, and a number of unquoted 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.

2 Dr. R. N. Boyes, PhD

Group Director of R&D (Age 61)

Nick Boyes joined the Group in 1990 when it acquired 75% of the equity of his Company, Innovata Biomed Limited 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.

3 S. W. Sim, FCA

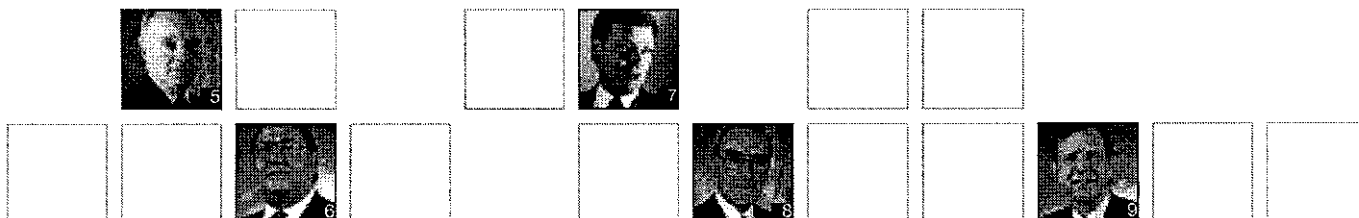
Chief Executive (Age 50)

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.

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

Medical Director (Age 59)

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, FRCPPath, FRCP

Non-Executive Director (Age 61)

Donald Davies is Professor of Biochemical Pharmacology and Director of Clinical Pharmacology in the Faculty of Medicine at Imperial College, 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 56)

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 51)

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 & Lybrand where he held a senior position in the corporate finance advisory team.

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

Non-Executive Director (Age 66)

Anthony Dayan joined the Board in March 1998. He is a leading toxicologist and has published more than 150 research papers and has 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 61)

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 Chairman of PhotoBiotics Limited and a non-executive Director of Peptech Limited and Renovo Limited. He is also a member of the Central Research and Development Committee for the NHS 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 2001.

Principal activities

To date, the Group has successfully developed and commercialised a number of its ethical pharmaceutical products. During the year it has continued to 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 has announced that it will now focus on the development of its cancer management products. The Group also provides educational training for the pharmaceutical and biotechnology industries.

Business review

The Chairman's Statement, the Operational Review and the Financial Review on pages 2 to 13 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 £4,043,293 (2000 £11,811,975). The Group loss for the year after taxation and minority interests of £4,043,293 has been added to the deficit brought forward on profit and loss account reserves as shown in note 18 on page 42. 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 portfolio of pharmaceutical, medical and other novel products.

The loss for the year is stated after charging research and development expenditure of £10,951,385 (2000 £9,269,346).

Post balance sheet events

On 5th February 2002 the Group completed a second transaction with Paul Capital Royalty Acquisition Fund ("PCRAF") whereby PCRAF provided £5m for which it will receive an increased proportion of the royalty and revenue streams from two of the products which were the subject of the first PCRAF transaction, completed in July 2001, under which PCRAF provided £17.5m to fund the development of M.L.'s products for which PCRAF will receive a proportion of the royalty and revenue streams from three products until 2010 and further details of which are contained in the Financial Review and note 3 to the financial statements. The second PCRAF transaction includes a term whereby the Group may be required to repay the £5m in certain circumstances but the Group does not anticipate that this will be the case and expects to be able to confirm this before the end of July 2002.

The subscription agreement for convertible debentures with Elliott International L P and The Liverpool Limited Partnership, both funds managed by Elliott Associates L P, entered into on 17th January 2001 and approved on 8th March 2001 by the shareholders of M.L. Laboratories PLC, lapsed on 11th February 2002 without the issue of any convertible debentures thereunder.

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

Directors' Report

Under the Articles of Association S. W. Sim, Dr. R. N. Boyes and Prof. A. D. Dayan 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 22 to 25.

Directors' share options

Details of the Directors' Share Options are shown in the Remuneration Report on pages 22 to 25.

Directors' interests

The interests (beneficial unless otherwise stated) in the shares of the Company of the Directors who held office at 30th September 2001, were as follows:

	2001 Number of Ordinary Shares	2000 Number of Ordinary Shares	2001 Percentage of Ordinary Share Capital	2000 Percentage of Ordinary Share Capital
K.R. Leech	76,503,995 ⁽¹⁾	76,503,995 ⁽²⁾	48.37%	48.60%
S.W. Sim	839,569 ⁽¹⁾	223,604 ⁽²⁾	0.53%	0.14%
Dr. R.N. Boyes	88,500	38,500	0.06%	0.02%
Dr. C.B. Brown	352,415	352,415	0.22%	0.22%
Prof. D.S. Davies	293,225	252,180	0.19%	0.16%
Prof. A.D. Dayan	7,500	7,500	-	-
G.P. Fothergill	5,450	5,450	-	-
P.J. Shennan	1,000	1,000	-	-

1. Mr. Leech's holding is registered as to 55,372,995 shares in the name of Milner Laboratories Limited, as to 7,120,000 shares in the name of Vidacos Nominees Limited and as to 11,000 shares in the name of Glen Investments Limited. A financial institution to whom 5,820,000 of these shares have been pledged has informed Milner Laboratories Limited that it may convert this collateral into cash by selling some or all of these shares as it is free to do. Mr. Leech retains a notifiable interest in a further 14,000,000 shares transferred by Milner Laboratories Limited under the terms of the settlement agreement referred to in the following paragraph.

On 27th September 2001 the Company announced that a dispute between the shareholders of the Company's largest shareholder, Milner Laboratories Limited, had been resolved subject to the fulfilment of certain conditions, all of which have now been fulfilled. As a consequence of the implementation of that settlement, the Company has been notified that Mr. Leech, Milner Laboratories Limited and Glen Investments Limited (both companies which Mr. Leech controls) and Mr. Sim were interested, for the purposes of sections 198-202 of the Companies Act 1985 ("the Act") and/or by virtue of sections 204 and 205 of the Act as at 30th September 2001, in 78,704,375 shares and as at 20th March 2002 in 79,587,821 shares. To the extent that the numbers shown against their names above are less than this it is understood that the shortfall represents the number of shares in which the relevant Director is interested solely by virtue of the settlement agreement, together with the numbers of shares under option to the Directors concerned as recorded in the table in the Remuneration Report on pages 22 to 25.

Mr. Leech owns 68% of Milner Laboratories Limited and Mrs. Milner owns the balance. Under the terms of the recently announced settlement referred to above, Mr. Leech is to own 86.25% and Mrs. Milner 13.75%.

Mr. Sim's holding includes 1,375 shares held non-beneficially.

2. Milner Laboratories Limited, a company registered in Jersey, C.I., was at 30th September 2000 the beneficial owner of 76,492,995 Ordinary Shares representing approximately 48% of the Company's issued share capital. Mr. Leech is a Director of Milner Laboratories Limited and at 30th September 2000 owned 68% of its issued share capital. The remaining 32% was owned by the estate of the late Mr. J. Milner. The remainder of Mr. Leech's interest in the Company's Ordinary Shares at 30th September 2000 comprised 11,000 shares owned by Glen Investments Limited, a private company registered in Jersey, C. I., of which Mr. Leech is the controlling shareholder.

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

On 12th November 2001, Dr. T. Medinger acquired 20,000 shares. Save for this acquisition, and save as noted in note 1 to the above table, there were no changes to the above holdings between 30th September 2001 and 20th March 2002.

At 30th September 2001, Dr. R. N. Boyes owned 7,500 shares in Innovata Biomed Limited (2000 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 (2000 375 shares) representing 18.75% of that company's issued share capital. Healthcare Education Services Limited is also a subsidiary of the Company.

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 30 on page 46.

Substantial interests

In addition to those disclosed above, as at 20th March 2002, 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 Limited	5,781,398	3.66
Diarmuid Investments Limited	14,000,000 ⁽¹⁾	8.85
Mourant & Co. Trustees Limited	14,000,000 ⁽¹⁾	8.85

1. As noted in connection with the interests of Directors above, on 27th September 2001 the Company announced that a dispute between the shareholders of the Company's largest shareholder, Milner Laboratories Limited, had been resolved subject to the fulfilment of certain conditions, all of which have now been fulfilled. As a consequence of the implementation of that settlement, the Company has been notified that Ellen Milner and Richard Smith were each interested for the purposes of sections 198-202 of the Companies Act 1985 ("the Act") and/or by virtue of sections 204 and 205 of the Act as at 30th September 2001 in 78,704,375 shares; as at 20th March 2002 Mr. Smith's interest had increased to 79,587,821 shares. It is understood that the interests notified by both Mrs. Milner and Mr. Smith arise solely by virtue of the settlement agreement.

In addition to the 14,000,000 shares in which both Diarmuid Investments Limited and Mourant & Co. Trustees Limited are shown as being interested as above, each has notified the Company that as a consequence of the settlement agreement it is deemed to be interested in a further 62,492,995 shares.

Creditor payment policy

The Group's policy and practice 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 2001 trade creditors for the Group represented 50 days of amounts invoiced by suppliers (2000 52 days) and for the Company represented 54 days (2000 57 days).

Charitable and political donations

During the year the Group made no charitable donations (2000 £Nil) and no contributions were made to political organisations (2000 £Nil).

Environmental, health and safety policies

The Group recognises its responsibility for safeguarding the environment and where practically and economically possible seeks to manage its activities efficiently so as to minimise any adverse environmental effects. In this regard, during the year the Group invested in the installation of waste treatment equipment at its manufacturing plant in Liverpool which both eliminated 95% of the adverse environmental impact of its non-hazardous waste stream and reduced operating costs. The Group also recognises its obligations for the health and safety of its employees in the workplace and during the year carried out a review of health and safety procedures with the assistance of external consultants. This review included an assessment of risks at the various sites at which the Group's activities are undertaken and has resulted in more formal procedures for managing, co-ordinating and reporting to the Board on health and safety matters. The Group continues to keep environmental, health and safety practices under review.

Ethical and social policies

The Group's principal activities are undertaken within the pharmaceutical industry which is subject to a highly regulated ethical framework with which the Group complies. In addition, the Group seeks to conduct its activities generally in accordance with good business ethics. The Group does not consider it appropriate at its current stage of development to make significant financial donations to charitable, community or social activities, but considers that its most important contribution to the communities within which it operates is to provide high quality employment opportunities and, to society generally, to develop new therapies for serious diseases.

Employees

The Group recognises that in an industry based on innovation, research and development its employees are one of its biggest assets. The Group operates a policy of equal opportunities with no discrimination on race, sex, disability or any other grounds. The Group provides training and development appropriate to individual needs and offers remuneration packages, including pensions, life and permanent health insurance, and a working environment which are designed to be both fair and competitive with larger companies within the industry. During the last year participation in the Group's share option scheme was extended to the majority of the Group's employees.

Euro

The introduction of the Euro 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.

Annual general meeting

The 2002 Annual General Meeting ("AGM") of M. L. Laboratories PLC will be held at the Institute of Directors, Pall Mall, London SW1Y 5ED on 29th April 2002 at 11am. Notice of that meeting is enclosed with this document.

In addition to the ordinary business set out in the notice of the AGM, the following resolutions will be proposed:

- an ordinary resolution granting the Directors authority to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985) ("the Act") for a period of 15 months from the date of the resolution, or, if sooner, until the 2003 Annual General Meeting subject to a maximum nominal value of £527,228.54 representing one third of the issued share capital of the Company at today's date and
- a special resolution disapplying the statutory pre-emption rights in section 89(1) of the Act for a period of 15 months from the date of the resolution, or, if sooner, until the 2003 Annual General Meeting, in relation to the pre-emptive issues and in relation to the allotment of equity securities for cash subject to a maximum nominal value of £79,084.28 representing 5 per cent. of the issued share capital of the Company at today's date.

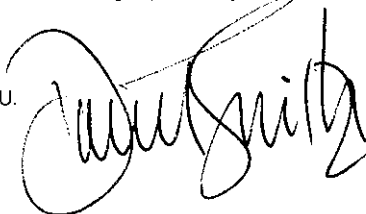
Each of the powers above is separate and is in substitution for all such previous powers granted to the Directors.

The Directors consider the grant to them of these powers to be in the best interests of the Company and its shareholders, to enable them to take advantage of business opportunities as they arise, and unanimously recommend you to vote in favour of those resolutions at the AGM as they and those persons connected with them intend to do in respect of a total of 78,111,654 ordinary shares (representing approximately 49.3 per cent. of the current issued ordinary share capital).

You will find enclosed with the notice of the AGM a proxy card for use at the AGM. Whether or not you propose to attend the AGM in person, you are requested to complete and return the proxy card to the Company's Registrars in accordance with the instructions printed thereon as soon as possible and in any event, so as to be received no later than 11am on 27th April 2002. Please note that completion and return of the proxy cards will not preclude you from attending the AGM and voting in person if you wish.

By order of the Board

David Smith, Secretary,
17 Hanover Square, London, W1S 1HU.
20th March 2002.



Remuneration Report

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 the 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 37 which also constitute part of this Remuneration Report

	Basic Salary £000	Bonus £000	Taxable Benefits £000	Pension Contributions £000	Fees £000	Total 2001 £000	Total 2000 £000
Executive Directors							
K.R. Leech	219	-	20	33	-	272	246
S.W. Sim	265	-	24	40	-	329	269
Dr. R.N. Boyes	148	-	10	22	-	180	190
Dr. C.B. Brown	152	-	13	23	-	188	171
G.P. Fothergill	231	71	28	27*	-	357	281
P.J. Shennan	140	-	13	21	-	174	168
Non-Executive Directors							
Prof. D.S. Davies	-	-	15	-	87	102	95
Prof. A.D. Dayan	-	-	-	-	37	37	33
Dr. T. Medinger	-	-	-	-	27	27	23

* 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), Senior Management and the majority of other employees 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 bonus paid to Mr. Fothergill, which was not pensionable, was performance based and specifically in relation to the progress made in the commercialisation of the Group's products.

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 45, 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 which state that at least one third of the Directors will retire by rotation each year.

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	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
			650,802		

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	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
			147,469		
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 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 and amended in 2001. There are two parts to the 1999 Scheme, an "Approved" element, which has been approved by the Inland Revenue, which is primarily used for the grant of options to employees at all levels, 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. Prior to its amendment in 2001, the 1999 Scheme contained the concept of "basic options" and "super options". Basic options could 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 exceeded four times his/her annual emoluments; that limit was increased to eight times in respect of "super options", that is, options the exercise of which was subject to particularly challenging performance criteria. Under the Unapproved part of the Scheme, since its amendment in 2001, senior Executives may be granted options over shares with a value of up to two times their total remuneration in any year. Grants may be made in excess of this limit, however, if the Remuneration Committee decides that this is justified in the circumstances of recruitment or to reflect prevailing market practices outside the UK where an Executive carries on his duties overseas or other exceptional circumstances. 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 were, in relation to basic and super options, that the share price shall double and treble, respectively). Since the amendment of the 1999 Scheme in 2001, options granted on an all employee basis need not be subject to a performance condition if the Remuneration Committee considers this appropriate. Options granted to senior Executives to date have been granted subject to performance conditions related to the performance of the Company's share price between the date of grant and the date of exercise. Since the amendment of the 1999 Scheme in 2001, the policy of the Remuneration Committee has been to impose the following performance conditions on all option grants whether to Executives or on a Company-wide basis:

- For awards over shares with a value of up to 100% of total remuneration in a year, the Company's share price (based on a 30 day average) must have achieved a level of at least 50% growth (rising by 10% a year from the fifth anniversary of grant) from

the option price at some time in the period from the date of the option vesting until option exercise.

- For awards over shares with a value of over 100% of total remuneration in a year, the Company's share price (based on a 30 day average) must have achieved a level of at least 100% growth (rising by 20% a year from the fifth anniversary of grant) from the option price at some time in the period from the date of the option vesting until option exercise.

Options 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. The 1999 Scheme makes special provision for the grant of options to newly recruited members of staff.

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:-

Name of Director	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
	02/11/01	£0.37	400,338	02/11/04	02/11/11
			423,909		
S. W. Sim	20/08/99	£1.40	113,571	20/08/04	20/08/09
	02/11/01	£0.37	483,108	02/11/04	02/11/11
			596,679		
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
	02/11/01	£0.37	181,419	02/11/04	02/11/11
			219,991		
Dr. C. B. Brown	20/08/99	£1.40	16,429	20/08/04	20/08/09
	02/11/01	£0.37	266,892	02/11/04	02/11/11
			283,321		
Prof. D. S. Davies	20/08/99	£1.40	9,643	20/08/04	20/08/09
	02/11/01	£0.37	152,518	02/11/04	02/11/11
			162,161		
G. P. Fothergill	20/08/99	£1.40	29,286	20/08/04	20/08/09
	02/11/01	£0.37	472,973	02/11/04	02/11/11
			502,259		
P. J. Shennan	20/08/99	£1.40	28,571	20/08/04	20/08/09
	02/11/01	£0.37	253,378	02/11/04	02/11/11
			281,949		

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. The market price of the Company's shares at the date of exercise was £1.42 per share, resulting in the following gains:

Name of Director	2001 £	2000 £
S. W. Sim	622,125	135,020
Prof. D. S. Davies	97,005	129,012
Total gains on share options	719,130	264,032

Professor Davies sold 55,000 of these shares on the date of exercise. However the rest of the above gains are notional as they are calculated as at the exercise date, although the shares have been retained. An actual gain will only be made by the Director should he subsequently dispose of the shares at a price greater than the exercise price.

Options over 55,305 shares (2000 Nil) lapsed during the year. The market price of the shares at 30th September 2001 was £0.39 and the range during the financial year was £0.365 to £1.465.

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 control

The Board is responsible for maintaining an effective system of internal control. There is an ongoing process for identifying, evaluating and managing the significant risks facing the Group on a continuing basis and for regular reporting of the operation of the risk management process. This includes a system of formal reporting on a regular basis on the review and management of a matrix of specific risks by members of senior management and Directors to whom responsibility for such risks has been allocated and also the discussion at each Board meeting of standing agenda items covering the principal areas of the Group's activities in addition to the internal financial controls summarised below. Such an internal control framework is designed to manage rather than eliminate risk and can only provide reasonable, not absolute, assurance against material misstatement or loss. The Board considers that the size of the Group does not require an internal audit function at present but will continue to keep the matter under review. The Directors have reviewed the effectiveness of internal control, including internal financial control, during the year and to the date of approval of these financial statements.

The main features of the internal financial control framework implemented are :

Financial reporting

There is a detailed budgeting system with a two year rolling forecast 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. The cash position is monitored on a daily basis and monthly summaries are prepared for the Board. Speculative transactions are not undertaken.

Insurance

As explained above, the identification of major business risks is carried out in conjunction with operating management and is reviewed by the Board. In addition, the Group has insurance cover where it is considered appropriate.

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

As explained in the Chairman's Statement and note 1 to the financial statements 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 maintenance and integrity of the M.L. Laboratories PLC website is the responsibility of the Directors; the work carried out by the Auditors does not involve consideration of these matters and, accordingly, the Auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

20th March 2002

Independent Auditors' Report to the Members of ML Laboratories PLC

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cash flow statement and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of directors and auditors

The Directors responsibility for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law 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. The other information comprises only the Directors' Report, the Chairman's Statement, the Chief Executive's Operational Review, the Financial Review, the Remuneration Report and the Corporate Governance statement.

We review whether the Corporate Governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, 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.

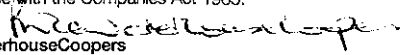
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity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

Uncertainty-going concern

In forming our opinion, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the uncertainty as to the Group's future financial position. For the reasons explained in the note, the financial statements do not include any adjustments that would arise if they were not drawn up on a going concern basis. In view of the significance of this fundamental uncertainty we consider that it should be drawn to your attention, but our opinion is not qualified in this respect.

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 2001 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

20th March 2002

Consolidated Profit & Loss Account

for the year ended 30th September 2001

	NOTES	2001 £	2000 £
Turnover	2	9,283,558	11,943,198
Cost of sales		(3,487,354)	(4,718,801)
Gross profit		5,796,204	7,224,397
Research and development expenditure		(10,951,385)	(9,269,346)
Selling, marketing and distribution costs		(1,307,409)	(1,319,787)
Administrative expenses		(10,497,269)	(8,333,667)
Other operating income	3	13,023,963	-
Operating loss		(3,935,896)	(11,698,403)
Investment income	4	561,514	490,666
Interest payable	4	(668,911)	(604,238)
Loss on ordinary activities before taxation	2, 5	(4,043,293)	(11,811,975)
Taxation	6	-	-
Loss on ordinary activities after taxation		(4,043,293)	(11,811,975)
Minority interests		-	-
Loss for year	18	(4,043,293)	(11,811,975)
Loss per ordinary share	22	(2.56)p	(7.93)p

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.

All group operations are continuing.

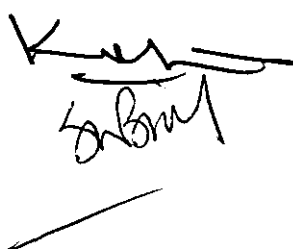
Consolidated Balance Sheet

at 30th September 2001

	NOTES	2001 £	2000 £
Fixed Assets			
Intangible assets	8	5,476,987	5,773,041
Tangible assets	9	4,498,936	4,526,323
Investments	10	125,058	62,647
		10,100,981	10,362,011
Current Assets			
Stocks	11	1,907,119	877,724
Debtors	12	6,130,119	5,581,958
Investments	13	3,560	3,560
Cash at bank and in hand	14	9,992,700	14,853,502
		18,033,498	21,316,744
Current Liabilities			
Creditors: amounts falling due within one year	15(a)	(9,653,324)	(6,377,418)
Net Current Assets		8,380,174	14,939,326
Total Assets less Current Liabilities		18,481,155	25,301,337
Creditors: amounts falling due after more than one year	15(b)	(1,365,287)	(8,926,537)
		17,115,868	16,374,800
Deferred income	3	(4,476,037)	-
Net assets		12,639,831	16,374,800
Capital and Reserves			
Share capital	17, 18	1,581,686	1,574,166
Share premium account	18(a)	36,502,990	36,202,186
Merger reserve	18(a)	8,335,897	8,335,897
Profit and loss account	18(a)	(33,780,742)	(29,737,449)
Equity Shareholders' Funds	18(a)	12,639,831	16,374,800
Minority interests		-	-
		12,639,831	16,374,800

The financial statements on pages 29 to 46 were approved by the Board of Directors on 20th March 2002 and were signed on its behalf by:

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



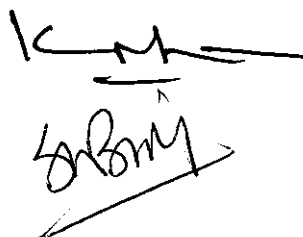
Parent Company Balance Sheet

at 30th September 2001

	NOTES	2001 £	2000 £
Fixed Assets			
Tangible assets	9	2,679,307	2,445,257
Investments	10	14,727,336	14,620,744
		17,406,643	17,066,001
Current Assets			
Stocks	11	286,211	171,290
Debtors - due within one year	12(a)	3,388,830	2,196,732
Debtors - due after more than one year	12(b)	1,199,096	4,995,286
Investments	13	3,560	3,560
Cash at bank and in hand	14	30,971,367	23,356,594
		35,849,064	30,723,462
Current Liabilities			
Creditors: amounts falling due within one year	15(a)	(4,142,930)	(3,554,703)
Net Current Assets		31,706,134	27,168,759
Total Assets less Current Liabilities		49,112,777	44,234,760
Creditors: amounts falling due after more than one year	15(b)	(1,312,705)	(8,859,956)
		47,800,072	35,374,804
Deferred income	3	(4,476,037)	-
Net Assets		43,324,035	35,374,804
Capital and Reserves			
Share capital	17, 18(b)	1,581,686	1,574,166
Share premium account	18(b)	36,502,990	36,202,186
Special reserve	18(b)	4,048,952	4,048,952
Merger reserve	18(b)	8,335,897	8,335,897
Profit and loss account	18(b)	(7,145,490)	(14,786,397)
Equity Shareholders' Funds	18(b)	43,324,035	35,374,804

The financial statements on pages 29 to 46 were approved by the Board of Directors on 20th March 2002 and were signed on its behalf by:

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



Consolidated Cash Flow Statement

for the year ended 30th September 2001

	NOTES	2001 £	2000 £
Net Cash Inflow/(Outflow) from Operating Activities	27	1,658,668	(12,459,197)
Returns on Investments and Servicing of Finance			
Interest received		567,396	512,352
Interest paid		(420,409)	(383,316)
Investment income		-	22
Interest paid on finance leases		(221,343)	(246,806)
Net Cash Outflow from Returns on Investments and Servicing of Finance		(74,356)	(117,748)
Taxation			
UK Corporation tax		-	-
Capital Expenditure			
Purchase of tangible fixed assets		(1,814,886)	(1,052,658)
Purchase of fixed asset investment		(62,411)	(33,270)
Receipts from sale of tangible fixed assets		87,475	98,061
Net Cash Outflow for Capital Expenditure		(1,789,822)	(987,867)
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		-	4,089,095
Net Cash Outflow before Management of Liquid Resources and Financing		(205,510)	(9,475,717)
Management of Liquid Resources			
Cash withdrawn from/(placed on) short-term deposit		4,823,000	(9,159,987)
Net Cash Inflow/(Outflow) from Management of Liquid Resources		4,823,000	(9,159,987)
Financing			
Issue of ordinary share capital		308,324	11,867,217
Expenses paid in connection with share issue		-	(138,026)
		308,324	11,729,191
Capital element of finance lease rental payments		(1,359,756)	(1,329,771)
Lease finance acquired		1,262,300	743,566
Capital element of unsecured loan payments		(27,781)	-
Unsecured loan received		189,998	-
(Repayment)/drawdown of loan facility		(7,500,000)	7,500,000
(Decrease)/increase in debt and lease financing	28	(7,435,239)	6,913,795
Net Cash (Outflow)/Inflow from Financing		(7,126,915)	18,642,986
(Decrease)/Increase in Cash in Year	28	(2,509,425)	7,282

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, not exceeding 20 years.

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% - 33.3% per annum
Computer and office equipment	20% - 25% per annum
Motor vehicles	33.3% 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 by reference to the capital balance outstanding.

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. Non-returnable licence fees, including those which contain an element which is creditable against future royalties, are recognised in full as turnover in the profit and loss account in the year in which they become receivable.

Notes to the Financial Statements

For the year ended 30th September 2001

1. Basis of preparing the financial statements – going concern

The financial statements have been prepared on a going concern basis which is supported by the projected cash flow of the Group. The projections include receipt of milestone and similar income the Group anticipates will arise on the commercialisation of its products and divestment proceeds arising from the implementation of the strategic review referred to in the Chairman's Statement. The Directors recognise that the timing and amount of such receipts is not guaranteed and that as a result the Group's financial position cannot be certain. However, the Directors have a reasonable expectation that the Group will have sufficient working capital for the foreseeable future and consequently believe that it is appropriate for the financial statements to be prepared on a going concern basis. The financial statements do not contain any adjustments that would arise if the financial statements were not drawn up on a going concern basis. If required these adjustments would be made to the balance sheets of the Company and the Group to increase or reduce the balance sheet values of assets to their recoverable amounts, to provide for further liabilities that might arise and to reclassify fixed assets and long term liabilities as current assets and liabilities.

2. Segmental analysis by class of business

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

Segmental reporting

2001	Turnover £	Research and development expenditure £	Other expenses £	Other operating income £	Loss before taxation £	Net assets £
Licensing, evaluation & development fees	49,435	–	–	–	–	–
Royalties	3,218,692	–	–	–	–	–
Product sales	4,564,758	–	–	–	–	–
Total pharmaceutical activities	7,832,885	(10,544,528)	(12,220,828)	13,023,963	(2,032,386)	14,864,431
Other activities	1,450,673	(406,857)	(3,071,204)	–	(2,010,907)	(2,224,600)
Total	9,283,558	(10,951,385)	(15,292,032)	13,023,963	(4,043,293)	12,639,831

2000	Turnover £	Research and development expenditure £	Other expenses £	Other operating income £	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

Geographical segments

	United Kingdom		North America		Europe		Group	
	2001 £	2000 £	2001 £	2000 £	2001 £	2000 £	2001 £	2000 £
Turnover by destination	2,463,955	4,497,181	822,940	1,606,210	5,996,663	5,839,807	9,283,558	11,943,198
Turnover by origin	9,283,558	11,943,198	–	–	–	–	9,283,558	11,943,198
Loss before taxation	(4,043,293)	(11,811,975)	–	–	–	–	(4,043,293)	(11,811,975)
Net assets	12,639,831	16,374,800	–	–	–	–	12,639,831	16,374,800

3. Other operating income

In July 2001 the Group entered into an Agreement with Paul Capital Royalty Acquisition Fund ("PCRAF") under which PCRAF paid £17,500,000 and will receive a proportion of the royalty and revenue streams arising from ADEPT and two other products in the period to 30th September 2010. Of the sum received from PCRAF under this Agreement £13,023,963 has been treated as "Other operating income" and the balance of £4,476,037 is included in the balance sheet at 30th September 2001 as deferred income as it represents the balance outstanding at that date of our obligation under the Agreement to apply an agreed portion of the funds received specifically to the clinical development of ADEPT in the US market. This deferred income will be released to the profit and loss account under "Other operating income" as the obligation is met, which we anticipate should be over the period of the next two years.

Notes to the Financial Statements

For the year ended 30th September 2001

3. Other operating income (continued)

While the risk relating to that proportion of the future royalty and revenue streams receivable by PCRAF under the Agreement has effectively been transferred to PCRAF, under certain specified circumstances (including change of control of M. L. Laboratories PLC, certain major corporate transactions, and events of default material in the context of the PCRAF transaction) PCRAF has the right to require the Group to purchase PCRAF's interests in the royalty and income streams concerned for a consideration calculated to give PCRAF an agreed minimum rate of return.

4. Investment income and interest payable

Investment income	2001 £	2000 £
Bank interest receivable	556,559	486,120
Other interest receivable	4,955	4,524
Income from current asset investments	-	22
	561,514	490,666

Interest payable	2001 £	2000 £
On bank overdraft - repayable within 5 years, not by instalments	5,007	24,952
On bank loan	433,596	332,480
On unsecured loan	8,965	-
On finance leases	221,343	246,806
	668,911	604,238

5. Loss on ordinary activities before taxation

	2001 £	2000 £
Loss on ordinary activities before taxation is stated after charging:		
Depreciation - tangible owned fixed assets	599,106	366,368
- tangible fixed assets held under finance leases	1,109,748	1,034,044
Amortisation of intangible fixed assets	296,054	148,026
Auditors' remuneration for:		
- Audit (Company £20,000) (2000 £25,000)	47,310	55,670
Operating leases - hire of other assets	61,221	31,187
- rental of premises	707,513	503,950
Loss on disposal of tangible fixed assets	9,629	2,844
And after crediting:		
Profit on disposal of tangible fixed assets	53,657	68,039

Remuneration of the Company's Auditors for provision of non-audit services to the Company and its subsidiary undertakings was £90,004 (2000 £19,180). This consists principally of fees in respect of taxation compliance and advisory work and corporate governance advisory services.

6. Taxation

	2001 £	2000 £
UK Corporation tax at 30% (2000 30%)	-	-

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 2001, the total tax losses in Group companies amounted to £68.5m. 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 2001

7. Directors and employees

	2001	2000
Employees		
Average weekly number of persons (including Directors) employed by the Group during the year		
Research and development	94	79
Administration and marketing	68	57
Production	77	54
	239	190

	2001 £	2000 £
Staff costs (for the above persons)		
Wages and salaries	8,204,349	6,335,627
Social security costs	788,766	633,604
Other pension costs (note 26)	519,928	454,972
	9,513,043	7,424,203

Directors' Remuneration

Remuneration paid to the Directors of the holding company	£	£
Aggregate emoluments	1,471,305	1,326,984
Aggregate gains made on the exercise of share options	719,130	264,032
Amounts invoiced from third parties	28,275	15,235
Contributions to money purchase pension schemes	166,085	154,222
	2,384,795	1,760,473
Emoluments payable to the highest paid Director	£	£
Aggregate emoluments including gains on share options	911,218	388,490
Contributions to money purchase pension scheme	39,825	35,138
	951,043	423,628

No Director waived emoluments in respect of the year ended 30th September 2001 (2000 None).

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 £719,130 of which £622,125 related to the gain attributable to the highest paid Director.

Further details of the remuneration and Share Options of Directors are given in the Remuneration Report on pages 22 to 25.

8. Intangible fixed assets

Group COST	Goodwill £
At 1st October 2000	5,921,067
Additions	-
At 30th September 2001	5,921,067
AGGREGATE AMORTISATION	£
At 1st October 2000	148,026
Charge for the year	296,054
At 30th September 2001	444,080
Net book value at 30th September 2001	5,476,987
Net book value at 30th September 2000	5,773,041

Goodwill arising 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.

Notes to the Financial Statements

For the year ended 30th September 2001

9. Tangible fixed assets

Group COST	Plant & machinery £	Computer & office equipment £	Motor vehicles £	Short leasehold buildings £	Total £
At 1st October 2000	8,262,826	1,651,087	1,055,607	1,887,781	12,857,301
Additions	1,106,016	263,230	355,667	-	1,724,913
Disposals	-	(2,593)	(315,786)	-	(318,379)
At 30th September 2001	9,368,842	1,911,724	1,095,488	1,887,781	14,263,835

DEPRECIATION

At 1st October 2000	5,060,388	1,065,790	569,678	1,635,122	8,330,978
Charge for year	1,039,161	221,135	307,062	141,496	1,708,854
Disposals	-	-	(274,933)	-	(274,933)
At 30th September 2001	6,099,549	1,286,925	601,807	1,776,618	9,764,899

NET BOOK VALUE

At 30th September 2001	3,269,293	624,799	493,681	111,163	4,498,936
At 30th September 2000	3,202,438	585,297	485,929	252,659	4,526,323

The net book value of tangible fixed assets includes £3,028,029 (2000 £3,019,506) in respect of assets held under finance leases.

Company COST

At 1st October 2000	4,193,221	620,979	603,165	42,354	5,459,719
Additions	632,484	120,884	251,426	-	1,004,794
Transfer to subsidiary	-	-	(14,623)	-	(14,623)
Transfer from subsidiary	-	27,879	9,872	-	37,751
Disposals	-	(2,593)	(186,534)	-	(189,127)
At 30th September 2001	4,825,705	767,149	663,306	42,354	6,298,514

DEPRECIATION

At 1st October 2000	2,211,063	443,311	339,523	20,565	3,014,462
Charge for year	508,204	78,073	172,486	1,765	760,528
Transfer to subsidiary	-	-	(14,623)	-	(14,623)
Transfer from subsidiary	-	22,243	4,113	-	26,356
Disposals	-	-	(167,516)	-	(167,516)
At 30th September 2001	2,719,267	543,627	333,983	22,330	3,619,207

NET BOOK VALUE

At 30th September 2001	2,106,438	223,522	329,323	20,024	2,679,307
At 30th September 2000	1,982,158	177,668	263,642	21,789	2,445,257

The net book value of tangible fixed assets includes £2,140,265 (2000 £2,036,226) in respect of assets held under finance leases.

Notes to the Financial Statements

For the year ended 30th September 2001

10. Fixed asset investments

Group COST Joint Venture £

At 1st October 2000	62,647
Additions	62,411
At 30th September 2001	125,058

Company COST Subsidiaries £ Joint Venture £ Total £

At 1st October 2000	14,558,097	62,647	14,620,744
Additions	44,181	62,411	106,592
At 30th September 2001	14,602,278	125,058	14,727,336

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

Since the year end the Group has disposed of its interests in Bioincubator York Limited to its joint venture partner, the University of York, for a cash consideration equal to the cost of its investment.

Notes to the Financial Statements

For the year ended 30th September 2001

11. Stocks

	Group		Company	
	2001	2000	2001	2000
	£	£	£	£
Raw materials & consumables	1,658,437	745,092	37,529	48,414
Finished goods	248,682	132,632	248,682	122,876
	1,907,119	877,724	286,211	171,290

12. Debtors

	Group		Company	
	2001	2000	2001	2000
	£	£	£	£
(a) Amounts falling due within one year:				
Trade debtors	2,203,961	2,005,853	577,356	495,955
Other debtors	941,040	842,939	193,164	355,898
Prepayments and accrued income	2,985,118	2,733,166	2,618,310	1,344,879
	6,130,119	5,581,958	3,388,830	2,196,732
(b) Amounts falling due after more than one year:				
Amounts owed by subsidiary undertakings	-	-	1,199,096	4,995,286
	6,130,119	5,581,958	4,587,926	7,192,018

The amounts due from subsidiary undertakings are interest free.

13. Current asset investments

Group & Company	2001	2000
	£	£
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 2001	3,560	3,560
Aggregate market value of quoted investments	2,365	4,685

14. Cash at bank and in hand

Included in cash at bank is an amount of £500,000 (2000 £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	
	2001	2000	2001	2000
	£	£	£	£
(a) Amounts falling due within one year:				
Bank overdraft	2,471,623	-	8,064	56,095
Obligations under finance leases	1,195,650	1,129,446	978,264	955,426
Unsecured loan	59,808	-	59,808	-
Trade creditors	2,859,734	2,626,594	1,444,018	1,394,550
Taxation and social security	317,693	293,075	135,759	117,542
Other creditors	110,786	462,504	19,913	21,702
Accruals and deferred income	2,638,030	1,865,799	1,497,104	1,009,388
	9,653,324	6,377,418	4,142,930	3,554,703

Notes to the Financial Statements

For the year ended 30th September 2001

15. Creditors (continued)

	Group		Company	
	2001	2000	2001	2000
	£	£	£	£
(b) Amounts falling due after more than one year:				
Obligations under finance leases	1,262,878	1,426,537	1,006,187	1,158,956
Bank loan	-	7,500,000	-	7,500,000
Unsecured loan	102,409	-	102,409	-
Amounts owed to subsidiary undertakings	-	-	204,109	201,000
	1,365,287	8,926,537	1,312,705	8,859,956

The Company has provided unlimited multilateral guarantees in respect of the bank overdrafts of its subsidiaries, which at 30th September 2001 amounted to £23,443,110 (2000 £10,247,174).

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

	2001	2000
	£	£
Authorised		
200,000,000 Ordinary Shares of 1p each	2,000,000	2,000,000
Allotted, called-up and fully paid		
158,168,563 Ordinary Shares of 1p each (2000 157,416,553 Ordinary Shares)	1,581,686	1,574,166

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 Directors and Executives to subscribe for Ordinary Shares and which remain unexercised as at 20th March 2002 are as follows:

Date of Grant	Subscription Price	Number of Options	Exercise Date	Expiry Date
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	£0.885	676,407	06/07/01	06/07/08
08/03/99	£1.065	375,000	08/03/02	08/03/09
		4,616,934		

Notes to the Financial Statements

For the year ended 30th September 2001

17. Called-up share capital (continued)

Under the M. L. Laboratories PLC 1999 Executive Share Option Scheme, options which have been granted to Directors, Executives and employees to subscribe for Ordinary Shares and which remain unexercised as at 20th March 2002 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	782,296	10/11/03	10/11/10
02/11/01	£0.37	4,362,936	02/11/04	02/11/11
5,754,135				

Pursuant to a subscription agreement for convertible debentures with Elliott International L P and The Liverpool Limited Partnership, both funds managed by Elliott Associates L P, warrants were issued on 8th March 2001 to subscribe for 1,420,118 Ordinary Shares in the Company at a subscription price of £1.05625 per share and with an expiry date of 8th March 2004.

Details of Directors' interests in Ordinary Shares of the Company are shown in the Directors' Report on pages 17 to 21. Details of Directors' Share Options are shown in the Remuneration Report on pages 22 to 25.

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 2000	1,574,166	36,202,186	8,335,897	(29,737,449)	16,374,800
Exercise of share options	7,520	300,804	-	-	308,324
Loss for year	-	-	-	(4,043,293)	(4,043,293)
At 30th September 2001	1,581,686	36,502,990	8,335,897	(33,780,742)	12,639,831

	Share Capital	Share Premium Account	Special Reserve	Merger Reserve	Profit & Loss Account	Equity Shareholders' Funds
(b) Company	£	£	£	£	£	£
At 1st October 2000	1,574,166	36,202,186	4,048,952	8,335,897	(14,786,397)	35,374,804
Exercise of share options	7,520	300,804	-	-	-	308,324
Profit for year	-	-	-	-	7,640,907	7,640,907
At 30th September 2001	1,581,686	36,502,990	4,048,952	8,335,897	(7,145,490)	43,324,035

During the year 752,010 ordinary shares of 1p each were issued on the exercise of share options.

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 2001 amounted to £4,493,032 (2000 £4,196,978) comprising the goodwill written off against the special reserve up to 30th September 1998 and the amortisation of goodwill from that date of £444,080.

Notes to the Financial Statements

For the year ended 30th September 2001

19. Finance lease obligations

	Group		Company	
	2001	2000	2001	2000
	£	£	£	£
At 30th September 2001 the Group and Company had obligations under finance leases as follows:				
Payable within one year	1,195,650	1,129,446	978,264	955,426
Payable between one and two years	902,126	792,546	705,834	654,397
Payable between two and five years	360,752	633,991	300,353	504,559
	2,458,528	2,555,983	1,984,451	2,114,382

	Group		Company	
	2001	2000	2001	2000
	£	£	£	£
At 30th September 2001 the Group and Company had obligations under the unsecured loan as follows:				
Payable within one year	59,808	-	59,808	-
Payable between one and two years	66,458	-	66,458	-
Payable between two and five years	35,951	-	35,951	-
	162,217	-	162,217	-

20. Financial instruments

Primary financial instruments employed by the Group, other than short-term debtors and creditors, comprise cash, unsecured 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 2001 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, or sale and leaseback, where possible, for cash flow purposes.

The Group's exposure to interest rate risk is limited to its finance leases and unsecured loan which are typically fixed rate and its overdraft and cash deposits which are typically floating rate.

The interest rate profile of financial assets was :

	Floating rate financial assets		
	Cash and current bank accounts	Short-term bank deposits	Total
	£	£	£
Currency			
Sterling	(2,418,418)	9,991,000	7,572,582
US dollars	(51,505)	-	(51,505)
At 30th September 2001	(2,469,923)	9,991,000	7,521,077
Currency			
Sterling	103,389	14,814,000	14,917,389
US dollars	(63,887)	-	(63,887)
At 30th September 2000	39,502	14,814,000	14,853,502

The current year's cash and current bank accounts comprise cash book overdrafts which are represented substantially by unrepresented cheques.

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.

Notes to the Financial Statements

For the year ended 30th September 2001

20. Financial instruments (continued)

The interest rate profile of financial liabilities was :

	Financial liabilities			
	Fixed rate		Floating rate	
	2001	2000	2001	2000
	£	£	£	£
Sterling				
Finance leases	2,458,528	2,555,983	-	-
Unsecured loan	162,217	-	-	-
Bank loan	-	-	-	7,500,000
	2,620,745	2,555,983	-	7,500,000

The weighted average interest rate on finance leases at 30th September 2001 was 9% (2000 8.6%).

	Group		Company	
	2001	2000	2001	2000
	(Months)	(Months)	(Months)	(Months)
The weighted average period to maturity of finance leases was:	26	29	21	24

The weighted average interest rate on the unsecured loan at 30th September 2001 was 10.6% and the period to maturity was 28 months.

The fair value of finance leases at 30th September 2001, calculated by discounting cash flows at prevailing interest rates, was £2,284,000 (2000 £2,455,000).

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

	2001	2000
	£	£
Sterling	(577,624)	4,214,465
Other currencies, principally US dollars	1,209,354	920,600
	631,730	5,135,065

At the year end the Group was utilising the overdraft facility described in note 14.

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 profit for the financial year was £7,640,907 (2000 Loss £12,351,851).

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 £4,043,293 (2000 £11,811,975) and on 158,086,151 ordinary shares (2000 149,041,629), 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 2001 would be to reduce the loss per share.

Notes to the Financial Statements

For the year ended 30th September 2001

23. Other financial commitments

At 30th September 2001 the Group had annual commitments under non-cancellable operating leases as follows:

	2001		2000	
	Land & buildings £	Other £	Land & buildings £	Other £
Expiring within one year	83,800	4,693	38,412	6,602
Expiring between one and two years	40,500	203	40,200	-
Expiring between two and five years	210,465	2,803	199,878**	5,881
Expiring in over five years	349,442**	382	349,442**	-
	684,207	8,081	627,932	12,483

* Subject to a three year rent review

** Subject to a five year rent review

24. Capital commitments

	2001 Group		2000 Company	
	2001 £	2000 £	2001 £	2000 £
Capital expenditure on tangible fixed assets that had been contracted for but has not been provided for in the financial statements	47,359	79,268	28,089	35,011

25. Contingent liabilities

Group & Company

As explained in note 3, under an Agreement entered into in July 2001, in certain circumstances the Group may be required to make payments to PCRAF to purchase its interests in the royalty and income streams concerned. At 30th September 2001 there were no other 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 Plan 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 £519,928 (2000 £454,972). Contributions totalling £Nil (2000 £Nil) were payable at the year end.

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

	2001 £	2000 £
Operating loss	(3,935,896)	(11,698,403)
Depreciation of tangible fixed assets	1,708,854	1,400,412
Amortisation of goodwill	296,054	148,026
Profit on disposal of tangible fixed assets	(44,028)	(65,195)
(Increase)/decrease in stocks	(1,029,395)	188,272
Increase in debtors	(371,774)	(1,774,941)
Increase/(decrease) in creditors	558,816	(657,368)
Increase in deferred income	4,476,037	-
Net cash inflow/(outflow) from operating activities	1,658,668	(12,459,197)

Notes to the Financial Statements

For the year ended 30th September 2001

28. Reconciliation of net cash flow to movement in funds

	2001 £	2000 £
(Decrease)/Increase in cash in year	(2,509,425)	7,282
Movement in short-term deposits	(4,823,000)	9,159,987
Movement in borrowings	7,435,239	(6,913,795)
Change in Net Funds Resulting from Cash Flows	102,814	2,253,474
Opening Net Funds	4,797,520	2,544,046
Closing Net Funds	4,900,334	4,797,520

29. Analysis of net funds

	2000 £	Cash flow £	2001 £
Cash at bank and in hand	39,502	(37,802)	1,700
Bank overdraft	-	(2,471,623)	(2,471,623)
	39,502	(2,509,425)	(2,469,923)
Short-term deposits	14,814,000	(4,823,000)	9,991,000
Bank loan	(7,500,000)	7,500,000	-
Unsecured loan	-	(162,217)	(162,217)
Finance leases due within 1 year	(1,129,446)	(66,203)	(1,195,649)
Finance leases due in more than 1 year	(1,426,536)	163,659	(1,262,877)
	4,797,520	102,814	4,900,334

The majority of finance leases are arranged in respect of sale and leaseback transactions. Accordingly new finance leases are shown as a separate component of cash flow in the cash flow statement.

30. 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 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

31. Post Balance Sheet Events

On 5th February 2002 the Group completed a second transaction with Paul Capital Royalty Acquisition Fund ("PCRAF") whereby PCRAF provided £5m for which it will receive an increased proportion of the royalty and revenue streams from two of the products which were the subject of the first PCRAF transaction, completed in July 2001, under which PCRAF provided £17.5m to fund the development of M.L.'s products for which PCRAF will receive a proportion of the royalty and revenue streams from three products until 2010 and further details of which are contained in the Financial Review and note 3 to the financial statements. The second PCRAF transaction includes a term whereby the Group may be required to repay the £5m in certain circumstances but the Group does not anticipate that this will be the case and expects to be able to confirm this before the end of July 2002.

The subscription agreement for convertible debentures with Elliott International L P and The Liverpool Limited Partnership, both funds managed by Elliott Associates L P, entered into on 17th January 2001 and approved on 8th March 2001 by the shareholders of M.L. Laboratories PLC, lapsed on 11th February 2002 without the issue of any convertible debentures thereunder.