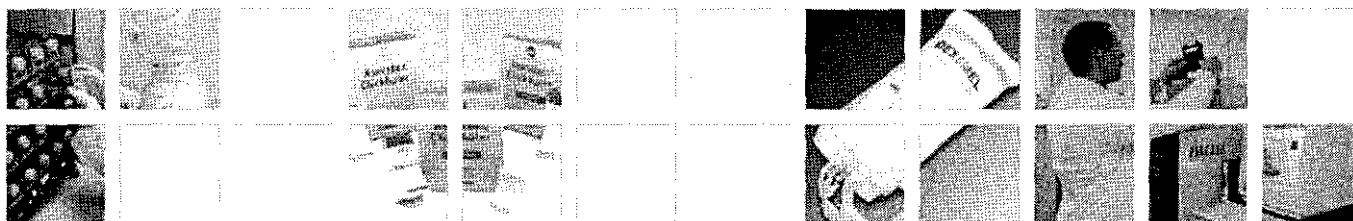


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ML Laboratories PLC

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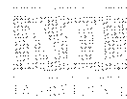
Annual Report 2002

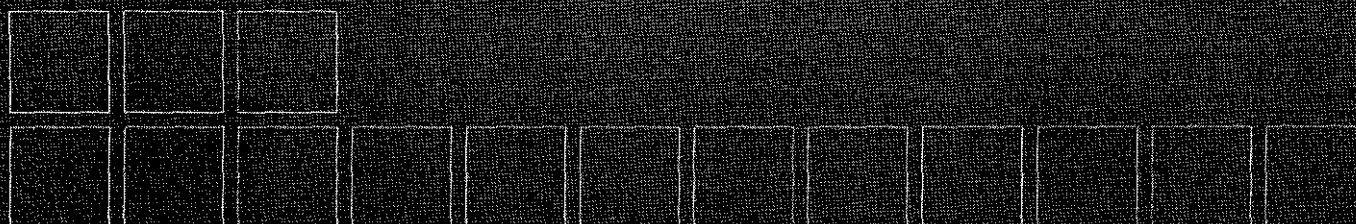


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Annual Report 2002

Highlights

Corporate

- Divestment of Cobra Bio-Manufacturing business via flotation on AIM
- £5m development funding completed
- Board restructured

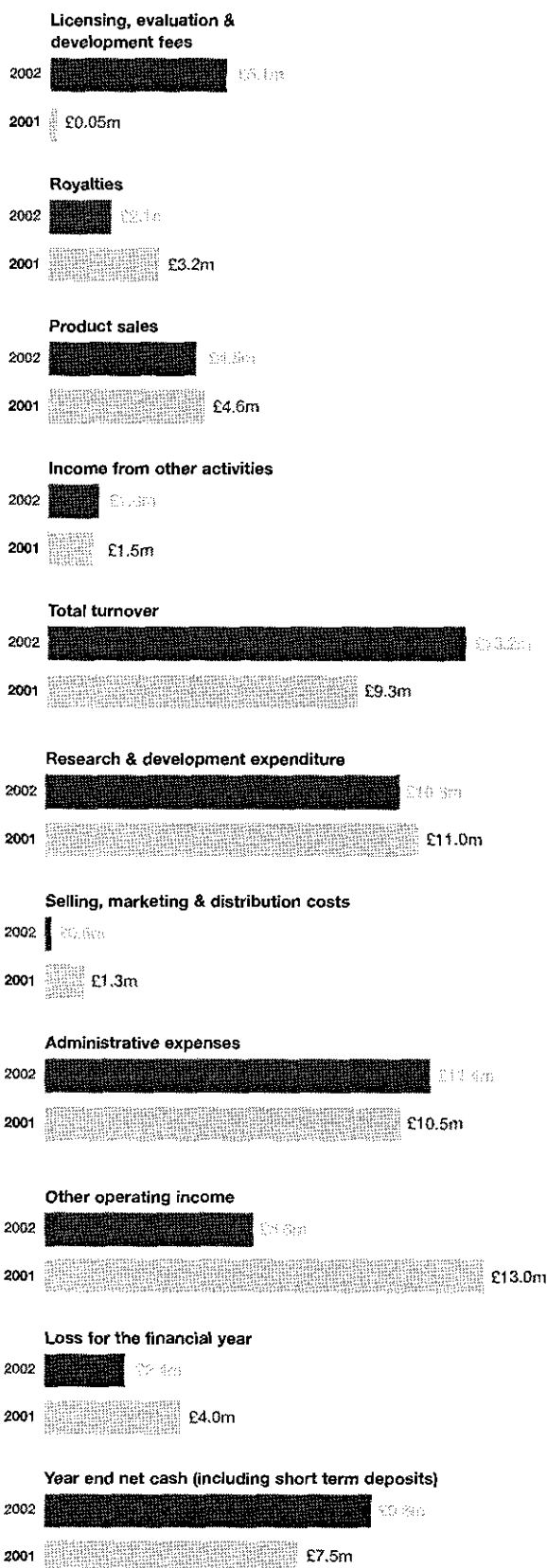
Commercial

- ADEPT - European rights licensed to Shire Pharmaceuticals
- CLICKHALER - Celltech licence amended
- New licence agreement with major global pharmaceutical group
- UCOE Gene expression technology - licensed to Medarex
- New hyperphosphataemia product joint development agreement
- EMMELLE gel - Phase III grant funding confirmed

Clinical progress

- ADEPT - US Phase III study progressing
- CLICKHALER - Formoterol marketing authorisation application submitted
- Icodextrin peritoneal dialysis solution - FDA approval
- CTL 102 gene directed chemotherapy - authorisation for next stage of Phase I/II study
- CTL 901 cancer vaccine - authorisation to evaluate in malignant melanoma

Summary Financial Performance



Chairman's Statement

I am pleased to be making my first statement to shareholders in my capacity as Chairman of your Company. The period on which I am reporting, namely, the financial year ended 30th September 2002 and the subsequent period to date, has been one of significant change for ML.

Good progress with our refocusing

The divestment programme relating to non-core assets, which is fundamental to the strategic refocusing of the Company, is proceeding as evidenced by the divestment of our Cobra biological product manufacturing business by flotation on the AIM market in June 2002. This generated funding for ML and left us with a 46% shareholding in an independent, highly specialised business which we consider has significant potential. This shareholding enables us to benefit from the future success of that business and represents a source of future funding as we realise that investment over time. We are continuing to pursue options for the disposal of other non-core assets.

In addition I can inform you that we have implemented a programme for the divestment of our non-pharmaceutical activities and that we have determined that we will discontinue research into those of our gene therapy technologies that are not currently producing revenue or are unlikely to do so in the near term, which will result in the significant downsizing of our research activities and a consequent reduction in costs.

All of the above actions, when implemented, will have a significant positive impact on our cash flow.

With regard to our respiratory division Innovata Biomed (IB), we informed you in September that in view of the new commercial arrangements concluded at that time, which had a significant

positive impact on the cash flow expectations and prospects of IB, we considered that the divestment of IB at that time was no longer in the best interest of ML's shareholders.

Further commercial successes

We have also achieved considerable commercial success in the period. The licensing of the European rights to ADEPT, our adhesions therapy, to Shire Pharmaceuticals, the renegotiation of our CLICKHALER agreements with Celltech plc and the subsequent licence agreement with a major global pharmaceutical group for a range of respiratory treatments in CLICKHALER, each provided for the payment of significant sums to the Group.

Continued achievements - clinical and regulatory

On the clinical and regulatory front we achieved the following:-

- the application for marketing authorisation for formoterol CLICKHALER in Europe was submitted which triggered a further milestone payment from our licensee;
- Baxter Healthcare, the worldwide licensee of our dialysis solution, was granted marketing approval in the US which offers us the prospect of substantial royalty income from that large market;
- the important US pivotal study of ADEPT progressed towards the interim stage with approximately 200 patients now enrolled;
- the planning of the Phase III study of EMMELLE, our intra-vaginal gel to prevent AIDS, continued following receipt of confirmation that the cost of that study will be funded predominantly by grant;
- regulatory approvals were received enabling us to proceed to the next stage of the Phase I/II studies in patients with inoperable liver cancer of CTL102, our gene directed chemotherapy product, and enabling us to evaluate our

cancer vaccine product candidate CTL901 in patients with malignant melanoma.

New initiative

I am pleased to announce that our clinical and regulatory expertise forms the basis of a new product development agreement with INEOS Silicas (Ineos), a member of the INEOS Group, a leading global manufacturer of speciality and intermediate chemicals, whereby ML and Ineos will co-develop Ineos' novel compound for the treatment of hyperphosphataemia.

We are pleased to be working with Ineos in developing their first pharmaceutical compound and look forward to sharing in the rewards of this exciting product which is a potentially significant entrant to this rapidly growing market segment. Furthermore we are hopeful that this arrangement will be a model for further collaborative ventures whereby we utilise our core competencies of clinical development, regulatory affairs and product commercialisation to lever participation in the rewards flowing from jointly developed products.

Funding

The projected cash flow of the Group includes the receipt of significant milestone income and the proceeds of disposal of non-core assets.

During the financial year to 30th September 2002 we demonstrated that we are able to generate milestone receipts from licence agreements and proceeds from the divestment of non-core assets and we anticipate that we will continue to be able to do so in the current year.

In view of the above we have a reasonable expectation that the Group will have sufficient working capital for its present requirements. However, given the difficulty in predicting accurately the timing and amount of future milestone payments and disposal proceeds, we

will continue to keep the adequacy of our working capital under review.

Prospects

We enter 2003 with the structure and complexity of the Group much simplified, comprising only two operating divisions, biopharmaceutical product development (ML Pharmaceuticals) and respiratory (IB), both with clear objectives.

We have a broad portfolio of products in both the early and late stage categories, the development of which is supported by our income streams from products we have successfully developed and licensed to other pharmaceutical companies and by the licence income generated by our gene expression technologies.

In view of the above I consider that in the period under review we have made significant progress towards achieving our principal objective of repositioning the business to meet the criteria we believe are demanded by investors in the sector, namely, a business of exciting potential with established income streams capable of achieving both profitability and cash self sufficiency in the near term.

S W. Sim

Chairman

28th January 2003

Our Pharmaceutical Products

ML Pharmaceuticals

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

ML Pharmaceuticals is a biopharmaceutical product development company. Its development pipeline of future products and its portfolio of early stage research projects are supported by income streams from products which it has successfully developed and licensed to other pharmaceutical companies including Baxter and Shire. In addition ML also generates income by licensing patented technologies resulting from its research to third parties for use in the discovery and manufacture of biotechnology products.

In-market products

	Research	Pre-clinical	Phase I	Phase II	Phase III	Regulatory approval	Marketed
EXTRANEAL/PENAL							
ADEPT/ADHESIONS							

Products in development

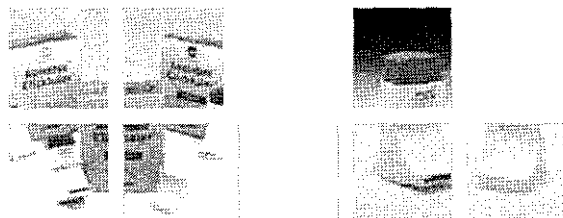
	Research	Pre-clinical	Phase I	Phase II	Phase III	Regulatory approval	Marketed
DEXEMEL - ONCOLOGY & GENE THERAPY							
EMMELLE - AIDS PREVENTION							
DEVACADE - PAIN MANAGEMENT							
CTL102/CB1954 - LIVER, HEAD AND NECK AND PROSTATE CANCERS							
CTL501/CB1954 - SECONDARY COLORECTAL TUMOURS							
CTL 901 - DENDRITIC CELL VACCINE FOR MELANOMA							
PHOSPHATE BINDER - HYPERPHOSPHATAEMIA							

Research projects

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

Innovata Biomed

"Respiratory drug delivery and inhaled delivery of molecules for local and systemic action"



Innovata Biomed's core competency is in the design, formulation, 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	Clinical trials Phase II	Phase III	Regulatory approval	Marketed
ASMASAL CLICKHALER							
ASMABEC CLICKHALER							

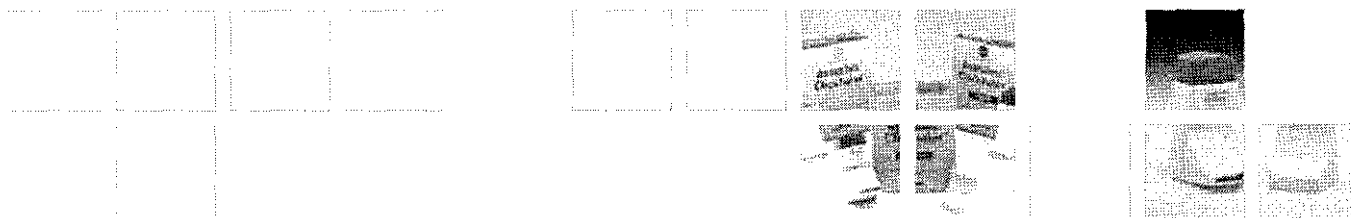
Products in development

	Research	Pre-clinical	Phase I	Clinical trials Phase II	Phase III	Regulatory approval	Marketed
BUDESONIDE CLICKHALER							
FORMOTEROL CLICKHALER							
UNDISCLOSED (2)							

Devices in development

	Research	Development	Phase I	Clinical trials Phase II	Phase III	Regulatory approval	Marketed
TWINHALER							
DELTAHALER							

Operational Review



OPERATIONAL STRUCTURE

Following the divestment of our biological product manufacturing business through the flotation of Cobra Bio-manufacturing PLC and the integration of Cobra's research and development activities into ML, the Group's activities were consolidated during the year into two principal operations - ML Pharmaceuticals and Innovata Biomed, the Group's respiratory subsidiary.

ML Pharmaceuticals is a biopharmaceutical product development business with a development pipeline of future products supported by income streams from products which have been successfully developed and licensed to other pharmaceutical companies. The business also generates income by licensing patented technologies resulting from its research to third parties for use in the discovery and manufacture of biotechnology products.

Innovata Biomed's business is the design and development of innovative technologies for delivering compounds to the lung for licensing to third parties. Existing licence agreements generate royalty income together with milestone payments which support the business's ongoing programmes.

Both businesses are operated as separate divisions with their own clinical development and business development capability supported by centrally provided services which include

regulatory affairs, patenting, finance and administration.

ML PHARMACEUTICALS

EXTRANEAL - an Icodextrin solution for use in Peritoneal Dialysis

Icodextrin solution is used in peritoneal dialysis (PD) for the treatment of renal failure patients. ML holds exclusive patents over Icodextrin, the active ingredient, in all major world markets.

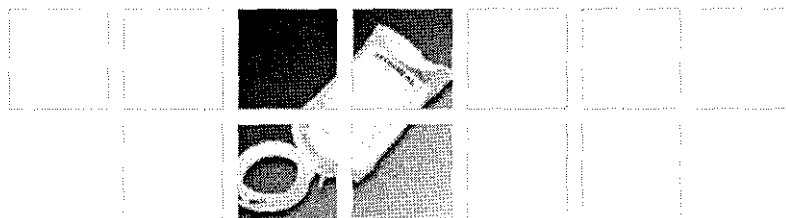
Baxter Healthcare, the exclusive licensee worldwide and a market leader in Renal Disease treatments, has launched the product, under its trade name Extraneal, in over 30 countries to date and a market share of over 50% has already been achieved in several countries.

Extraneal received US marketing approval on 23rd December 2002 and is expected to be available in that major market in the first quarter of 2003. We anticipate Extraneal will receive Japanese approval in 2003. Sales of Extraneal in the US and Japanese markets should have a significant impact on ML's royalty income.

ADEPT - an Icodextrin 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

Operational Review



hospitalisation and the issue of adhesions is becoming acknowledged as a major problem. Currently competitive products are both expensive and difficult to administer, often 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.

In October 2001, the exclusive right to manufacture and sell ADEPT throughout Europe was licensed to Shire Pharmaceuticals, the specialist pharmaceutical company which is focused on the development and marketing of products prescribed by hospital consultants and specialists. Building on the successful launch by ML in the UK (from June 2000), Shire completed launches in the other main EU countries (France, Spain, Italy and Germany) by April 2002 and is now gaining widespread use of this product with both gynaecologists and general surgeons carrying out colorectal operations.

The clinical development of ADEPT has been concentrated in the US where we are carrying out a Phase III clinical trial to demonstrate efficacy in reducing the incidence of post-operative adhesions following laparoscopic (keyhole) gynaecological surgery which is progressing satisfactorily in fifteen hospital centres. An interim analysis of the first 205

completed patients is scheduled during the first half of 2003 and will be conducted according to a strict protocol agreed with the US FDA by independent statistical advisors in North America. The purpose of the analysis is to elucidate any safety concerns regarding the use of the product and to establish the overall scientific rigour of the clinical trial design for regulatory approval in the US.

Our research in the US shows that uptake of competing products has been hampered by their complexity of use and cost.

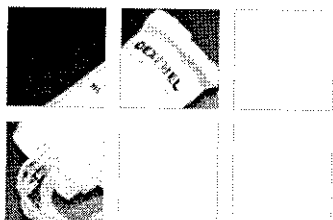
We remain excited by the prospects for ADEPT in this growing market where it has the potential to become the leading product due to its safety profile, ease of use and price advantage such that it could be used routinely in all abdominal surgery.

We anticipate appointing a licensee for the US market following a successful outcome to the US trial and we are in discussion with potential licensees for the Japanese and other Asian markets. It is likely that Japanese marketing approval will be facilitated by data generated by our US study.

EMMELLE - an Icodextrin based intra-vaginal gel to prevent AIDS

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.

Operational Review



During the year, the Department for International Development (DFID) and the Medical Research Council (MRC) jointly announced a £16m microbicide development programme in which EMMELLE gel would be one of two late stage products to participate in a large Phase III clinical trial to be conducted in Africa under MRC supervision which is currently being planned. Female controlled microbicide products such as EMMELLE gel are considered a vital part of the worldwide effort to minimise the spread of HIV which is believed to be the causative virus of the disease AIDS. EMMELLE has been the subject of a number of Phase II safety clinical investigations, both in Europe and Africa, and is considered to be a leading candidate to provide women with protection against viral transfer.

The low probability of development of effective vaccines has substantially increased the public health need for rapid development of products such as EMMELLE which could limit the spread of HIV disease in developing countries and at the same time be significant products for personal protection in developed markets. The worldwide need for such a product has been receiving increasing publicity and independent market surveys have concluded that the market for products such as EMMELLE could exceed \$1 billion p.a..

We continue to evaluate extending the field of use of EMMELLE to the prevention of other important sexually transmitted diseases.

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 enhance 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. DEVACADE has shown that the compound offers significant levels of pain reduction in neuropathic pain patients when given as an adjunct to a variety of strong opioid drugs. Many of these patients have been very long term pain sufferers, some for over 10 years. As well as reducing their pain levels, patients also reported reduced levels of sleep disturbance from their pain, coupled with the ability to undertake more normal activities with increased freedom from pain. The results of these studies were presented as part of a neuropathic pain workshop within the World Congress on Pain held in San Diego in August 2002.

COLYKADE has undergone a parallel development programme and, whilst proving to be a safe drug, has shown little effectiveness in reducing pain in the clinic setting. We do not expect to carry out further development on this particular application of this compound.

Estimates of the global market potential are in excess of \$1 billion p.a.. Against the background of increasing interest in this market, we are now actively seeking a licensee who is able to complete the required clinical programme and market this novel, high-utility product.

Treatment of Hyperphosphataemia

This condition, which results from an abnormally high level of phosphate in the blood, can occur when damaged kidneys are unable to rid the body of excess phosphate that has entered the body in food and as a result patients suffering from end-stage renal failure (ESRF) usually need to take a phosphate binding product to reduce their blood phosphate concentrations. The novel compound we are co-developing with Ineos has

shown during in vitro tests significantly higher levels of phosphate binding than existing compounds and therefore offers the potential for lower dosage and a more convenient usage regimen than some existing treatments. Furthermore the product is free from aluminium and calcium metal ions known to cause problems in long term use which could allow the treatment of patients other than ESRF patients.

The toxicity studies have been partly completed and the Phase I study is ongoing having commenced in November. The clinical development plans for Phase II are currently being formulated.

Gene Therapy Cancer Products

Our initial gene based cancer treatment, CTL102, has undergone substantial evaluation in patients suffering from head and neck, liver and prostate cancer. This product delivers the gene for a bacterial enzyme, nitroreductase, to cancer cells such that a separately administered, relatively harmless drug, CB1954, will be activated to kill the cancer cells. Having met the initial criteria for gene activity in liver tumours we have received approval from the regulatory authorities to proceed to the treatment arm of the study in patients deemed unsuitable for surgery. This is a significant step forward and could lead to a valuable treatment for patients with few therapy options. We are hopeful that the novelty of the product, combined with the delivery vehicle, will establish a marketable platform from which gene therapy products can be developed by third party licensees for the treatment of other tumours and malignancies.

We have also received regulatory approval to initiate a clinical trial with CTL 901, our vaccine treatment for malignant melanoma, the most deadly form of skin cancer. This treatment is

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 provide a response that will use the patients' own immune response to destroy tumour cells. Pre-clinical data suggest that this treatment will specifically attack skin cancers as well as the cancerous cells which spread the disease throughout the body.

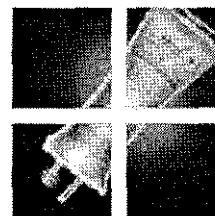
Gene Expression Technology

We have announced an agreement with Medarex to apply our UCOE gene expression technology for antibody production. Agreements have also been signed with a large number of biotechnology and pharmaceutical companies to evaluate the UCOE technology for facilitating gene expression and thereby increasing the efficiency of therapeutic protein and peptide production. We consider that the licensing of this technology could generate substantial revenues 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 this technology.

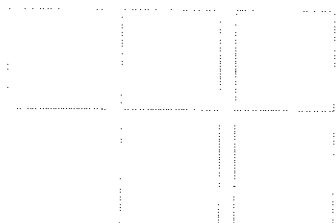
Polymer Drug Delivery

We have been applying our expertise and patented technology in the field of glucose polymers to several applications which result in improved drug efficacy:-

- Our DEXEMEL solution, which has been approved for marketing in Europe, has been shown to provide anti-cancer drugs with prolonged and more extensive coverage of the abdominal cavity.
- in conjunction with our research partner, Canji Inc, a subsidiary of Schering-Plough, we have demonstrated that an Icodextrin solution does



Operational Review



not affect gene vector stability and also results in significantly increased efficacy in a therapeutically relevant pre-clinical model.

- Chemical derivatives of our glucose polymers conjugated to cancer chemotherapy drugs have been shown to have efficacy in an in vivo model.

Each of the above is the basis of patent applications and applicable to a wide variety of existing and novel drug therapies. Having established a significant body of knowledge for each of these applications of our polymer technology, it is our intention to commercialise them by developing certain drugs for our own portfolio and by partnering with other pharmaceutical companies for their use with the partner's novel compounds.

INNOVATA BIOMED

CLICKHALER - a fast-to-market dry powder inhaler for new asthma therapies

CLICKHALER is a proven, industrialised dry powder inhaler with many established advantages over standard asthma inhalers. CLICKHALER has been extensively studied and shown to be highly acceptable to patients. Furthermore it is already marketed with standard asthma therapies (salbutamol and beclomethasone) in UK, Ireland and France.

In July 2002 we announced the completion of negotiations with Celltech which, inter alia, released them from their obligations under an Agreement signed in 1999 relating to the commercialisation of the molecules budesonide and formoterol. In September 2002 we announced that we had entered into a licence agreement with a major global pharmaceutical group for the rights to market these two

molecules in CLICKHALER in Europe and a number of other territories. This second Agreement should generate £10m in access fees and milestones plus additional double digit royalties on future product sales.

In November 2002 the first application for marketing authorisation for formoterol CLICKHALER in Europe was submitted and we anticipate reaching the market through IB's licensee in 2003. Budesonide CLICKHALER is expected to complete the lengthy pharmaceutical and clinical development process and regulatory filing during 2003 with launches expected in the second half of 2004.

In addition, further formulation and clinical studies have been undertaken by IB and potential partner companies to evaluate the performance of CLICKHALER in the laboratory and in the clinic. These studies include the assessment of novel and established molecules as well as new formulation technologies designed to enhance the performance of the device with certain drugs. IB continues to build a library of data on the capabilities of its own device and formulation technologies, as well as third party formulation technologies to enable it to provide a significantly enhanced offering to the global pharmaceutical industry.

These platform technologies are the subject of negotiations and feasibility studies with a number of companies for delivery of their existing and pipeline products.

TWINHALER - building on the CLICKHALER technology

Patents have already been published on TWINHALER, which is a novel adaptation of the proven dose-metering 'engine' of CLICKHALER, whereby two drug reservoirs feed two drug

formulations to separate metering chambers, in the same device, from which they are delivered to the patient in the same breath. The ability to formulate the drugs separately permits optimisation of each individually thereby overcoming significant formulation challenges. Innovata Biomed's growing library of CLICKHALER-compatible formulations make this a low risk, versatile and fast-to-market delivery option.

This advance in the core technology offering of IB presents a unique opportunity to partner companies by providing a device which can deliver either more or larger doses (thereby reducing cost to the manufacturer and healthcare provider), or can deliver a novel molecule in combination with an established drug to address the rapidly growing inhalation market already worth over £6 billion p.a..

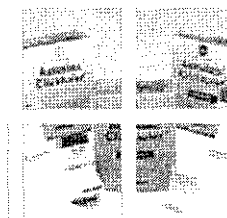
TWINHALER will undergo extensive device development during 2003 utilising IB's expert device development facility in Tewkesbury.

DELTAHALER - an active inhaler for delivery of drugs to the deep lung

DELTAHALER'S core powder de-aggregation technology has been significantly developed to enable the delivery of fine particles capable of being inhaled and travelling to the deep lung to act locally, or be absorbed to provide systemic treatment. Recognising significant clinical and marketing challenges in the delivery of insulin through the lung, IB's strategy is to complete the development phase for the de-aggregation engine and finalise the designs for the complete device prior to seeking pharmaceutical partners for the clinical phase of development.

P.J. Shennan

Chief Operating Officer
28th January 2003



Financial Review

For the year ended 30th September 2002



Turnover and gross profit

Turnover includes income from royalties, pharmaceutical product sales and fee income from licensing, evaluation and development agreements. During the year Paul Capital Royalty Acquisition Fund ('PCRAF') provided a second round of funding of £5m and acquired an entitlement to an increased proportion of the royalty and revenue streams from two of the three products which were the subject of their first round of funding of £17.5m which was provided in the second half of the previous financial year. As a result, royalty income and pharmaceutical product sales are stated net of PCRAF's entitlement in the respective periods and this affects comparison.

Total turnover in the year was £13.2m (2001 : £9.3m) of which £0.7m (2001 : £1.1m) related to the Cobra biological product manufacturing business which was divested during the year through the AIM flotation of Cobra Bio-manufacturing PLC ('CBM'). The increase in turnover was principally attributable to an increase of £5.0m in licensing, evaluation and development fees. 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 was £2.1m (2001 : £3.2m) and pharmaceutical product sales were £4.5m (2001 : £4.6m) both of which comparisons reflect the impact of the PCRAF arrangements.

The increase in turnover resulted in an increase in gross profit to £8.8m (2001 : £5.8m) of which £0.3m (2001 : £0.7m) related to the divested CBM activity.

Operating costs

Research and development expenditure of £10.8m was at a similar level to the previous

year of £11.0m, of which £0.8m (2001 : £0.8m) related to CBM. Selling, marketing and distribution costs reduced to £0.6m (2001 : £1.3m) principally as a result of the licensing to Shire of ADEPT, which ML had launched in the UK in 2000. Administrative expenses increased to £11.4m (2001 : £10.5m) of which £0.7m (2001 : £0.7m) related to CBM, which principally reflects an increase in legal and professional and other transaction related costs.

Other operating income

Other operating income of £5.6m (2001 : £13.0m) includes amounts receivable in connection with the termination or amendment of licence agreements and the relevant portion of the deferred element of funds received from PCRAF in the previous year specifically relating to the clinical development of ADEPT in the US, which is not yet complete.

The £5.0m second tranche funding received from PCRAF in the year has not yet been treated as 'other operating income' but has been included in 'Creditors : amounts falling due within one year' as the agreement included a condition whereby we might be required to repay this amount in certain circumstances. On 9th January 2003 the outstanding condition was satisfied and repayment will not be required. Consequently this amount will be recognised as 'other operating income' in the year to 30th September 2003.

Loss for the year before taxation

The operating loss was £8.3m (2001 : £3.9m) of which £1.1m (2001 : £0.8m) related to CBM. The exceptional profit of £2.9m represents the accounting profit arising on the deemed disposal of CBM which is explained more fully in the notes to the financial statements. After net interest the loss before taxation was £5.3m (2001 : £4.0m).

Financial Review

For the year ended 30th September 2002

Taxation

Tax credits in relation to eligible research and development expenditure were introduced with effect from 1st April 2000. However those relating to the years ending 30th September 2000 and 2001 were not recognised in the financial statements for those years owing to the uncertainty relating to the amounts and timing of such receipts. Tax credits have now been successfully claimed in respect of 2000 and 2001 and we have recognised in 2002 both the tax credits received for prior years and the tax credits anticipated to be received in respect of the year to 30th September 2002.

Loss after taxation

The loss for the financial year after taxation was £2.4m (2001 : £4.0m). This represents a loss per ordinary share of 1.53p (2001 : 2.56p).

Net assets

Net assets at 30th September 2002 were £10.2m, reduced from £12.6m at 30th September 2001 as a result of the loss for the year.

Intangible assets comprise goodwill on the original acquisition of Cobra. The reduction to £3.5m at 30th September 2002 from £5.5m at the previous year end resulted from the allocation of part of this goodwill to CBM on its deemed disposal, as explained more fully in the notes to the financial statements, and ongoing amortisation.

Expenditure on tangible fixed assets was £2.6m, including expenditure related to the Cobra biological product manufacturing business prior to its divestment. After taking into account the net book value of fixed assets divested with CBM of £2.1m, depreciation of £1.6m and other disposals, the net book value of fixed assets reduced to £3.3m from £4.5m.

Stocks reduced to £1.2m from £1.9m principally as a result of a reduction in CLICKHALER stocks. The increase in debtors to £8.3m (2001 : £6.1m) was impacted by the inclusion of tax credits receivable and a significant payment due under an agreement with a third party. The increase in creditors due within one year to £15.1m from £9.7m reflected the inclusion of the PCRAF £5m referred to above and a potentially repayable milestone received prior to 30th September 2002. The reduction in creditors due after more than one year to £0.8m from £1.4m arises from net repayments and transfers to CBM of finance leases.

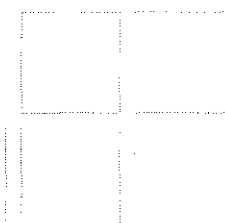
As explained above deferred income of £2.9m comprises monies previously received from PCRAF to be released to the profit and loss account as our spending obligation on the US clinical development of ADEPT is met.

Cash balances and cash flow

In summary, £16m was consumed by operations, capital expenditure and net finance lease repayments, offset by net interest income. £17.8m was generated from milestone income and other receipts under licence agreements, additional PCRAF funding, the divestment of CBM and tax credits. This resulted in a net cash inflow of £1.8m and we ended the year with net cash balances of £9.3m (2001 : £7.5m).

P.J. Shennan

Finance Director
28th January 2003



Directors, Secretary and Advisers

Directors

S. W. Sim (Chairman)
Dr. R. N. Boyes
Prof. D. S. Davies
Prof. A. D. Dayan (Non-Executive)
Dr. T. Medinger (Non-Executive)
P. J. Shennan

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David Smith, Stringer Saul,
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Principal bankers

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

Registrars and transfer office

Capita Registrars, Balfour House, 390-398 High
Road, Ilford, Essex, IG1 1NQ.

Registered auditors

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

Stockbroker

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

Directors

S. W. Sim, FCA

Executive Chairman (Age 51)

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. He became Executive Chairman in October 2002.

Dr. R. N. Boyes, PhD

Director North America (Age 62)

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 spends a substantial part of his time in North America where his primary responsibility is to negotiate collaborations with US companies and search out additional opportunities. Dr. Boyes holds a number of other non-executive directorships.

Prof. D. S. Davies, BSc, PhD, FRSC, FRCPPath, FRCP

Group Director of R&D (Age 62)

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 and is the inventor of several of the Group's products. He was appointed to the Board as a Non-Executive Director in 1987 because of his expertise and knowledge of the principal areas of development being undertaken by the Group. He became an Executive Director in October 2002 on his appointment as Group Director of Research and Development in which role he will be responsible for co-ordinating research and regulatory policy and strategy, providing scientific evaluation of new product opportunities and seeking and evaluating new research opportunities.

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

Non-Executive Director (Age 67)

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.

Dr. T. Medinger MA, DPhil (Oxon)

Non-Executive Director (Age 62)

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.

P. J. Shennan, BA, FCA, MSI

Chief Operating Officer and Finance Director (Age 52)

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. In October 2002 he was appointed Chief Operating Officer in addition to his duties as Finance Director.

The Directors present their Annual Report and the audited Group financial statements for the year ended 30th September 2002.

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 patented technologies with a view to commercialising them on a world wide basis. The Group also provides educational training for the pharmaceutical and biotechnology industries.

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 £5,260,937 (2001 £4,043,293). The Group loss for the year after taxation and minority interests of £2,423,046 has been added to the deficit brought forward on profit and loss account reserves as shown in note 19 on page 45. The Directors do not recommend the payment of a dividend.

Research and development

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

The loss for the year is stated after charging research and development expenditure of £10,845,170 (2001 £10,951,385).

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
Prof. A. D. Dayan (Non-Executive)
G. P. Fothergill (Resigned 13th June 2002)
Dr. T. Medinger (Non-Executive)
P. J. Shennan

Subsequent to the year end, the following changes were made to the composition of the Board. On 10th October 2002, K. R. Leech resigned from the Board and S. W. Sim became Executive Chairman, relinquishing his role as Chief Executive, Dr. C. B. Brown resigned from the Board, although he continues to fulfill his executive role as Medical Director, and Prof. D. S. Davies became an Executive Director in the role of Group Director of Research and Development. Dr. R. N. Boyes ceased to be the Group Director of Research and Development and was appointed Director North America. P. J. Shennan was appointed Chief Operating Officer in addition to his role as Finance Director.

Under the Articles of Association Prof. D.S. Davies and Dr. T. Medinger 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 20 to 24.

Directors' share options

Details of the Directors' Share Options are shown in the Remuneration Report on pages 20 to 24.

Directors' interests

The interests (beneficial unless otherwise stated) in the shares of the Company of the Directors who held office at 30th September 2002, were as follows:

	2002 Number of Ordinary Shares	2001 Number of Ordinary Shares	2002 Percentage of Ordinary Share Capital	2001 Percentage of Ordinary Share Capital
K.R. Leech (Resigned 10th October 2002)	76,503,995 ⁽¹⁾	76,503,995 ⁽¹⁾	48.37%	48.37%
S.W. Sim	839,569 ^{(1), (2)}	839,569 ^{(1), (2)}	0.53%	0.53%
Dr. R.N. Boyes	88,500	88,500	0.06%	0.06%
Dr. C.B. Brown (Resigned 10th October 2002)	352,415	352,415	0.22%	0.22%
Prof. D.S. Davies	293,225	293,225	0.19%	0.19%
Prof. A.D. Dayan	7,500 ⁽³⁾	7,500 ⁽³⁾	-	-
T. Medinger	20,000	-	0.01%	-
P. J. Shennan	1,000	1,000	-	-

1. Mr. Leech's holding, which currently forms part of his estate in bankruptcy, was at all relevant times registered as to 55,372,995 shares in the name of Milner Laboratories Limited (now Aviva 2002 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 had been pledged had informed Milner Laboratories Limited (now Aviva 2002 Limited) that it might convert this collateral into cash by selling some or all of these shares as it was free to do and this shareholding was disposed of by the institution concerned on 20th December 2002. Mr. Leech retains a notifiable interest in a further 14,000,000 shares transferred by Milner Laboratories Limited (now Aviva 2002 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 (now Aviva 2002 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 (now Aviva 2002 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 2002 in 79,412,131 shares and as at 28th January 2003 in 78,561,765 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 21 to 24.

At all relevant times Mr. Leech owned 100% of Glen Investments Limited which in turn owned 86.25% of Milner Laboratories Limited (now Aviva 2002 Limited) and Diarmuid Investments Limited owned the balance. Mr. Leech was declared "en désastre" in the Royal Court of Jersey on 10th October 2002 and Glen Investments Limited was placed in liquidation on 20th December 2002.

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

3. These shares are held jointly with Mrs. H. Dayan.

Save for the holdings of persons who are no longer directors, and save as noted in note 1 to the above table, there were no changes to the above holdings between 30th September 2002 and 28th January 2003.

At 30th September 2002, Dr. R. N. Boyes owned 7,500 shares in Innovata Biomed Limited (2001 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 (2001 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.

Substantial interests

In addition to the interests of Mr. Leech's estate in bankruptcy and others disclosed under the heading 'Directors' Interests' above, as at 28th January 2003, 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	6,100,000	3.86
Diarmuid Investments Limited	14,000,000 ⁽¹⁾	8.85
Mourant & Co. Trustees Limited	14,000,000 ⁽¹⁾	8.85
Channel Hotels and Properties Limited	8,170,000	5.17
Colin Blackburn	5,700,000	3.60

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 (now Aviva 2002 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 2002 in 79,412,131 shares; as at 28th January 2003 Mr. Smith's interest had decreased to 78,561,765 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 2002 trade creditors for the Group represented 50 days of amounts invoiced by suppliers (2001 50 days) and for the Company represented 66 days (2001 54 days).

Charitable and political donations

During the year the Group made no charitable donations (2001 £Nil) and no contributions were made to political organisations (2001 £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. The Group also recognises its obligations for the health and safety of its employees in the workplace and has made an assessment of risks at the various sites at which the Group's activities are undertaken and has in place formal procedures for managing, co-ordinating and reporting to the Board on health and safety matters. The Group has provided training to individuals who are responsible for health and safety. 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 and seeks to keep them informed on matters affecting them as employees. 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. Participation in the Group's share option scheme is 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

Following the conversion of our auditors, PricewaterhouseCoopers, to a limited liability partnership (LLP) from 1st January 2003, a resolution to appoint the new firm, PricewaterhouseCoopers LLP, as auditors to the Company will be proposed at the Annual General Meeting.

Annual general meeting

The 2003 Annual General Meeting ("AGM") of M. L. Laboratories PLC will be held at the Institute of Directors, Pall Mall, London SW1Y 5ED on 18th March 2003 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 2004 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 2004 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. Accordingly the Directors unanimously recommend you to vote in favour of these resolutions at the AGM as they and those persons connected with them intend to do in respect of a total of 1,249,794 ordinary shares (representing approximately 0.79 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 there on as soon as possible and in any event, so as to be received no later than 48 hours before the meeting. 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.
28th January 2003.



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 9 on page 39 which also constitute part of this Remuneration Report

	Basic Salary £000	Bonus £000	Taxable Benefits £000	Pension Contributions £000	Fees £000	Total 2002 £000	Total 2001 £000
Executive Directors							
K.R. Leech							
(Resigned 10th October 2002)	243	-	19	36	-	298	272
S.W. Sim	293	-	29	44	-	366	329
Dr. R.N. Boyes	110	-	11	-	-	121	180
Dr. C.B. Brown							
(Resigned 10th October 2002)	162	-	18	22	-	202	188
G.P. Fothergill*							
(Resigned 13th June 2002)	197	-	9**	20	-	226	357
P.J. Shennan	158	-	14	24	-	196	174
Non-Executive Directors							
Prof. D.S. Davies***	-	-	15	-	93	108	102
Prof. A.D. Dayan	-	-	-	-	39	39	37
Dr. T. Medinger	-	-	-	-	29	29	27

* Mr Fothergill ceased to be a Director by mutual consent on 13th June 2002, when he became Chairman of Cobra Bio-Manufacturing PLC, a company in which ML holds a 46% interest. Mr. Fothergill remains employed by ML in a part-time capacity. His remuneration as an employee following his resignation as a Director was £72,994 comprising basic salary £63,469, taxable benefits £1,777 and pension contributions £7,748.

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

*** Professor Davies became an Executive Director on 10th October 2002.

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 Company operates a discretionary bonus scheme based upon individual performance and achievement of personal and corporate objectives.

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 27 on page 48, with the exception of Mr. Fothergill, whose contributions were paid into his own pension scheme.

Service contracts

Each of Mr. Sim and Dr. Boyes has, and at all relevant times during the year Mr. Leech and Mr. Fothergill had, a service contract which is terminable by the Company on two years notice. Mr. Shennan and Professor Davies have, and at all relevant times during the year Dr. Brown had, 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. Mr. Leech resigned voluntarily on 10th October 2002 without compensation.

The service contracts of Mr. Sim and Dr. Boyes and Mr. Fothergill each contain, and at all relevant times during the year those of Mr. Leech and Mr. Fothergill contained, 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. Throughout the year Professor Davies had a consultancy agreement, which he had had since 1992, which reflected his role in inventing new products for the Group on a royalty free basis and which operated on three months notice. Professor Davies became an Executive Director on 10th October 2002. 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 (Resigned 10th October 2002)*	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

426,457

S. W. Sim	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

621,522

Remuneration Report

Name of Director	Date of Grant	Subscription Price	Number of Options	Exercise Date	Expiry Date
Dr. R. N. Boyes	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
			306,483		
Dr. C. B. Brown (Resigned as a Director 10th October 2002)	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	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
			132,829		
G. P. Fothergill (Resigned as a Director 13th June 2002)	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		

¹Upon Mr. Leech's resignation the options granted to him lapsed.

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
(Resigned 10th October 2002)*	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
(Resigned as a Director 10th October 2002)	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
(Resigned as a Director 13th June 2002)	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		

*Upon Mr. Leech's resignation the options granted to him lapsed.

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	2002 £	2001 £
S. W. Sim	-	622,125
Prof. D. S. Davies	-	97,005
Total gains on share options	-	719,130

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.

No options were exercised during the year. Options over 322,100 shares (2001 55,305) lapsed during the year. The market price of the shares at 30th September 2002 was £0.1325 and the range during the financial year was £0.1325 to £0.51.

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. As from 10th October 2002, the Audit Committee is comprised of two rather than three Non-Executive Directors as the Company currently has only two Non-Executive Directors.

During the year ended 30th September 2002, the Board comprised six Executive Directors (five as from 12th June 2002), including the Chairman and the Chief Executive, and three Non-Executive Directors of whom two, Professor A. D. Dayan and Dr. T. Medinger, were considered to be independent Non-Executive Directors. As from 10th October 2002, the Board comprises four Executive Directors and the two independent Non-Executive Directors identified above. 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 which during the year ended 30th September 2002 comprised these individuals and Professor D. S. Davies, until 10th October 2002 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. On 10th October 2002, Professor D. S. Davies became an Executive Director and accordingly as from that date the Audit Committee comprises the two independent Non-Executive Directors.

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. 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 control framework implemented are :

Board Review

At each Board meeting standing agenda items are discussed covering the principal areas of the Group's activities, including corporate development, regulatory and product development issues, financial performance and cash adequacy, commercialisation progress, intellectual property and investor relations.

Management Involvement

The Group has recruited suitably experienced Directors and senior management to take responsibility for key areas of the Group's activities.

Risk Reporting

There is 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 responsibilities for such risks has been allocated.

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 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.

S. W. Sim

Chairman

28th January 2003

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 sheets, the cash flow statement and the related notes.

Respective responsibilities of directors and auditors

The Directors responsibilities 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 and United Kingdom Auditing Standards issued by the Auditing Practices Board. This opinion has been prepared for and only for the Company's members in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and have been 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 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 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 of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

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

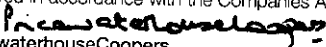
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity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

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 2002 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

28th January 2003

Consolidated Profit and Loss Account

for the year ended 30th September 2002

	NOTES	2002	2002	2002	2001	2001	2001
		Continuing	Discontinued	Total	Continuing	Discontinued	Total
		£	£	£	£	£	£
Turnover	4	12,505,679	744,137	13,249,816	8,149,485	1,134,073	9,283,558
Cost of sales		(4,018,685)	(411,003)	(4,429,688)	(3,100,463)	(386,891)	(3,487,354)
Gross profit		8,486,994	333,134	8,820,128	5,049,022	747,182	5,796,204
Research and development expenditure		(10,092,810)	(752,360)	(10,845,170)	(10,108,219)	(843,166)	(10,951,385)
Selling, marketing and distribution costs		(536,497)	(30,172)	(566,669)	(1,285,899)	(21,510)	(1,307,409)
Administrative expenses		(10,663,486)	(697,295)	(11,360,781)	(9,769,464)	(727,805)	(10,497,269)
Other operating income	5	5,623,796	-	5,623,796	13,023,963	-	13,023,963
Operating loss		(7,182,003)	(1,146,693)	(8,328,696)	(3,090,597)	(845,299)	(3,935,896)
Exceptional profit	3			2,873,899			-
Loss before interest				(5,454,797)			(3,935,896)
Interest receivable	6(a)			431,926			561,514
Interest payable	6(b)			(238,066)			(668,911)
Loss on ordinary activities before taxation	4, 7			(5,260,937)			(4,043,293)
Taxation	8			2,837,891			-
Loss on ordinary activities after taxation				(2,423,046)			(4,043,293)
Minority interests				-			-
Loss for financial year	19(a)			(2,423,046)			(4,043,293)
Loss per ordinary share	23			(1.53)p			(2.56)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.

Consolidated Balance Sheet

at 30th September 2002

	NOTES	2002 £	2001 £
Fixed Assets			
Intangible assets	10	3,500,471	5,476,987
Tangible assets	11	3,286,839	4,498,936
Investments	12	2,859,331	125,058
		9,646,641	10,100,981
Current Assets			
Stocks	13	1,217,388	1,907,119
Debtors	14	8,343,840	6,130,119
Investments	15	1,039	3,560
Cash and short term deposits	16	9,748,370	9,992,700
		19,310,637	18,033,498
Current Liabilities			
Creditors: amounts falling due within one year	17(a)	(15,118,568)	(9,653,324)
Net Current Assets		4,192,069	8,380,174
Total Assets less Current Liabilities		13,838,710	18,481,155
Creditors: amounts falling due after more than one year	17(b)	(767,684)	(1,365,287)
		13,071,026	17,115,868
Deferred income	5	(2,854,241)	(4,476,037)
Net Assets		10,216,785	12,639,831
Capital and Reserves			
Share capital	18,19(a)	1,581,686	1,581,686
Share premium account	19(a)	36,502,990	36,502,990
Merger reserve	19(a)	8,335,897	8,335,897
Profit and loss account	19(a)	(36,203,788)	(33,780,742)
Equity Shareholders' Funds	19(a)	10,216,785	12,639,831
Minority interests		-	-
		10,216,785	12,639,831

The financial statements on pages 29 to 49 were approved by the Board of Directors on 28th January 2003 and were signed on its behalf by:

S. W. Sim Director



Parent Company Balance Sheet

at 30th September 2002

	NOTES	2002 £	2001 £
Fixed Assets			
Intangible assets	10	3,500,471	-
Tangible assets	11	2,625,798	2,679,307
Investments	12	10,243,084	14,727,336
		16,369,353	17,406,643
Current Assets			
Stocks	13	380,759	286,211
Debtors - due within one year	14(a)	4,395,294	3,388,830
Debtors - due after more than one year	14(b)	3,560,815	1,199,096
Total Debtors		7,956,109	4,587,926
Investments	15	1,039	3,560
Cash and short term deposits	16	27,930,574	30,971,367
		36,268,481	35,849,064
Current Liabilities			
Creditors: amounts falling due within one year	17(a)	(9,724,950)	(4,142,930)
Net Current Assets		26,543,531	31,706,134
Total Assets less Current Liabilities		42,912,884	49,112,777
Creditors: amounts falling due after more than one year	17(b)	(888,160)	(1,312,705)
		42,024,724	47,800,072
Deferred income	5	(2,854,241)	(4,476,037)
Net Assets		39,170,483	43,324,035
Capital and Reserves			
Share capital	18,19(b)	1,581,686	1,581,686
Share premium account	19(b)	36,502,990	36,502,990
Special reserve	19(b)	4,048,952	4,048,952
Merger reserve	19(b)	8,335,897	8,335,897
Profit and loss account	19(b)	(11,299,042)	(7,145,490)
Equity Shareholders' Funds	19(b)	39,170,483	43,324,035

The financial statements on pages 29 to 49 were approved by the Board of Directors on 28th January 2003 and were signed on its behalf by:

S. W. Sim Director



Consolidated Cash Flow Statement

for the year ended 30th September 2002

	NOTES	2002 £	2001 £
Net Cash Inflow from Operating Activities	28	678,668	1,658,668
Returns on Investments and Servicing of Finance			
Interest received		396,545	567,396
Interest paid		(16,502)	(420,409)
Interest paid on finance leases		(222,636)	(221,343)
Net Cash Inflow/(Outflow) from Returns on Investments and Servicing of Finance		157,407	(74,356)
Taxation			
UK Corporation tax recovered		787,315	-
Capital Expenditure			
Purchase of tangible fixed assets		(2,534,650)	(1,814,886)
Disposal/(purchase) of fixed asset investment		125,058	(62,411)
Receipts from sale of tangible fixed assets		147,655	87,475
Net Cash Outflow for Capital Expenditure		(2,261,937)	(1,789,822)
Disposals			
Deemed disposal of Subsidiary Undertaking			
Post deemed disposal settlement of overdraft	3	3,000,000	-
Net Cash Inflow from Disposals		3,000,000	-
Net Cash Inflow/(Outflow) before Management of Liquid Resources and Financing		2,361,453	(205,510)
Management of Liquid Resources			
Withdrawals from short term deposits		243,000	4,823,000
Net Cash Inflow from Management of Liquid Resources		243,000	4,823,000
Financing			
Issue of ordinary share capital		-	308,324
		-	308,324
Capital element of finance lease rental payments		(1,658,229)	(1,359,756)
Lease finance acquired		1,105,234	1,262,300
Capital element of unsecured loan payments		(67,728)	(27,781)
Unsecured loan received		38,550	189,998
Repayment of loan facility		-	(7,500,000)
Decrease in debt and lease financing	30	(582,173)	(7,435,239)
Net Cash Outflow from Financing		(582,173)	(7,126,915)
Increase/(Decrease) in Net Cash in Year	30	2,022,280	(2,509,425)

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. The results of any subsidiaries disposed of are included up to the date of disposal. 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 the acquisition of a business and represents the excess of the fair value 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

Deferred tax is now recognised, without discounting, in respect of all timing differences which have originated but not reversed by the balance sheet date, except as otherwise required by FRS 19, at rates expected to apply when they reverse, based on current tax rates and law. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

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 in the profit and loss account in the year in which they become receivable. Licence fees which are returnable if contractually specified conditions are not met are treated as creditors until such conditions are fully satisfied.

Other operating income

Other operating income comprises income which falls outside the definition of turnover.

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 disposal of non-core assets. 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. Discontinued activities

During the year the Group made a deemed disposal of the DNA contract manufacturing business of Cobra Therapeutics Limited ("Cobra") through the flotation on AIM of Cobra Bio-Manufacturing PLC ("CBM"), a newly incorporated holding company to which M.L. Laboratories PLC had transferred its interests in Cobra in exchange for CBM shares. On flotation the Group retained its interests in CBM, representing approximately 46% of CBM's post-flotation issued share capital with a value at the flotation price of £6m. In addition, the Group received £3m in cash out of the flotation proceeds as a result of CBM's repayment of certain Group bank borrowings.

Prior to the flotation, M.L. Laboratories PLC acquired from Cobra its non-manufacturing research and development activities and related assets. The results of the divested Cobra DNA contract manufacturing business to 12th June 2002, the effective date of disposal, have been included in the Group's profit and loss account as a discontinued activity. The results of the retained, former Cobra, research and development activities have been included within continuing activities.

Further information as to the accounting treatment of these transactions is included in notes 3, "Exceptional profit on disposal", 10, "Intangible fixed assets", 11, "Tangible fixed assets", 12, "Fixed asset investments" and 29, "Working capital effect of divestment of Cobra Bio-Manufacturing PLC".

3. Exceptional profit

The exceptional profit of £2,873,899 on the deemed disposal of the DNA contract manufacturing business, details of which are set out in note 2, "Discontinued activities", represents the increase in consolidated net assets arising on the transaction and comprises:

Net assets deconsolidated on deemed disposal	£
Tangible fixed assets	(2,123,583)
Stock	(184,702)
Debtors	(875,969)
Creditors	1,903,292
	(1,280,962)
Goodwill disposed of on deemed disposal	(917,791)
Net assets eliminated on deemed disposal	(2,198,753)
Overdraft settled	3,000,000
Group's share of CBM's net assets on flotation	2,072,652
Net assets included on deemed disposal	5,072,652
Increase in net assets arising on deemed disposal	2,873,899

Further information on the goodwill disposed of on deemed disposal is contained in note 10, "Intangible fixed assets". The exceptional profit does not take into account the market value of the Group's CBM shares on flotation, which was in excess of the net assets attributable thereto. Further information on the Group's investment in CBM is set out in note 12, "Fixed asset investments".

Notes to the Financial Statements

For the year ended 30th September 2002

4. 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

2002	Turnover	Research and development expenditure	Other expenses	Other operating income	Loss before taxation	Net assets
	£	£	£	£	£	£
Licensing, evaluation & development fees	5,064,572	-	-	-	-	-
Royalties	2,104,208	-	-	-	-	-
Product sales	4,492,665	-	-	-	-	-
Total pharmaceutical activities	11,661,445	(10,366,659)	(13,510,750)	5,623,796	(3,537,639)	12,611,462
Other activities	1,588,371	(478,511)	(2,846,388)	-	(1,723,298)	(2,394,677)
Total	13,249,816	(10,845,170)	(16,357,138)	5,623,796	(5,260,937)	10,216,785

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

Geographical segments

	United Kingdom		North America		Europe		Group	
	2002	2001	2002	2001	2002	2001	2002	2001
	£	£	£	£	£	£	£	£
Turnover by destination	7,667,048	2,463,955	938,881	822,940	4,643,887	5,996,663	13,249,816	9,283,558
Turnover by origin	13,249,816	9,283,558	-	-	-	-	13,249,816	9,283,558
Loss before taxation	(5,260,937)	(4,043,293)	-	-	-	-	(5,260,937)	(4,043,293)
Net assets	10,216,785	12,639,831	-	-	-	-	10,216,785	12,639,831

Segmental reporting re discontinued activities

2002	Turnover	Research and development expenditure	Other expenses
	£	£	£
Product sales	744,137	-	-
Total pharmaceutical activities	-	(752,360)	(1,138,470)
2001	Turnover	Research and development expenditure	Other expenses
	£	£	£
Product sales	1,134,073	-	-
Total pharmaceutical activities	-	(843,166)	(1,136,206)

Geographical segments re discontinued activities

	United Kingdom		North America		Europe		Group	
	2002	2001	2002	2001	2002	2001	2002	2001
	£	£	£	£	£	£	£	£
Turnover by destination	251,895	396,479	237,191	311,078	255,051	426,516	744,137	1,134,073
Turnover by origin	744,137	1,134,073	-	-	-	-	744,137	1,134,073

5. Other operating income

Other operating income includes the release to profit and loss account of monies received from Paul Capital Royalty Acquisition Fund ("PCRAF") as explained in more detail below and amounts received and receivable in connection with the termination or amendment of licence agreements with third parties.

In July 2001 the Group entered into an Agreement ("the First Agreement") with PCRAF under which PCRAF paid £17.5m and is to 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 was treated as "Other operating income" in the year to 30th September 2001 and the balance of £4,476,037 was included in the balance sheet at 30th September 2001 as deferred income as it represented the balance outstanding at that date of our obligation under the First Agreement to apply an agreed portion of the funds received specifically to the clinical development of ADEPT in the US market. Other operating income in the year to 30th September 2002 includes £1,621,796 in respect of the partial release of this deferred income which will continue to be released to the profit and loss account as "Other operating income" in future accounting periods as the remainder of our spending obligation is met.

In February 2002 a second transaction ("the Second Agreement") with PCRAF was entered into whereby PCRAF provided a further £5m for which it is to receive an increased proportion of the royalty and revenue streams from two of the three products which were the subject of the First Agreement. This transaction included a condition whereby M. L. might be required to repay the £5m in certain circumstances. As at 30th September 2002 this condition remained outstanding and accordingly this amount has been included in "Creditors : amounts falling due within one year". Following the confirmation announced on 9th January 2003 that the outstanding condition has been satisfied and that repayment will not be required, this amount will be taken to profit and loss account as income in the year to 30th September 2003. While, following such confirmation in the case of the Second Agreement, the risk relating to that proportion of the future royalty and revenue streams receivable by PCRAF under both the First and Second Agreements 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.

6. Interest receivable and payable**(a) Interest receivable**

	2002 £	2001 £
Bank interest receivable	398,131	556,559
Other interest receivable	33,795	4,955
	431,926	561,514

(b) Interest payable

	2002 £	2001 £
On bank overdraft - repayable within 5 years, not by instalments	-	5,007
On bank loan	-	433,596
On unsecured loan	15,430	8,965
On finance leases	222,636	221,343
	238,066	668,911

Notes to the Financial Statements

For the year ended 30th September 2002

7. Loss on ordinary activities before taxation

	2002 £	2001 £
Loss on ordinary activities before taxation is stated after charging:		
Depreciation - tangible owned fixed assets	539,749	599,106
- tangible fixed assets held under finance leases	1,074,861	1,109,748
Amortisation of intangible fixed assets	272,047	296,054
Provision for impairment of value of current asset investments	2,521	-
Auditors' remuneration for:		
- Audit (Company £20,000) (2001 £20,000)	44,862	47,310
Operating leases - hire of other assets	50,105	61,221
- rental of premises	607,911	707,513
Loss on disposal of tangible fixed assets	35,411	9,629
And after crediting:		
Profit on disposal of tangible fixed assets	73,166	53,657

Remuneration of the Company's Auditors for provision of non-audit services to the Company and its subsidiary undertakings was £105,010 (2001 £90,004). This consists principally of fees in respect of taxation compliance and advisory work and other professional services.

8. Taxation

The current year tax credit represents refundable R & D tax credits. There is no charge to corporation tax during the year nor is there any provision required for deferred taxation. Accumulated tax losses have not been recognised as deferred tax assets as there is insufficient certainty as to their future recoverability.

As at 30th September 2002, the total tax losses in Group companies amounted to £48m (2001 £68.5m). These losses are available for offset against future profits in the companies concerned, subject to agreement with the Inland Revenue.

(a) Analysis of credit in year

	2002 £	2001 £
UK corporation tax - R & D tax credit		
Current year	1,120,810	-
Prior years	1,717,081	-
	2,837,891	-

(b) Factors affecting the tax credit for the year

	£	£
Loss on ordinary activities before tax	5,260,937	4,043,293
Loss on ordinary activities at 30%	1,578,281	1,212,988
Effects of:		
Adjustments to tax credit in respect of prior periods	1,717,081	-
Carry forward of tax losses	(1,264,500)	(1,277,813)
Other timing differences	46,593	97,039
Amortisation of goodwill	(81,614)	-
Expenses not deductible for tax purposes	(13,317)	(32,214)
Non taxable income arising on consolidation	862,170	-
Adjustment in respect of R & D tax credits	(6,803)	-
	2,837,891	-

9. Directors and employees

2002	2001
£	£

Employees		
Average weekly number of persons (including Directors)		
employed by the Group during the year		
Research and development	88	94
Administration and marketing	75	68
Production	67	77
	230	239
Staff costs (for the above persons)		
Wages and salaries	8,638,821	8,204,349
Social security costs	817,040	788,766
Other pension costs (note 27)	466,803	519,928
	9,922,664	9,513,043

Directors' Remuneration

Remuneration paid to the Directors of the holding company	£	£
Aggregate emoluments	1,432,184	1,471,305
Aggregate gains made on the exercise of share options	-	719,130
Amounts invoiced from third parties	6,866	28,275
Contributions to money purchase pension schemes	145,920	166,085
	1,584,970	2,384,795
Emoluments payable to the highest paid Director	£	£
Aggregate emoluments including gains on share options	321,826	911,218
Contributions to money purchase pension scheme	43,973	39,825
	365,799	951,043

No Director waived emoluments in respect of the year ended 30th September 2002 (2001 None).

Further details of the remuneration and Share Options of Directors are given in the Remuneration Report on pages 20 to 24.

10. Intangible fixed assets

GROUP

As at 1st October 2001 intangible fixed assets represented the goodwill arising on the consolidation of Cobra Therapeutics Limited ("Cobra"), being the excess of the fair value of the cost of acquisition over the fair value of the net assets of Cobra at the date of acquisition, which was being amortised over its estimated economic life of 20 years.

As set out in note 2, "Discontinued activities", Cobra, with its DNA contract manufacturing business, left the Group with effect from 12th June 2002 as a result of the flotation of Cobra Bio-Manufacturing PLC ("CBM"), prior to which M. L. Laboratories PLC had acquired from Cobra its non-manufacturing research and development activities.

As set out below, the excess of the net consolidation goodwill as at 12th June 2002 over the goodwill arising in M. L. Laboratories PLC on its acquisition of Cobra's non-manufacturing research and development activities has been attributed to the divested DNA contract manufacturing business and has been split between goodwill disposed of and goodwill retained as part of the carrying value of the Group's investment in CBM pro-rata to the proportion of the Group's holding in CBM to the total issued share capital of CBM.

Notes to the Financial Statements

For the year ended 30th September 2002

10. Intangible fixed assets (continued)

COST	Goodwill £
At 1st October 2001	5,921,067
Less attributable to deemed disposal of business on 12th June 2002	(1,920,528)
At 30th September 2002	4,000,539
AGGREGATE AMORTISATION	
	£
At 1st October 2001	444,080
Less attributable to deemed disposal of business on 12th June 2002	(216,059)
Charge for the year	272,047
At 30th September 2002	500,068
Net book value at 30th September 2002	3,500,471
Net book value at 30th September 2001	5,476,987

The goodwill at 30th September 2002 which is attributable to the retained Cobra activities continues to be amortised over the remainder of the period of 20 years from the original date of the acquisition of Cobra by the Group.

The net book value of goodwill attributable to the business deemed disposed of comprising cost of £1,920,528 less aggregate amortisation of £216,059, amounted to £1,704,469 and has been allocated as follows:

	£
Goodwill on deemed disposal (Note 3)	917,791
Goodwill retained and transferred to carrying value of investment (Note 12)	786,678
	1,704,469

COMPANY COST	Goodwill £
At 1st October 2001	-
Additions	3,550,478
At 30th September 2002	3,550,478

AGGREGATE AMORTISATION	£
At 1st October 2001	-
Charge for the period to 30th September 2002	50,007
At 30th September 2002	50,007
Net book value at 30th September 2002	3,500,471
Net book value at 30th September 2001	-

The goodwill arising on the acquisition by the Company of the non-manufacturing research and development activities of Cobra, as described above, is made up as follows:

	£
Tangible fixed assets	351,732
Stock	67,898
Debtors	116,097
Creditors	(787,815)
Net liabilities acquired	(252,088)
Reduction of inter-company debt	32,294
Cash	3,266,096
Total consideration	3,298,390
Goodwill	3,550,478

11. Tangible fixed assets

Group COST	Plant & machinery £	Computer & office equipment £	Motor vehicles £	Short leasehold buildings £	Total £
At 1st October 2001	9,368,842	1,911,724	1,095,488	1,887,781	14,263,835
Additions	2,123,312	141,523	371,161	-	2,635,996
Transfer on divestment	(2,110,015)	(412,386)	-	(1,845,427)	(4,367,828)
Disposals	(99,241)	(119,783)	(501,319)	-	(720,343)
At 30th September 2002	9,282,898	1,521,078	965,330	42,354	11,811,660

DEPRECIATION

At 1st October 2001	6,099,549	1,286,925	601,807	1,776,618	9,764,899
Charge for year	1,017,922	219,206	284,580	92,902	1,614,610
Transfer on divestment	(74,865)	(323,953)	-	(1,845,427)	(2,244,245)
Disposals	(94,124)	(92,482)	(423,837)	-	(610,443)
At 30th September 2002	6,948,482	1,089,696	462,550	24,093	8,524,821

NET BOOK VALUE

At 30th September 2002	2,334,416	431,382	502,780	18,261	3,286,839
At 30th September 2001	3,269,293	624,799	493,681	111,163	4,498,936

The net book value of tangible fixed assets includes £2,480,165 (2001 £3,028,029) in respect of assets held under finance leases.

Company
COST

At 1st October 2001	4,825,705	767,149	663,306	42,354	6,298,514
Additions	139,251	52,895	291,839	-	483,985
Transfer from subsidiaries	345,201	51,429	26,855	-	423,485
Disposals	-	-	(193,221)	-	(193,221)
At 30th September 2002	5,310,157	871,473	788,779	42,354	7,012,763

DEPRECIATION

At 1st October 2001	2,719,267	543,627	333,983	22,330	3,619,207
Charge for year	580,010	87,670	191,390	1,763	860,833
Transfer from subsidiaries	33,871	9,766	19,707	-	63,344
Disposals	-	-	(156,419)	-	(156,419)
At 30th September 2002	3,333,148	641,063	388,661	24,093	4,386,965

NET BOOK VALUE

At 30th September 2002	1,977,009	230,410	400,118	18,261	2,625,798
At 30th September 2001	2,106,438	223,522	329,323	20,024	2,679,307

The net book value of tangible fixed assets includes £2,107,798 (2001 £2,140,265) in respect of assets held under finance leases.

12. Fixed asset investments

Group COST	Investment £	Joint Venture £	Total £
At 1st October 2001	-	125,058	125,058
Investment arising on deconsolidation	2,859,331	-	2,859,331
Disposal	-	(125,058)	(125,058)
At 30th September 2002	2,859,331	-	2,859,331

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

The investment arising on deconsolidation represents the Group's interest in Cobra Bio-Manufacturing PLC ("CBM") and comprises:

Notes to the Financial Statements

For the year ended 30th September 2002

12. Fixed asset investments (continued)

£

Group's share of CBM's net assets on flotation (Note 3)	2,072,652
Transfer of goodwill relating to the Group's retained interest in CBM (Note 10)	786,678
	2,859,331

As at 30th September 2002 the Group's investment in CBM had a market value of £5,070,000.

The Group's investment represents approximately 46% of the issued share capital of CBM. However the Group is not actively involved or influential in the direction of CBM's affairs and therefore is not considered to exercise significant influence over CBM. Accordingly, in accordance with FRS 9, CBM has not been treated as an associated undertaking.

Company COST	Investment £	Subsidiaries £	Joint Venture £	Total £
At 1st October 2001	-	14,602,278	125,058	14,727,336
Reclassification	10,359,194	(10,359,194)	-	-
Provisions	(4,359,194)	-	-	(4,359,194)
Disposals	-	-	(125,058)	(125,058)
At 30th September 2002	6,000,000	4,243,084	-	10,243,084

As explained in note 2, during the year the Company transferred its interests in Cobra Therapeutics Limited ("Cobra") to Cobra Bio-Manufacturing PLC, a newly incorporated holding company which was subsequently floated on AIM. As a result of the flotation the Company's interest in CBM was reduced from 100% to approximately 46% and CBM ceased to be a subsidiary. The cost of the Company's original investment in Cobra has been written down to the flotation value of its interest in CBM of £6m as this reduction is considered to constitute an impairment loss.

During the year the Company disposed of its interests in Biocubator York Limited to its joint venture partner, the University of York, for a cash consideration equal to the cost of its investment

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
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
Investment				
Cobra Bio-Manufacturing PLC	England	Ordinary Shares	46	DNA contract manufacturing

13. Stocks

	Group		Company	
	2002	2001	2002	2001
	£	£	£	£
Raw materials & consumables	949,555	1,658,437	112,926	37,529
Finished goods	267,833	248,682	267,833	248,682
	1,217,388	1,907,119	380,759	286,211

14. Debtors

	Group		Company	
	2002	2001	2002	2001
	£	£	£	£
(a) Amounts falling due within one year:				
Trade debtors	1,266,444	2,203,961	810,562	577,356
Other debtors	2,694,515	941,040	193,968	193,164
Corporation tax	2,050,576	-	1,226,632	-
Prepayments and accrued income	2,332,305	2,985,118	2,164,132	2,618,310
	8,343,840	6,130,119	4,395,294	3,388,830
(b) Amounts falling due after more than one year:				
Amounts owed by subsidiary undertakings	-	-	3,560,815	1,199,096
	8,343,840	6,130,119	7,956,109	4,587,926

The amounts due from subsidiary undertakings are interest free.

15. Current asset investments

Group & Company	2002	2001
	£	£
Investments quoted on a recognised stock exchange, at cost	39,260	39,260
Provision for impairment of value	(38,221)	(35,700)
At 30th September 2002	1,039	3,560
Aggregate market value of quoted investments	1,039	2,365

During the year the Company entered into a transaction where a fully provided debtor was swapped for an interest in the shares of Enhance Lifesciences Inc. The shares are held at nil value which, in the opinion of the Directors, is currently appropriate.

16. Cash and short term deposits

Cash and short term deposits includes short term deposits amounting to £9,748,000 (2001 : £9,991,000) and an amount of £500,000 (2001 : £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.

17. Creditors

	Group		Company	
	2002	2001	2002	2001
	£	£	£	£
(a) Amounts falling due within one year:				
Bank overdraft	448,013	2,471,623	176	8,064
Obligations under finance leases	895,306	1,195,650	648,217	978,264
Unsecured loan	78,951	59,808	78,951	59,808
Trade creditors	2,621,266	2,859,734	1,636,365	1,444,018
Taxation and social security	571,502	317,693	180,427	135,759
Other creditors	7,023,848	110,786	5,018,593	19,913
Accruals	3,479,662	2,638,030	2,162,221	1,497,104
	15,118,568	9,653,324	9,724,950	4,142,930

Notes to the Financial Statements

For the year ended 30th September 2002

17. Creditors (continued)

	Group		Company	
	2002	2001	2002	2001
	£	£	£	£
(b) Amounts falling due after more than one year:				
Obligations under finance leases	713,596	1,262,878	633,072	1,006,187
Unsecured loans	54,088	102,409	54,088	102,409
Amounts owed to subsidiary undertakings	-	-	201,000	204,109
	767,684	1,365,287	888,160	1,312,705

The Company has provided unlimited multilateral guarantees in respect of the bank overdrafts of its subsidiaries, which at 30th September 2002 amounted to £18,630,332 (2001 £23,443,110).

18. Called-up share capital

	2002	2001
	£	£
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 (2001 : 158,168,563 Ordinary Shares)	1,581,686	1,581,686

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 28th January 2003 are as follows:

Date of Grant	Subscription Price	Number of Options	Exercise Date	Expiry Date
13/01/93	£2.12	78,750	13/01/96	13/01/03
24/08/93	£2.02	83,378	24/08/96	24/08/03
26/08/94	£2.03	104,062	26/08/97	26/08/04
04/09/95	£1.70	130,536	04/09/98	04/09/05
23/07/96	£3.73	70,321	23/07/99	23/07/06
06/01/97	£2.29	471,614	06/01/00	06/01/07
09/02/98	£1.25	1,882,156	09/02/01	09/02/08
18/03/98	£1.20	67,846	18/03/01	18/03/08
06/07/98	£0.885	636,859	06/07/01	06/07/08
08/03/99	£1.065	325,000	08/03/02	08/03/09
		3,850,522		

18. 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 28th January 2003 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	282,551	20/08/04	20/08/09
10/11/00	£1.415	631,014	10/11/03	10/11/10
02/11/01	£0.37	3,838,445	02/11/04	02/11/11
		5,054,791		

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. The subscription agreement lapsed on 11th February 2002 without the issue of any convertible debentures thereunder but the warrants remain exercisable until their expiry date.

Details of Directors' interests in Ordinary Shares of the Company are shown in the Directors' Report on pages 16 to 19.

Details of Directors' Share Options are shown in the Remuneration Report on pages 20 to 24.

19. 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 2001	1,581,686	36,502,990	8,335,897	(33,780,742)	12,639,831
Loss for financial year	-	-	-	(2,423,046)	(2,423,046)
At 30th September 2002	1,581,686	36,502,990	8,335,897	(36,203,788)	10,216,785

	Share Capital	Share Premium Account	Special Reserve	Merger Reserve	Profit & Loss Account	Equity Shareholders' Funds
(b) Company	£	£	£	£	£	£
At 1st October 2001	1,581,686	36,502,990	4,048,952	8,335,897	(7,145,490)	43,324,035
Loss for financial year	-	-	-	-	(4,153,552)	(4,153,552)
At 30th September 2002	1,581,686	36,502,990	4,048,952	8,335,897	(11,299,042)	39,170,483

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.

Notes to the Financial Statements

For the year ended 30th September 2002

20. Finance lease obligations

	Group		Company	
	2002	2001	2002	2001
	£	£	£	£
At 30th September 2002 the Group and Company had obligations under finance leases as follows:				
Payable within one year	895,306	1,195,650	648,217	978,264
Payable between one and two years	625,670	902,126	565,236	705,834
Payable between two and five years	87,926	360,752	67,836	300,353
	1,608,902	2,458,528	1,281,289	1,984,451

	Group & Company	
	2002	2001
	£	£
At 30th September 2002 the Group and Company had obligations under the unsecured loans as follows:		
Payable within one year	78,951	59,808
Payable between one and two years	49,387	66,458
Payable between two and five years	4,701	35,951
	133,039	162,217

21. Financial instruments

Primary financial instruments employed by the Group, other than short-term debtors and creditors, comprise cash, unsecured loans, finance leases and deferred income. 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 2002 was to place the majority of its cash on short-term deposits with its principal bankers and to finance the purchase of tangible fixed assets through finance leases, where possible, for cash flow purposes.

The 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 and overdraft		
	Cash and current bank accounts	Short term bank deposits	Total
	£	£	£
Currency			
Sterling	(449,081)	9,748,000	9,298,919
US dollars	1,244	-	1,244
Euros	(176)	-	(176)
At 30th September 2002	(448,013)	9,748,000	9,299,987
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

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.

21. Financial instruments (continued)

The interest rate profile of financial liabilities was :

	Financial liabilities			
	Fixed rate		Floating rate	
	2002 £	2001 £	2002 £	2001 £
Sterling				
Finance leases	1,608,902	2,458,528	-	-
Unsecured loans	133,039	162,217	-	-
	1,741,941	2,620,745	-	-

The weighted average interest rate on finance leases at 30th September 2002 was 9.4% (2001 9%).

	Group		Company	
	2002 (Months)	2001 (Months)	2002 (Months)	2001 (Months)
The weighted average period to maturity of finance leases was:	20	26	20	21

The weighted average interest rate on the unsecured loan at 30th September 2002 was 9.8% (2001 10.6%) and the period to maturity was 19 months (2001 28 months).

The fair value of finance leases at 30th September 2002, calculated by discounting cash flows at prevailing interest rates, was £1,621,000 (2001 £2,284,000).

The Group has deferred income which does not suffer interest.

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

	2002 £	2001 £
Sterling	(1,191,479)	(577,624)
Other currencies, principally US dollars	544,234	1,209,354
	(647,245)	631,730

At the year end the Group was utilising the overdraft facility described in note 16.

22. Loss for the financial year

As permitted by Section 230 of the Companies Act 1985, the parent company's profit and loss account has not been included in these financial statements. The parent company's loss for the financial year was £4,153,552 (2001 profit £7,640,907).

23. 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 £2,423,046 (2001 £4,043,293) and on 158,168,153 ordinary shares (2001 : 158,086,151), 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 2002 would be to reduce the loss per ordinary share.

Notes to the Financial Statements

For the year ended 30th September 2002

24. Other financial commitments

At 30th September 2002 the Group had annual commitments under non-cancellable operating leases as follows:

	2002		2001	
	Land & buildings £	Other £	Land & buildings £	Other £
Expiring within one year	45,500	4,897	83,800	4,693
Expiring between one and two years	218,326	-	40,500	203
Expiring between two and five years	129,865*	2,802	210,465*	2,803
Expiring in over five years	195,000**	382	349,442**	382
	588,691	8,081	684,207	8,081

* Subject to a three year rent review

** Subject to a five year rent review

25. Capital commitments

	Group		Company	
	2002 £	2001 £	2002 £	2001 £
Capital expenditure on tangible fixed assets that had been contracted for but has not been provided for in the financial statements	48,574	47,359	4,754	28,089

26. Contingent liabilities

Group & Company

As explained in note 5, 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 2002 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.

27. 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 £466,803 (2001 £519,928). Contributions totalling £13,913 (2001 £Nil) were payable at the year end.

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

	2002 £	2001 £
Operating loss	(8,328,696)	(3,935,896)
Depreciation of tangible fixed assets	1,614,610	1,708,854
Amortisation of goodwill	272,047	296,054
Provision for impairment of value of current asset investments	2,521	-
Net profit on disposal of tangible fixed assets	(37,755)	(44,028)
Decrease/(increase) in stocks	505,029	(1,029,395)
Increase in debtors	(1,223,677)	(371,774)
Increase in creditors	9,496,385	558,816
(Decrease)/increase in deferred income	(1,621,796)	4,476,037
Net cash inflow from operating activities	678,668	1,658,668

29. Working capital effect of deemed disposal of Cobra Bio-manufacturing plc

£

Stocks	184,702
Debtors	875,969
Creditors	(1,606,663)
Finance leases	(296,629)
	(842,621)

30. Reconciliation of net cash flow to movement in funds

	2002 £	2001 £
Increase/(decrease) in cash in year	2,022,280	(2,509,425)
Movement in short term deposits	(243,000)	(4,823,000)
Movement in borrowings	582,173	7,435,239
Change in Net Funds Resulting from Cash Flows	2,361,453	102,814
Finance leases transferred on deemed disposal of CBM	296,629	-
Movement in Net Funds	2,658,082	102,814
Opening Net Funds	4,900,334	4,797,520
Closing in Net Funds	7,558,416	4,900,334

31. Analysis of net funds

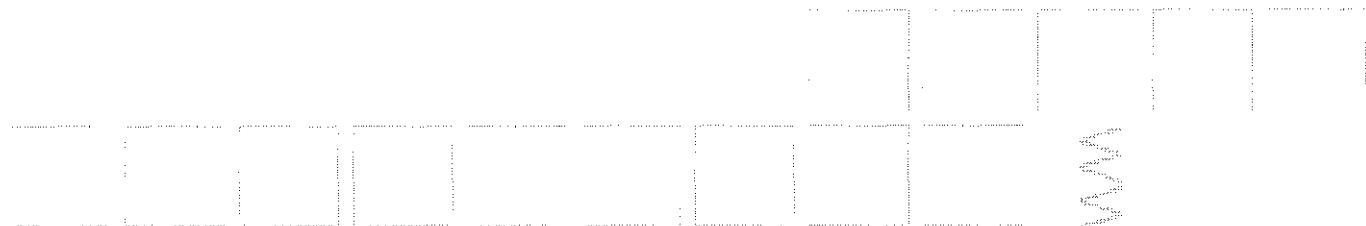
	2001 £	Cash flow £	Re CBM Leases £	2002 £
Cash at bank and in hand	1,700	(1,330)	-	370
Bank overdraft	(2,471,623)	2,023,610	-	(448,013)
	(2,469,923)	2,022,280	-	(447,643)
Short term deposits	9,991,000	(243,000)	-	9,748,000
Unsecured loans	(162,217)	29,178	-	(133,039)
Finance leases due within one year	(1,195,649)	151,136	149,207	(895,306)
Finance leases due in more than one year	(1,262,877)	401,859	147,422	(713,596)
	4,900,334	2,361,453	296,629	7,558,416

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.

32. 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 agreed to extend the option agreement further to 30th April 2002, on similar terms. The option lapsed on that date unexercised.

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.



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