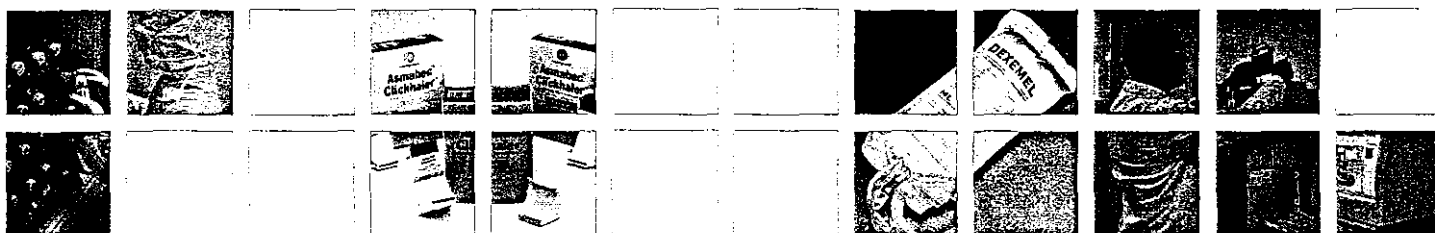


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ML Laboratories PLC

ML Laboratories PLC

Registered in England & Wales No. 2148607



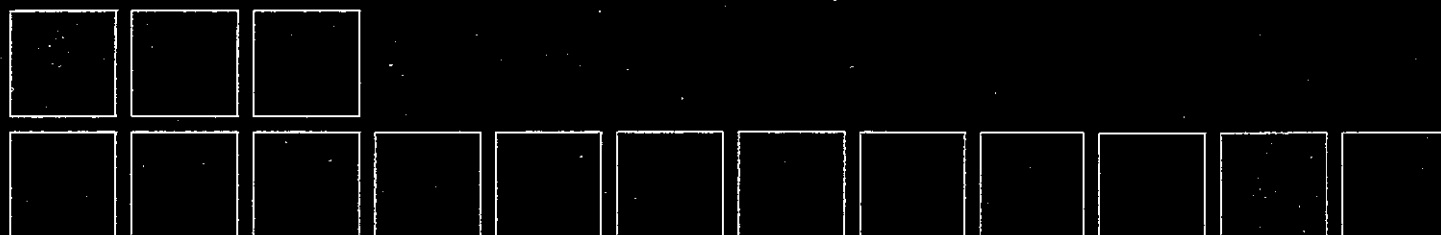
Annual Report 2003



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Annual Report 2003

Highlights

Corporate

- Restructuring successfully completed
- Divestment of Icodextrin manufacturing business
- Sale of investment in Cobra Biomanufacturing PLC
- Research activity successfully downsized and refocused
- Placing of founders' share stake with institutions

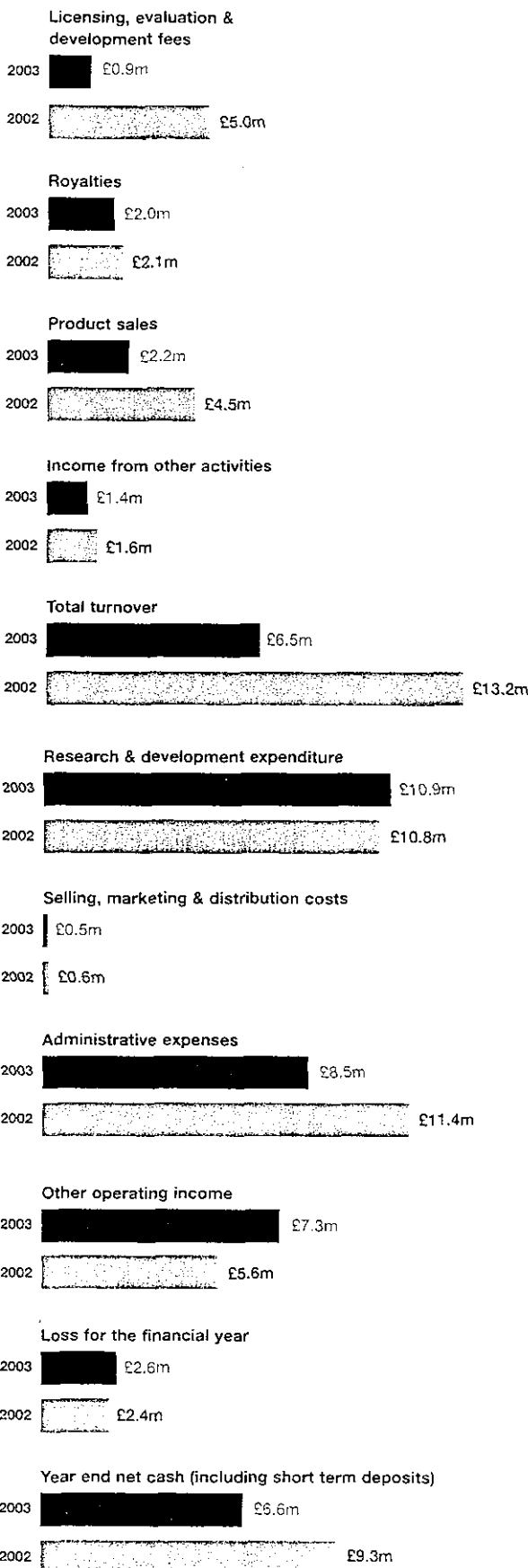
Commercial

- CLICKHALER - licence to Otsuka
- CLICKHALER - agreement with Pliva

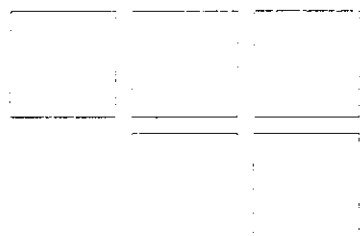
Clinical

- Extraneal - US approval and launch
- Extraneal - Japanese approval and launch
- ADEPT - report on pivotal Phase III interim data
- Phosphate binder - successful completion of Phase I trial
- CTL 102 - Phase II study progress
- CTL 901 - commencement of Phase I trial
- CLICKHALER formoterol and budesonide - marketing authorisation applications filed

Summary Financial Performance



Chairman's Statement



Having effectively completed the refocusing of the Group and the associated divestment of our non-core activities by the interim reporting stage I am pleased to inform you that, in the subsequent period, we have benefited from our much simplified group structure and the resulting significantly reduced cost base.

Throughout the period under review, namely, the financial year ended 30th September 2003 and the subsequent period to date, we have continued to progress the development and commercialisation of our portfolio of pharmaceutical products and technologies which is our primary objective.

We have today announced our preliminary results for the year ended 30th September 2003 which show turnover of £6.5m and a loss for the financial year of £2.6m. The financial results are fully described in the Financial Review on pages 14 to 15.

On 21st January 2004, we announced that the Company had reviewed its current working capital requirements and, as a result of the delays in receipt of milestone income, had concluded that it could no longer have a reasonable expectation that anticipated milestone income in the short term would be sufficient to fund its existing development plans and that it had therefore concluded that it should explore ways of raising additional funds.

We are therefore pleased to announce an underwritten Rights Issue, and an Issue for Cash, (together "the Issues") to raise £14.3m, net of expenses. The Company is of the opinion that, taking into account the net proceeds of the Issues, the working capital available to the Group is sufficient for its present requirements, that is, for at least the next twelve months from the date of this statement.

Full details of the Issues are set out in a document sent to Shareholders today.

Divestments -

In April 2003 we completed the disposal of our Icodextrin manufacturing business for a gross consideration of £6.8m which produced net proceeds of £5.7m.

The turnover and profit before tax attributable to that business in the previous financial year to 30th September 2002 were £2.9m and £0.4m respectively and the net assets at that date were £1.5m. Consequently we consider the sale proceeds achieved for the business represent acceptable value. The operating results of that business in the financial year under review have been included in the financial statements in discontinued activities.

In May 2003 we were presented with the opportunity to reduce our 46% shareholding in Cobra Biomanufacturing PLC ("CBM"), our former biological manufacturing business, which we divested by flotation on AIM in June 2002. The shareholding had been subject to the lock-in arrangement that we entered into on flotation which restricted the timing and quantum of disposals until June 2004. We disposed of approximately 83% of our holding realising gross disposal proceeds of £4m before expenses.

The aforementioned disposals produced a combined profit on divestments in the period of £5.7m

The balance of the holding of one million CBM shares has been sold since the end of the financial year realising a further £1.2m, net of expenses. This increases the total gross sum realised from the

divestment of non-core manufacturing businesses to circa £15m. In addition to generating working capital the divestments have relieved the Group of the requirement to incur the capital expenditure necessary to further develop those businesses.

Research refocusing -

In February 2003 we completed the downsizing of our early stage research activities as part of the implementation of our strategy to focus research on the development of products and technologies with the potential to produce income in the relatively near term. This resulted in a reduction in research department headcount of approximately 50% and a consequent annual saving of circa £1m in personnel costs and other costs associated with the research activity. The output of our research effort is monitored against performance targets which are regularly reviewed.

Clinical and regulatory progress -

In the period under review the principal achievements were:

- Extraneal -

The worldwide licensee of our dialysis solution, Baxter Healthcare, launched the product in the US in the period and subsequently in Japan. Launch in these two large markets offers the prospect of significant royalty income and has resulted in Extraneal being commercially available in the world's major pharmaceutical markets.

- ADEPT -

In August 2003, following a review of the data at the defined interim stage of the pivotal Phase III US multi-centre clinical trial of our adhesion reduction therapy, the independent Data Monitoring Committee reported that there were

no concerns related to the safety of ADEPT and recommended continuation of the study through to completion. The data from the remaining patient set are required to confirm the safety profile of ADEPT and to provide evidence of efficacy to the satisfaction of the US regulatory authorities. 80% of the total number of patients have been entered into the study which is expected to report in Q3 2004.

- Phosphate binder -

Our collaboration with Ineos Silicas Limited to develop their patented compound for the treatment of hyperphosphataemia in kidney failure patients saw the Phase I clinical study completed in which it was demonstrated that healthy volunteers were able to tolerate the drug in doses sufficient to result in a significant reduction in phosphate absorption from the diet, which is an important measure of clinical efficacy.

The results of the study were presented at the November 2003 meeting of the American Society of Nephrology and generated considerable interest. The plans for the Phase II studies have been finalised and the process of recruiting patients has commenced.

- CTL 102 -

In November 2003 we announced that our Phase II study to evaluate the efficacy and safety of our novel treatment of prostate cancer had entered the treatment phase. The trial is the first of its kind in prostate cancer in the UK and we anticipate reporting the outcome in H2 2005.

- CTL901 -

In December 2003 the first patient was entered into the Phase I clinical trial of our treatment of

Chairman's Statement

skin cancer (advanced melanoma). The product is comprised of the patient's own dendritic cells, a component of their immune system, which have been modified by our proprietary gene delivery system, CL22. We consider that CL22 is a platform technology which could potentially be used to modify dendritic cells for the treatment of other advanced forms of cancer for which no effective treatments are available.

- **Formoterol CLICKHALER -**

The filing of the application for marketing authorisation in Europe in November 2002, which triggered a significant milestone receipt from our licensee, was followed by the filing for marketing authorisation with the Canadian regulators in November 2003. European marketing approval and launch of this product are anticipated in H2 2004, both of which will trigger further significant milestone receipts, as will the launch of the product in Canada which is anticipated in H2 2005.

- **Budesonide CLICKHALER -**

Application for European marketing authorisation was filed in November 2003 triggering a significant milestone receipt from our licensee. European marketing approval and launch of this product are anticipated in H1 2005, both of which will trigger further significant milestone receipts.

Commercialisation progress -

Innovata Biomed ("IB"), our respiratory drug delivery subsidiary, achieved several successes in the period:

- In March 2003 IB granted Otsuka Pharmaceutical Co. Ltd., a leading Japanese

healthcare company, an exclusive licence to deliver Meptin in CLICKHALER in Japan and Spain. In consideration, IB becomes entitled to milestone receipts and further revenue from supplying CLICKHALERS to Otsuka. The product is currently in the clinic generating the data necessary to file an application for marketing approval with the Japanese regulators during H1 2004, with launch anticipated in 2005. Whilst this agreement adds further accreditation to CLICKHALER generally, it does so particularly in Japan as evidenced by the increased level of enquiries from other potential licensees of CLICKHALER in that country.

- In December 2003 IB entered into an agreement with Pliva, a multi-national pharmaceutical company, to develop a novel asthma medication based on Pliva's new chemical entity ("NCE") steroid and CLICKHALER. In consideration, IB will receive development fees, milestone receipts and royalties on sales and, in addition, IB will supply CLICKHALERS on commercial terms. This agreement is significant in that it represents the first agreement for an NCE to be delivered in CLICKHALER and sets IB on the pathway to achieve its objective of becoming a leading independent provider of dry powder inhalation technologies for the delivery of NCE respiratory compounds.

Panos acquisition -

Our interest in DEVACADE, our product for enhancing the pain relief produced by morphine, is licensed from Panos Therapeutics Limited ("Panos") under a collaborative agreement for the joint development and marketing of the product, entered into in 1998.

We have agreed an arrangement whereby we may, in due course, acquire Panos for a consideration of

15.7m (subject to adjustment) ordinary shares in ML. This acquisition, if completed, would mean that the whole of Panos' interest in DEVACADE, which Panos has licensed from Merck & Co. Inc, and Panos' potential income from its commercialisation, would be brought into the Group and ML would be relieved from the requirement to pay future milestone payments to Panos, as provided for in the 1998 agreement.

Co-founders' shareholding -

In October 2003 we were pleased to announce that our brokers had successfully placed with institutional investors 54.4m of a block of 56.6m shares, formerly held by a company owned by ML's founders, which had been under the control of a creditor bank for over a year. Subsequently the remaining 2.2m shares of that block have also been sold. Those transactions finally removed the overhanging uncertainty surrounding that very large block of shares and, as a result, provided ML with a broader investor base. Many of the participating institutional investors are new shareholders in ML and we look forward to working with them over the long term.

Prospects

ML is a business already generating income from products we have successfully developed and licensed to other pharmaceutical companies. Following the restructuring of the Group, we have focused our core skills in clinical development, regulatory affairs and product commercialisation on the development of our portfolio of pharmaceutical products in both early and late stages of development.

Our potential for growth is supported by our established track record of sourcing a development pipeline through in-house initiatives, in-licensing and joint development agreements, all of which we

will continue actively to pursue. In view of the above we believe that the business is capable of achieving profitability in the near term and delivering value to shareholders over the long term.

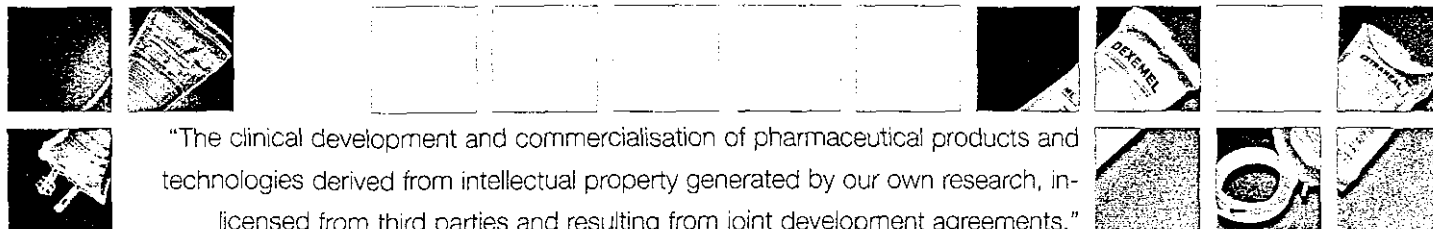
The Directors continue to believe that the Group's products and technologies have an acceptable risk profile and accordingly have a reasonable probability of being successful in the clinic and with regulators and licensees in generating income for the Group. Therefore, the Directors view the future prospects of the Group with confidence.

S W. Sim

Executive Chairman

28th January 2004

ML Pharmaceuticals



"The clinical development and commercialisation of pharmaceutical products and technologies derived from intellectual property generated by our own research, in-licensed from third parties and resulting from joint development agreements."

ML Pharmaceuticals is a pharmaceutical product development company with a track record of successful clinical developments and regulatory approvals. Its development pipeline of future products and its portfolio of early stage research projects are supported by revenue streams from products which it has 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

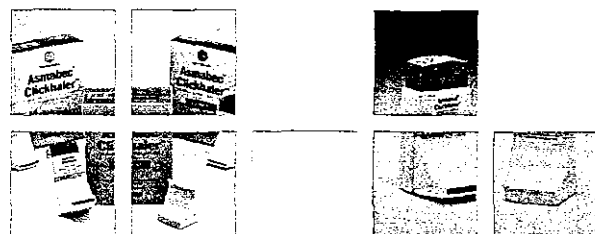
	Research	Pre-clinical	Phase I	Phase II	Phase III	Regulatory approval	Marketed
EXTRANEAL/RENAL							
ADEPT/ADHESIONS (EUROPE)							

Products in development

	Research	Pre-clinical	Phase I	Phase II	Phase III	Regulatory approval	Marketed
DEXEMEL - ONCOLOGY & GENE THERAPY							
ADEPT/ADHESIONS (US)							
EMMELLE - AIDS PREVENTION							
DEVACADE - PAIN MANAGEMENT							
CTL102 - PROSTATE CANCER							
PHOSPHATE BINDER - HYPERPHOSPHATAEMIA							
CTL 901 - MELANOMA							

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 for delivering compounds to the lung. Its 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 its founding technologies which are inhalation devices for the administration of drugs for respiratory disease.

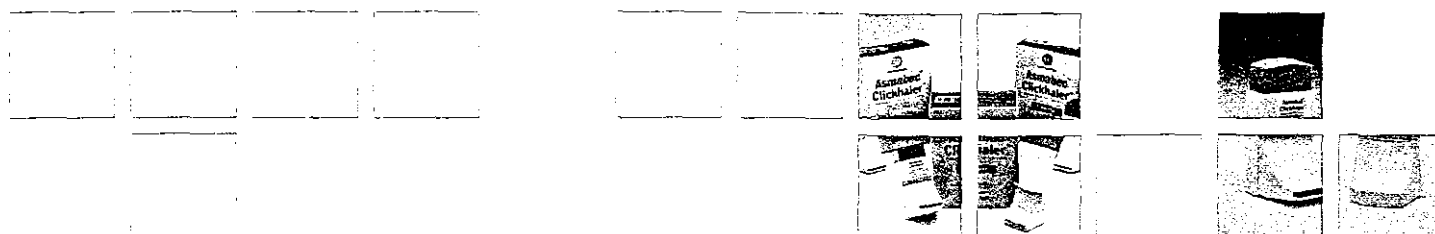
In-market products

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

Products in development

	Research	Pre-clinical	Phase I	Phase II	Phase III	Regulatory approval	Marketed
BUDESONIDE CLICKHALER							
FORMOTEROL CLICKHALER							
OTSUKA CLICKHALER							
PLIVA CLICKHALER							
C200 COMBINATION							
UNDISCLOSED CLICKHALER							

Operational Review



OPERATIONAL STRUCTURE

The Group's activities are organised into two principal operations - ML Pharmaceuticals and Innovata Biomed, the Group's respiratory subsidiary.

ML Pharmaceuticals is a pharmaceutical product development business with a track record of successful clinical development, regulatory approval and licensing of pharmaceutical products and a development pipeline of future products targeted at specialist markets. Its activities are supported by revenue 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 designs and develops technologies for delivering compounds to the lung for licensing to third parties. Existing licence agreements generate royalty income together with milestone receipts which provide support for the business's ongoing development programmes.

Both businesses operate as separate divisions with their own research, clinical development and business development capabilities, supported by centrally provided services which include regulatory affairs, intellectual property management, finance and administration.

PRODUCT DEVELOPMENT REVIEW

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, wherein waste products and excess fluid pass from the patient's blood into a dialysis solution infused into the abdominal cavity, all of which is subsequently drained out. ML holds patents in all major pharmaceutical markets over Icodextrin, the active ingredient.

The product has been licensed to Baxter Healthcare on an exclusive worldwide basis. Baxter, a market leader in renal disease treatments, has launched the product under its trade name, Extraneal, firstly in the UK in 1996 and subsequently in a further 31 countries. Currently more than 10,000 patients worldwide are using the solution on a daily basis.

Extraneal received US marketing approval in December 2002 and was launched in that market in April 2003. Japanese approval was received in April 2003 and the product was launched in that country later that year. Extraneal is now commercially available in all of the world's major pharmaceutical markets.

Sales of Extraneal in the major US and Japanese markets are expected to have a significant impact on our future 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 acknowledged as a major surgical problem. Adhesions are expensive to treat, often requiring further surgery and hospitalisation. Currently available treatments are both more expensive and difficult to administer than ADEPT. ADEPT offers significant advantages in that 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, we anticipate ADEPT will be significantly less expensive.

In October 2001 the exclusive right to manufacture and sell ADEPT throughout Europe was licensed to Shire Pharmaceuticals PLC ("Shire"), who, following our initial launch of the product in the UK in 2000, completed launches in the other main EU countries (France, Spain, Italy and Germany). Shire is now achieving widespread use of this product with gynaecologists and with general surgeons carrying out colorectal operations.

The clinical development of ADEPT has been concentrated in the US where we are carrying out a pivotal Phase III clinical trial, the PAMELA study, to determine the efficacy and safety of ADEPT in the reduction of post surgical adhesions after laparoscopic surgery. The PAMELA study is a clinical evaluation of ADEPT solution as an adjunct to adhesiolysis surgery, being conducted in 15 gynaecology units in the US. The total proposed

patient number (410) is based on statistical analysis of a previous five centre Phase II study. PAMELA is a double blind comparison of ADEPT and Ringer's lactate solution.

The protocol of the PAMELA study included a provision for an independent interim analysis of the data after completion of 50% (205) of the patients. This analysis was conducted by an independent external organisation and passed, with the appropriate information blinded, to an independent Data Monitoring Committee ("DMC").

The DMC completed its evaluation of the data in August 2003 when it reported that there were no concerns relating to the safety of ADEPT and recommended that the study should continue.

The data from the remaining patient set are required to confirm the safety profile of ADEPT and to provide sufficient evidence to demonstrate its efficacy to the satisfaction of the FDA. The study is anticipated to complete in Q3 2004.

We anticipate appointing a licensee for the US market in the event of a successful outcome to the US trial and we are in discussion with potential licensees for the Japanese and other Asian markets. We consider it is likely that Japanese marketing approval will be facilitated by positive data generated by our US study. Our estimated earliest launch date of the product in the US is 2007.

Our view is that uptake of the available treatments has been hampered by their complexity of use and cost. Consequently we are excited by the prospects for ADEPT in this market where we consider it has the potential to become a leading



Operational Review



product due to its safety profile, ease of use and price advantage and, as such, it could be used routinely in all abdominal surgery.

EMMELLE - an Icodextrin based intra-vaginal gel to prevent HIV transmission

The majority of new HIV infections occur in women and the transfer of virus during sexual intercourse is the major cause of such infection. The availability of a barrier microbicide such as EMMELLE, which is self-administered, would put prevention under the control of women. Female controlled microbicide products such as EMMELLE gel are considered a vital part of the worldwide effort to minimise the spread of HIV. EMMELLE has been the subject of a number of Phase II safety clinical investigations, both in Europe and Africa, and we consider it to have the potential to provide women with protection against viral transfer.

In February 2002 the Department for International Development ("DFID") and the Medical Research Council ("MRC") jointly announced a £16m microbicide development programme in which EMMELLE would be one of only two late stage products to be evaluated in a large Phase III clinical trial to be conducted in Africa, under MRC supervision. The trial is in the final stages of planning under the direction of an international committee of experts. If the results of the trial are successful, ML will be able to use the data as part of the application for marketing authorisation in all of the major pharmaceutical markets.

The low probability for the development of effective vaccines in the near future has 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 fulfil the potential requirement for products for personal protection in developed markets. The requirement for such a product has been receiving increasing publicity and independent surveys have concluded that the

market could be very large. Our estimated earliest launch date is 2010.

We are also considering the application of EMMELLE in the prevention of other important sexually transmitted diseases and we have commenced in vitro studies of its potential in the prevention of chlamydia infection.

DEVACADE - for enhancing the pain relief produced by morphine

Pre-clinical studies with DEVACADE demonstrated that this new chemical entity has the ability to enhance the pain relieving properties of drugs such as morphine without increasing the disturbing and dangerous side-effects experienced with such drugs. The double blind crossover dose response Phase II clinical study which we conducted in patients with severe neuropathic pain demonstrated that DEVACADE offers beneficial levels of pain reduction for patients on maximum doses of strong opioid analgesics and other ancillary analgesic agents when given as an adjunct to those drugs. Many of these patients are very long term pain sufferers. As well as reducing their pain levels, patients also reported reduced levels of sleep disturbance from their pain and reduced interference in activities owing to pain.

We continue actively to seek a licensee who is able to complete the required clinical programme and market this product. A Phase III programme has been designed to provide more extensive safety and efficacy data to meet the requirements of the regulatory authorities and to provide data to expedite the commercialisation of the product. We anticipate this study will take approximately two years and our estimated earliest launch date is 2007.

PHOSPATE BINDER -

Treatment of Hyperphosphataemia

Abnormally high and damaging levels of phosphate in the blood occur when damaged

kidneys are unable to rid the body of excess phosphate absorbed from food. Patients suffering from end-stage renal failure usually need to take a phosphate binding product to prevent absorption of phosphate and reduce blood concentrations. The novel compound we are co-developing with Ineos Silicas Limited has been shown in pre-clinical tests to have substantial phosphate binding activity. Furthermore, the product does not contain aluminium or calcium ions which could cause safety concerns in long term use and may therefore also render it applicable for use in pre-dialysis renal failure patients.

This product meets our product selection criteria ideally, as its efficacy can be readily demonstrated in a relatively small number of kidney failure patients, which is a body of patients of whom we gained considerable experience during the successful development of our kidney dialysis solution.

A Phase I study has demonstrated that healthy volunteers were able to tolerate the drug in doses sufficient to cause a significant reduction in phosphate absorption from the diet, which is an important measure of clinical efficacy. The results of this study were presented at the November 2003 meeting of the American Society of Nephrology in San Diego where it generated considerable interest.

The clinical development plans for Phase II trials have been finalised and the process of recruiting patients has commenced. We anticipate completing the study in early 2005 and our estimated earliest launch date is 2007.

We are excited by the prospects for this product in this rapidly growing market segment.

Gene Therapy Cancer Products

CTL102 in Prostate Cancer -

The mode of action of this product is the delivery of the gene for a bacterial enzyme,

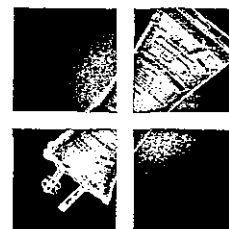
nitroreductase, to cancer cells such that a separately administered, relatively harmless drug, CB1954, will be activated in the tumour to kill the cancer cells. Having demonstrated gene expression in prostate tumours, we determined to concentrate exclusively on developing a treatment for prostate cancer, as we will be able to deliver multiple injections of CTL102 to the tumours and to monitor effects on tumour size by measuring an established serum marker, prostate specific antigen.

In November 2003 we announced the commencement of the treatment stage of our Phase II clinical trial in prostate cancer, which is the first of its kind in the UK. The purpose of the trial is to determine whether the treatment is both safe and efficacious. We expect to report the outcome of the trial in H2 2005 and our estimated earliest launch date is 2009.

We are hopeful that the novelty of the product could establish a marketable platform from which gene therapy products can be developed by third party licensees for the treatment of other tumours.

CTL901 in Melanoma -

A Phase I clinical trial is being conducted by our collaborators at the Cancer Research UK Institute for Cancer Studies at Birmingham University on our treatment for malignant melanoma. This treatment is based on the delivery of genes encoding tumour associated antigens to antigen presenting cells known as dendritic cells. In the trial, dendritic cells isolated from the patients' blood are modified using our proprietary antigen delivery system, CL22. The modified dendritic cells are returned to the patients by injection in order to induce the patients' immune system to attack tumour cells. Pre-clinical data suggest that this treatment will specifically attack skin cancers as well as the cancerous cells which leave the tumour and spread the disease throughout the body. We



Operational Review

consider that our CL22 system is a platform technology that may prove to be capable of being used to modify dendritic cells for the treatment of other advanced forms of cancer. We estimate the earliest launch date is 2012.

Gene Expression Technology

Agreements continue to be signed with a number of biotechnology and pharmaceutical companies to evaluate the UCOE technology for facilitating gene expression and thereby increasing the efficiency of therapeutic protein production. In addition we have an agreement with Medarex to apply our UCOE gene expression technology for antibody production.

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 gene vector stability is maintained in an Icodextrin solution.

Each of the above is the basis for patent applications and is potentially applicable to a wide variety of existing and novel drug therapies. It is our intention to commercialise them by partnering with other pharmaceutical companies using their novel compounds.

INNOVATA BIOMED

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

CLICKHALER is a proven, industrialised dry powder inhaler ("DPI") with many established advantages over standard asthma inhalers.

CLICKHALER has been extensively studied and shown to be highly acceptable to patients, regulators and potential licensees. Furthermore, it is marketed by Celltech PLC with standard asthma therapies (salbutamol and beclomethasone) in the UK, Ireland and France.

In September 2002 we announced that we had entered into an exclusive licence agreement with a major global pharmaceutical group for the rights to market the two asthma therapy molecules, budesonide and formoterol, in CLICKHALER in Europe and a number of other territories. This agreement provides for the payment to Innovata Biomed of up to £10m in access fees and milestone receipts plus double digit royalties on future product sales.

In November 2002 the first application for marketing authorisation for formoterol CLICKHALER in Europe was submitted, which was followed by application to the Canadian regulators in November 2003. We anticipate reaching the European and Canadian markets through IB's licensee in 2004 and 2005 respectively. The application for European marketing authorisation for budesonide CLICKHALER was filed in November 2003 with launch expected in 2005 and we anticipate our licensee filing in Canada in 2004, with a launch two years later. Revenues from both budesonide and formoterol CLICKHALER are expected to flow from sales for the commercial life of the products.

Negotiations were completed in March 2003 for the delivery of Otsuka Pharmaceutical Company's established drug, Meptin, using IB's CLICKHALER in Japan and Spain. This drug is already being sold by Otsuka in a CFC metered dose inhaler format and they expect to be able to commence substitution of sales of their existing product with CLICKHALER once approval is granted by the Japanese regulators. The product is currently in the clinic generating the necessary data for marketing approval with filing expected in 2004 and launch anticipated in 2005.

In December 2003 an agreement was entered into with Pliva to develop a novel asthma medication based on Pliva's NCE steroid and CLICKHALER.

The agreement is significant as it represents the first agreement for an NCE in CLICKHALER which sets IB on the pathway to becoming a leading independent provider of DPI technologies for the delivery of NCE respiratory compounds. Our estimated earliest launch date is 2010.

In addition, further formulation and clinical studies have been undertaken by IB, both alone and with potential partner companies, to evaluate the performance of CLICKHALER in the laboratory and in the clinic with compounds for asthma and other indications. 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 an 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.

C200 Device – building on the CLICKHALER technology

IB has recognised the tremendous opportunity offered by developments in the treatment of asthma by combining two drugs in the same inhaler.

Patents have already been published on the C200 device, which is a novel adaptation of the proven dose-metering 'engine' of CLICKHALER, whereby, in the same device, two drug reservoirs feed two drug formulations to separate metering chambers from which they are delivered to the patient in the same breath.

The development of this novel approach to the delivery of inhaled drugs has been facilitated by

the expertise of IB's in-house development team in Tewkesbury.

The ability to formulate the drugs separately permits optimisation of each individually, thereby offering the potential to overcome formulation challenges.

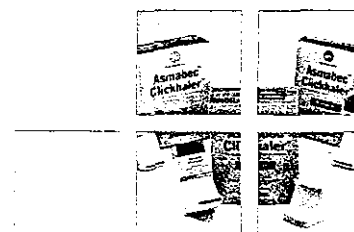
This technology is designed to help speed a number of established and new drugs to compete in the lucrative combination inhaled drug sector using device and formulation technologies being developed by IB. During the period under review, IB has worked with a number of drug formulations and device iterations in order to be able to complete the necessary pre-clinical work towards using the device in human clinical trials in early 2005. Our estimated earliest launch date is 2008.

Innovata Biomed's growing library of CLICKHALER-compatible formulations make this a low risk, versatile and fast-to-market delivery option.

We believe that this advance in the core technology offering of IB presents an exciting opportunity to partner companies by providing a device which can deliver either more or larger doses or can deliver a novel molecule in combination with an established drug to address the rapidly growing inhalation market.

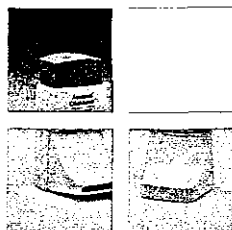
P.J. Shennan

Chief Operating Officer and Finance Director
28th January 2004



Financial Review

For the year ended 30th September 2003



The operating results of the Group for both the year and the comparative year have been analysed in the consolidated profit and loss account between continuing activities and those discontinued as a result of divestments, namely, the Icodextrin and DNA manufacturing businesses disposed of in April 2003 and June 2002 respectively.

Turnover and gross profit

Turnover includes income from royalties and pharmaceutical product sales - which are stated net of the entitlements of Paul Capital Royalty Acquisition Fund ("PCRAF") where appropriate - and fee income from licensing, evaluation and development agreements.

Total turnover in the year was £6.5m (2002 : £13.2m) of which £1.6m (2002 : £3.6m) related to discontinued businesses. The reduction in turnover from continuing activities was due principally to a decrease in licensing, evaluation and development fees which were £0.9m (2002 : £5.0m). These 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, which was adversely affected by movements in the \$/£ exchange rate, was £2.0m (2002 : £2.1m). Pharmaceutical product sales were £2.2m (2002 : £4.5m), reflecting the effect of the discontinued activities.

The reduction in turnover resulted in a decrease in gross profit to £3.9m (2002 : £8.8m) again reflecting principally the reduction in licensing, evaluation and development fees.

Operating costs

Research and development expenditure at £10.9m (2002 : £10.8m) was at a similar level to the comparative year as were selling, marketing and distribution costs of £0.5m (2002 : £0.6m). Administrative expenses were reduced to £8.5m

(2002 : £11.4m) reflecting reductions in the Group's cost base.

Other operating income of £7.3m (2002 : £5.6m) included the release to the consolidated profit and loss account of £5.0m of PCRAF funding received during the year ended 30th September 2002, following the satisfaction of an outstanding condition relating to its potential repayment. The balance represents the release of the relevant portion of the deferred element of funds received from PCRAF in the year ended 30th September 2001 and which specifically related to the clinical development of ADEPT in the US. The comparative year included amounts receivable in connection with the termination or amendment of licensing agreements, together with the relevant portion of the deferred element of funds received from PCRAF.

Loss for the year before taxation

The operating loss was £8.7m net of a profit of £0.2m on the discontinued activities (2002 : loss of £8.3m inclusive of a loss on discontinued activities of £0.7m). The profit on divestments of £5.7m arose on the disposal of the Icodextrin manufacturing business and the sale of five million of the Group's holding of six million Cobra Biomanufacturing Plc ("CBM") shares. The profit on divestments in the comparative year arose on the deemed disposal of the DNA contract manufacturing business of Cobra Therapeutics Limited. After net interest income the loss before tax was £2.8m (2002 : £5.3m).

Taxation

Tax credits in relation to eligible research and development expenditure estimated to be receivable in respect of the year, less withholding taxes suffered, were £0.2m. Tax credits recognised in 2002 of £2.8m comprised both tax credits receivable in respect of the year to 30th September 2002 and the tax credits in respect of prior years not previously recognised.

Loss after taxation

The loss for the financial year after taxation was £2.6m (2002 : £2.4m). This represents a loss per ordinary share of 1.64p (2002 : 1.53p).

Net assets

Net assets at 30th September 2003 were £7.6m, reduced from £10.2m at 30th September 2002 as a result of the loss for the financial year.

Intangible assets comprise goodwill which continues to be amortised over 20 years.

Expenditure on tangible fixed assets was £0.9m. After taking into account the net book value of fixed assets divested on the disposal of the Icodextrin manufacturing business of £1.2m, depreciation of £1.1m and other disposals, the net book value of fixed assets reduced to £1.9m from £3.3m.

Stocks reduced to £0.7m from £1.2m principally as a result of the disposal of the Icodextrin manufacturing business. The decrease in debtors to £3.9m (2002 : £8.3m) included the effects of the disposal of the Icodextrin manufacturing business, the receipts of accrued tax credits and of a significant amount due under an agreement with a third party as at 30th September 2002. The decrease in creditors due within one year to £8.2m from £15.1m reflected the release of the PCRAF £5m, referred to above, and the effects of the disposal of the Icodextrin manufacturing business net of the inclusion of a potentially repayable milestone receipt received prior to 30th September 2003. The reduction in creditors due after more than one year to £0.2m from £0.8m arises from net repayments of finance leases, including those repaid on the disposal of the Icodextrin manufacturing business.

Deferred income of £0.8m includes £0.5m in respect of monies received from PCRAF to be released to the consolidated profit and loss account as our spending obligation on the US clinical development of ADEPT is met, as explained above.

Cash balances and cash flow

Cash consumed in the year by operations (excluding milestone receipts), capital expenditure and net finance lease repayments, offset by net interest income, amounted to £17m. This was offset by cash received in the year from milestone receipts of £3.9m (which forms part of the Net Cash Outflow from Operating Activities in note 29 to the financial statements), divestment proceeds of £9.6m and tax credits of £0.8m which totalled £14.3m, resulting in a net outflow of cash of £2.7m. We ended the year with net cash balances of £6.6m (2002 : £9.3m).

P.J. Shennan

Chief Operating Officer and Finance Director
28th January 2004

Directors, Secretary and Advisers

Directors

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

Secretary and registered office

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

Principal bankers

Barclays Bank PLC, Barclays Business Centre,
Manchester City Office, P.O. Box 357, 51 Mosley
Street, Manchester, M60 2AU

Registrars and transfer office

Capita Registrars, The Registry, 34 Beckenham
Road, Beckenham, Kent, BR3 4TU

Registered auditors

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

Financial adviser & stockbroker

Panmure Gordon,
a division of Lazard & Co., Limited,
50 Stratton Street,
London,
W1J 8LL

Directors

S. W. Sim, FCA

Executive Chairman (Age 52)

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 Group as Finance Director in 1988 and he was appointed Chief Executive in June 1997. He became Executive Chairman in October 2002. He is a non-executive Director of Heritage Great Britain Plc and Haline Properties Limited.

Dr. R. N. Boyes, PhD

Director North America (Age 63)

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. 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.

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

Group Director of R&D (Age 63)

Donald Davies was appointed Group Director of Research and Development and an Executive Director in October 2002. He had been a Non-Executive Director since the formation of the Company in 1987. In his new role Professor Davies is responsible for co-ordinating research and regulatory policy and strategy and providing scientific evaluation of new product and research opportunities. He was previously Head of Clinical Pharmacology at Imperial College, Hammersmith Hospital, where he is retained as Professor of Biochemical Pharmacology. He is a former member of the Committee on Safety of Medicines and has served on other expert committees in the UK, Europe and the USA. He has had more than 200 papers published on mechanisms of drug action and toxicity and drug safety evaluation.

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

Non-Executive Director (Age 68)

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 63)

Till Medinger joined the Board in March 1999. He was until November 1999 Senior Vice President Corporate Strategy at AstraZeneca PLC and formerly Zeneca Pharmaceuticals International Business Director. As its International Marketing Director he launched several products that have enjoyed 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, territorial and marketing management and public and government affairs. He is non-executive Chairman of PhotoBiotics Limited and a non-executive Director of Peptech Limited (Australia) and Datapharm Communications Limited. He has also acted as corporate consultant to a number of private UK and US biotech companies.

P. J. Shennan, BA, FCA, MSI

Chief Operating Officer and Finance Director (Age 53)

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. 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 2003.

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.

Business review

The Chairman's Statement, the Operational Review and the Financial Review on pages 2 to 15 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 £2,830,066 (2002 £5,260,937). The Group loss for the year after taxation and minority interests of £2,595,965 has been added to the deficit brought forward on profit and loss account reserves as shown in note 20 on page 47. 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 £10,913,662 (2002 £10,845,170).

Post balance sheet events

On 10th December 2003 the Group sold its remaining holding of one million CBM shares at a price of £1.25 per share, generating net proceeds, after expenses, of £1,231,249 and a profit for the Group of £754,694.

On 28th January 2004 the Company announced an underwritten Rights Issue and an Issue for Cash to raise £14.3m, net of expenses.

Directors

The Directors who held office during the year were :

S. W. Sim (Executive Chairman)

Dr. R. N. Boyes

Dr. C. B. Brown (Resigned 10th October 2002)

Prof. D. S. Davies

Prof. A. D. Dayan (Non-Executive)

K. R. Leech (Resigned 10th October 2002)

Dr. T. Medinger (Non-Executive)

P. J. Shennan

Under the Articles of Association Mr. S.W. Sim and Mr. P.J. Shennan retire from office, and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

Details of the Directors' service contracts are shown in the Remuneration Report on pages 22 to 26.

Directors' share options

Details of the Directors' Share Options are shown in the Remuneration Report on pages 22 to 26.

Directors' interests

The interests (beneficial unless otherwise stated) in the shares of the Company of the Directors who held office at 30th September 2003, were as follows:

	2003 Number of Ordinary Shares	2002 Number of Ordinary Shares	2003 Percentage of Ordinary Share Capital	2002 Percentage of Ordinary Share Capital
S.W. Sim	1,039,569 ⁽¹⁾	839,569 ⁽¹⁾	0.66%	0.53%
Dr. R.N. Boyes	188,500	88,500	0.12%	0.06%
Prof. D.S. Davies	393,225	293,225	0.25%	0.19%
T. Medinger	53,724	20,000	0.03%	0.01%
Prof. A.D. Dayan	22,500 ⁽²⁾	7,500 ⁽²⁾	0.01%	-
P. J. Shennan	20,000	1,000	0.01%	-

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

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

At 30th September 2003, Dr. R. N. Boyes owned 7,500 shares in Innovata Biomed Limited (2002 7,500 shares) representing 18.75% of that company's issued share capital. Innovata Biomed Limited is a subsidiary of the Company. At 30th September 2003, Dr. Boyes also owned 375 shares in Healthcare Education Services Limited (2002 375 shares) representing 18.75% of that company's issued share capital. Healthcare Education Services Limited is also a subsidiary of the Company.

Save for the holdings of persons who are no longer directors, there were no changes to the above holdings between 30th September 2003 and 28th January 2004.

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

As at 28th January 2004, 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
Diarmuid Investments Limited	14,000,000 ⁽¹⁾	8.85
Mourant & Co. Trustees Limited	14,000,000 ⁽¹⁾	8.85
BriTel Fund Nominees Limited (for the Trustees of the BT Pension Scheme)	6,855,796	4.21
Colin Blackburn	6,350,000	4.01
PossFund Nominees Limited (for Royal Mail Pensions Trustees Limited and Possfund Custodian Trustee Limited)	4,805,671	3.04

1. The Company understands that the interests of Diarmuid Investments Limited and Mourant & Co. Trustees Limited are in the same holding of 14,000,000 ordinary 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 2003 trade creditors for the Group represented 53 days of amounts invoiced by suppliers (2002 50 days) and for the Company represented 50 days (2002 66 days).

Charitable and political donations

During the year the Group made no charitable donations (2002 £Nil) and no contributions were made to political organisations (2002 £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 communicate with and, where appropriate, consult with them on matters affecting them as employees, in the most appropriate manner. 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

A resolution to re-appoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the Annual General Meeting.

Annual general meeting

Notice of the 2004 Annual General Meeting ("AGM") of M L Laboratories PLC is enclosed with this document.

In addition to the ordinary business set out in the notice of the AGM, a resolution will be proposed to approve the Remuneration Report, set out on pages 22 to 26.

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 2004.



Remuneration Committee (non-auditable)

The Remuneration Committee (the "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 Committee held one meeting during the year, which was attended by both Non-Executive Directors. The principal functions of the Committee are to make recommendations to the Board on the Company's policy for executive remuneration and to determine, on behalf of the Board, the remuneration, including the terms and conditions of service, for the Executive Directors and appropriate other senior executives. The full terms of reference for the Committee are available on request. The Committee has been advised in its work during the past financial year by the Executive Chairman except in matters relating to his own remuneration. The Committee has also appointed New Bridge Street Consultants LLP ("NBSC") to provide them with independent remuneration advice. NBSC provides no other services to the Company.

Remuneration Policy (non-auditable)

The Committee's policy is to set remuneration packages for Executive Directors and senior management that are competitive with the market, allowing the Company to attract, motivate and retain executives of the highest calibre. Remuneration packages are designed to incentivise and reward executives for improved performance via annual bonus payments and awards of share options, which together constitute a potentially significant proportion of the total remuneration opportunity.

The remuneration of Executive Directors comprises the following five elements:

(i) 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 other employees.

(ii) Taxable benefits

Taxable benefits represent the provision of a car, including fuel benefit, and private medical insurance, where applicable.

(iii) 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 under the M.L. Laboratories PLC 1999 Executive Share Option Scheme and are exercisable between 3 and 10 years from the date of the grant.

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 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 in other exceptional circumstances.

Grants made to Executive Directors so far under this scheme are only exercisable subject to the achievement of stretching share price growth targets (as outlined later in this Report). It is the Committee's current intention that future option grants will also be subject to share price growth targets that it considers to be appropriately demanding at the date of grant. The Committee believes that the use of share price targets clearly aligns the interests of the Executives with the interests of shareholders. The share options granted to individual Executive Directors to date are disclosed later in this Report and include grants made in prior years under a previous option scheme.

(iv) Bonus

The Company operates a non-pensionable discretionary bonus scheme based upon individual performance and achievement of personal and corporate objectives. The bonus paid to Mr. P.J. Shennan for the past financial year was related to the successful achievement of the Group's programme of divestment of its non-core manufacturing activities. No other Executive Director received a bonus for the past financial year.

(v) 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 28 on page 48, with the exception of Professor Davies, whose contributions are payable into his own pension scheme. During the current year the Company made additional contributions under the Non-Contributory Pension Scheme on behalf of Dr. Boyes to correct an underpayment of contributions since his 60th birthday.

Executive Directors service contracts (non - auditable)

	Date of Contract
S. W. Sim	27th July 1992
Dr. R. N. Boyes	31st March 1993
Dr. C. B. Brown	3rd January 1997 (Resigned 10th October 2002)
Prof. D. S. Davies	21st January 2003
K. R. Leech	27th July 1992 (Resigned 10th October 2002)
P. J. Shennan	23rd May 1997

Each of Mr. S.W. Sim and Dr. R.N. Boyes has, and at all relevant times during the year Mr. K.R. Leech had, a service contract which is terminable by the Company on two years notice. Mr. P.J. Shennan and Professor D.S. Davies have, and at all relevant times during the year Dr. C.B. 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, by payments of up to the notice period's worth of salary, pension and other benefits. Where possible, the Company would mitigate the cost of termination by negotiation. Mr. K.R. Leech resigned voluntarily on 10th October 2002 without compensation. Dr. C.B. Brown also resigned from the Board on 10th October 2002 but continues to fulfil his role as Medical Director although this is no longer designated to be a Board position.

The service contracts of Mr. S.W. Sim and Dr. R.N. Boyes each contain, and at all relevant times during the year that of Mr. K.R. Leech 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 (non - auditable)

The Non-Executive Directors receive fees which are determined by the Board. Professor D.S. Davies became an Executive Director on 10th October 2002. Professor A.D. Dayan and Dr. T. Medinger are subject to a notice period of six months.

Retirement by rotation (non - auditable)

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' remuneration (auditable)

The information on Directors' remuneration should be read in conjunction with the Directors' Report and note 9 on page 41 which also constitute part of this Remuneration Report.

	Basic Salary £000	Bonus £000	Taxable Benefits £000	Pension Contributions £000	Fees £000	Total 2003 £000	Total 2002 £000
Executive Directors							
S.W. Sim	308	-	40	46	-	394	366
Dr. R.N. Boyes	116	-	14	43	-	173	121
Dr. C.B. Brown							
(Resigned 10th October 2002)	4	-	-	-	-	4	202
Prof. D.S. Davies	55	-	18	16	55	144	108
K.R. Leech							
(Resigned 10th October 2002)	7	-	-	2	-	9	298
P.J. Shennan	195	25	14	29	-	263	196
Non-Executive Directors							
Prof. A.D. Dayan	-	-	-	-	41	41	39
Dr. T. Medinger	-	-	-	-	32	32	29
Total	685	25	86	136	128	1,060	1,359

Mr. G.P. Fothergill, a former Director who remains employed by ML in a part-time capacity, had remuneration in the period of £274,795 comprising basic salary £217,300, taxable benefits £5,803 and pension contributions £51,692.

Dr. C.B. Brown ceased to be a Director by mutual consent on 10th October 2002 but remains employed by ML in an executive role as Medical Director. His remuneration as an employee following his resignation as a Director was £222,709 comprising basic salary £171,343, taxable benefits £20,145 and pension contributions £31,221.

Remuneration Report

Directors' share options (auditable)

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 was adopted in 1989, had a fixed life of 10 years and no further options may now be granted under it. There was no performance condition attaching to the outstanding options granted and they are therefore exercisable at the discretion of the option holder.

The Executive Directors have outstanding 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
S. W. Sim	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
			601,721		
Dr. R. N. Boyes	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
			266,880		
Prof. D. S. Davies	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
			122,929		
P. J. Shennan	09/02/98	£1.25	320,000	09/02/01	09/02/08
	06/07/98	£0.89	22,599	06/07/01	06/07/08
	08/03/99	£1.07	50,000	08/03/02	08/03/09
			392,599		

The M L Laboratories PLC 1999 Executive Share Option Scheme (the "1999 Scheme") is administered by the Board of Directors and governed by the 1999 Scheme Rules, adopted in 1999 and amended in 2001. There are two parts to the 1999 Scheme, an "Approved" element, which has been approved by the Inland Revenue, which is primarily used for the grant of options to employees at all levels, and an "Unapproved" part which is intended primarily to be used where Executives have more than £30,000 worth of outstanding approved options. The 1999 Scheme has a fixed life of ten years. 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. For all options granted under the scheme prior to 2001, the performance condition for Basic Options (vesting after 3 years) to be exercisable requires the share price to achieve a level at least twice the option price on or after the vesting date. For larger awards of Super Options (vesting after 5 years) to be exercisable requires the share price to achieve a level at least three times the option price on or after the vesting date.

Since the 1999 Scheme was amended in 2001, for options granted over shares with a value of up to 100% (over 100%) of total remuneration in a year to be exercisable the Company's share price (based on a 30 day average) must have achieved a level of at least 50% (100%) growth (rising by 10% (20%) a year from the fifth anniversary of grant) from the option price at some time in the period from 3 years from the date of grant until option exercise.

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 Committee considers this appropriate, although the Committee has not, as yet, exercised this discretion. 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 Executive Directors have outstanding 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
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
	17/04/03	£0.1475	1,015,282	17/04/06	17/04/13
			1,611,961		
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
	17/04/03	£0.1475	381,254	17/04/06	17/04/13
			601,245		
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
	17/04/03	£0.1475	353,579	17/04/06	17/04/13
			515,740		
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
	17/04/03	£0.1475	645,620	17/04/06	17/04/13
			927,569		

No options were exercised during the financial year.

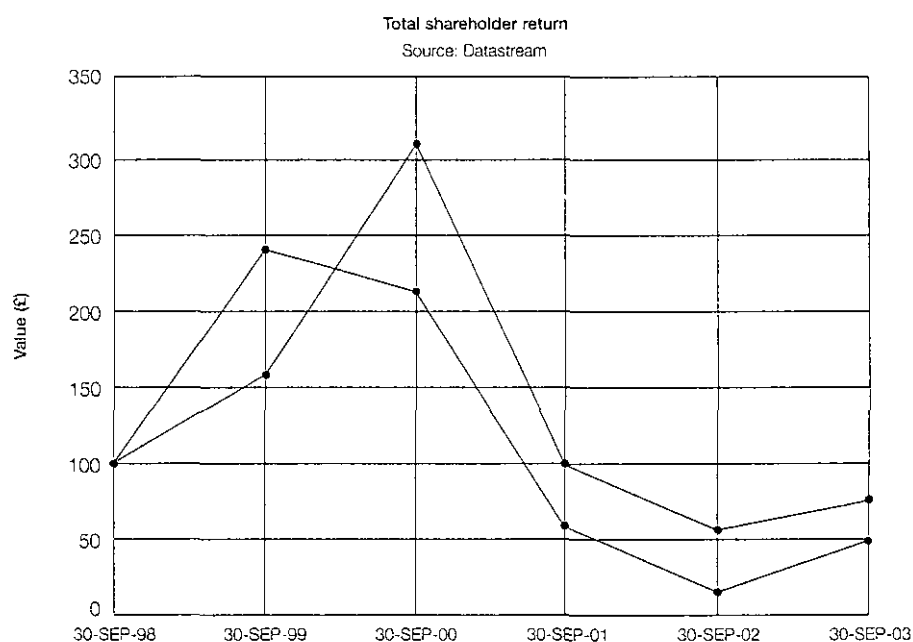
Options over 919,670 shares (2002 322,100) lapsed during the year, as follows:

Name of Director	Date of Grant	Subscription Price	Number of Options	Exercise Date	Expiry Date
S. W. Sim	24/08/93	£2.02	19,801	24/08/96	24/08/03
			19,801		
K. R. Leech	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	£0.885	39,548	06/07/01	06/07/08
	08/03/99	£1.065	50,000	08/03/02	08/03/09
	20/08/99	£1.40	23,571	20/08/04	20/08/09
	02/11/01	£0.37	400,338	02/11/04	20/08/11
			850,366		
R. N. Boyes	24/08/93	£2.02	39,603	24/08/96	24/08/03
			39,603		
Prof. D. S. Davies	24/08/93	£2.02	9,900	24/08/96	24/08/03
			9,900		

The market price of the shares at 30th September 2003 was £0.32 and the range during the financial year was £0.0925 to £0.3725.

Performance Graph (non-auditable)

The graph below illustrates the relative Total Shareholder Return performance of the Company and the FTSE Techmark 100 Index over the last five financial years. Total Shareholder Return comprises the impact of share price movements and dividends paid. The FTSE Techmark 100 Index has been used as a comparator because the Committee considers it to be the most appropriate index of which the Company is currently a constituent.



This graph shows the value, by 30th September 2003, of £100 invested in M L Laboratories PLC on 30th September 1998 compared with the value of £100 invested in the FTSE Techmark 100 Index. The other points plotted are the values at intervening financial year-ends.

—●— M L Laboratories - - - ● - - - FTSE techmark 100 Index

Signed on behalf of the Board

Dr. T. Medinger

Chairman, Remuneration Committee

28th January 2004

The Group has applied the principles set out in Section 1 of the Combined Code as currently applicable to the Group 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. From 10th October 2002, the Audit Committee is comprised of two rather than three Non-Executive Directors, as with effect from that date the Company has only two Non-Executive Directors.

Following the restructuring of the Board on 10th October 2002 the Board has comprised four Executive Directors, including the Executive Chairman, and two Non-Executive Directors Professor A. D. Dayan and Dr. T. Medinger, both of whom are considered to be independent Non-Executive Directors. Dr. T. Medinger, who acts as Chairman of both the Remuneration and Audit Committees, has been nominated as senior independent Director. The Board meets regularly, normally six times a year, to consider appropriate matters, including matters specifically reserved to the Board for consideration. All Directors are provided with the necessary information to enable them to carry out their duties and have access to the Company Secretary and to independent professional advice at the Company's expense.

The Board has established a Remuneration Committee, comprising the independent Non-Executive Directors, Professor A. D. Dayan and Dr. T. Medinger, to determine matters relating to the remuneration of Executive Directors and other senior executives, and an Audit Committee, which comprises the same individuals, to discuss the work of the Auditors and the adequacy of internal controls. Both committees have written terms of reference.

Report on internal control

The Board is responsible for maintaining an effective system of internal control. There is an ongoing process for identifying, evaluating and managing the significant risks facing the Group. 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

Executive Chairman

28th January 2004

We have audited the financial statements which comprise the profit and loss account, the balance sheets, the cash flow statement, the statement of accounting policies and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the Remuneration Report and identified as "auditable".

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. The Directors are also responsible for preparing the Remuneration Report.

Our responsibility is to audit the financial statements and the auditable part of the Remuneration Report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body 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 into 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 whether the financial statements and the auditable part of the Remuneration Report 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 unaudited part of the Remuneration Report, the Chairman's Statement, the Operational Review, the Financial Review 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 and the auditable part of the Remuneration Report. 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 and the auditable part of the Remuneration Report 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

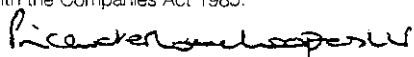
In forming our opinion, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the uncertainty as to the completion of the proposed Rights Issue and Issue for Cash and consequently the adequacy of the working capital available to the Group to enable it to meet its requirements for the foreseeable future. For the reasons explained in note 1, 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 2003 and of the loss and cash flows of the Group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the Remuneration Report required by Part 3 of Schedule 7A of the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP



Chartered Accountants and Registered Auditors,

Liverpool

28th January 2004

Consolidated Profit and Loss Account

for the year ended 30th September 2003

	NOTES	2003		2003	2002	2002		2002
		Continuing	Discontinued	Total	Continuing	Discontinued	Total	
		£	£	£	£	£	£	
Turnover	4	4,927,801	1,602,254	6,530,055	9,639,471	3,610,345	13,249,816	
Cost of sales		(1,183,922)	(1,416,408)	(2,600,330)	(1,592,053)	(2,837,635)	(4,429,688)	
Gross profit		3,743,879	185,846	3,929,725	8,047,418	772,710	8,820,128	
Research and development expenditure		(10,913,662)	-	(10,913,662)	(10,092,810)	(752,360)	(10,845,170)	
Selling, marketing and distribution costs		(466,577)	(13,113)	(479,690)	(515,184)	(51,485)	(566,669)	
Administrative expenses		(8,535,739)	-	(8,535,739)	(10,663,486)	(697,295)	(11,360,781)	
Other operating income	5	7,345,806	-	7,345,806	5,623,796	-	5,623,796	
Operating (loss)/profit		<u>(8,826,293)</u>	<u>172,733</u>	<u>(8,653,560)</u>	<u>(7,600,266)</u>	<u>(728,430)</u>	<u>(8,328,696)</u>	
Profit on divestments	3			5,685,849			2,873,899	
Loss before interest				(2,967,711)			(5,454,797)	
Interest receivable	6(a)			254,166			431,926	
Interest payable	6(b)			(116,511)			(238,066)	
Loss on ordinary activities before taxation	4, 7			(2,830,056)			(5,260,937)	
Taxation	8			234,091			2,837,891	
Loss on ordinary activities after taxation				(2,595,965)			(2,423,046)	
Minority interests				-			-	
Loss for financial year	20(a)			(2,595,965)			(2,423,046)	
Loss per ordinary share	24			(1.64)p			(1.53)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.

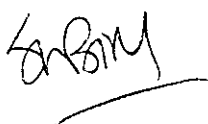
Consolidated Balance Sheet

at 30th September 2003

	NOTES	2003 £	2002 £
Fixed Assets			
Intangible assets	10	3,300,444	3,500,471
Tangible assets	11	1,884,961	3,286,839
Investments	12	476,555	2,859,331
		5,661,960	9,646,641
Current Assets			
Stocks	13	736,645	1,217,388
Debtors	14	3,853,818	8,343,840
Investments	15	1,039	1,039
Cash and short term deposits	16	6,580,678	9,748,370
		11,172,180	19,310,637
Current Liabilities			
Creditors: amounts falling due within one year	17(a)	(8,165,674)	(15,118,568)
Net Current Assets		3,006,506	4,192,069
Total Assets less Current Liabilities		8,668,466	13,838,710
Creditors: amounts falling due after more than one year	17(b)	(233,037)	(767,684)
		8,435,429	13,071,026
Deferred income	18	(814,609)	(2,854,241)
Net Assets		7,620,820	10,216,785
Capital and Reserves			
Share capital	19, 20(a)	1,581,686	1,581,686
Share premium account	20(a)	36,502,990	36,502,990
Merger reserve	20(a)	8,335,897	8,335,897
Profit and loss account	20(a)	(38,799,753)	(36,203,788)
Equity Shareholders' Funds	20(a)	7,620,820	10,216,785
Minority interests		-	-
		7,620,820	10,216,785

The financial statements on pages 31 to 51 were approved by the Board of Directors on 28th January 2004 and were signed on its behalf by :

S. W. Sim Director



Parent Company Balance Sheet

at 30th September 2003

	NOTES	2003 £	2002 £
Fixed Assets			
Intangible assets	10	3,300,444	3,500,471
Tangible assets	11	910,303	2,625,798
Investments	12	5,243,084	10,243,084
		9,453,831	16,369,353
Current Assets			
Stocks	13	60,830	380,759
Debtors - due within one year	14(a)	2,571,071	4,395,294
Debtors - due after more than one year	14(b)	17,960	3,560,815
Debtors		2,589,031	7,956,109
Investments	15	1,039	1,039
Cash and short term deposits	16	28,901,760	27,930,574
		31,552,660	36,268,481
Current Liabilities			
Creditors: amounts falling due within one year	17(a)	(3,449,596)	(9,724,950)
Net Current Assets		28,103,064	26,543,531
Total Assets less Current Liabilities		37,556,895	42,912,884
Creditors: amounts falling due after more than one year	17(b)	(335,429)	(888,160)
		37,221,466	42,024,724
Deferred income	18	(508,436)	(2,654,241)
Net Assets		36,713,030	39,170,483
Capital and Reserves			
Share capital	19, 20(b)	1,581,686	1,581,686
Share premium account	20(b)	36,502,990	36,502,990
Special reserve	20(b)	4,048,952	4,048,952
Merger reserve	20(b)	8,335,897	8,335,897
Profit and loss account	20(b)	(13,756,495)	(11,299,042)
Equity Shareholders' Funds	20(b)	36,713,030	39,170,483

The financial statements on pages 31 to 51 were approved by the Board of Directors on 28th January 2004 and were signed on its behalf by:

S. W. Sim Director



Consolidated Cash Flow Statement

for the year ended 30th September 2003

	NOTES	2003 £	2002 £
Net Cash (Outflow)/Inflow from Operating Activities	29	(11,277,009)	678,668
Returns on Investments and Servicing of Finance			
Interest received		289,669	396,545
Interest paid		(10,435)	(16,502)
Interest paid on finance leases		(106,052)	(222,636)
Net Cash Inflow from Returns on Investments and Servicing of Finance		173,182	157,407
Taxation			
UK Corporation tax recovered		805,675	787,315
Capital Expenditure and Financial Investment			
Purchase of tangible fixed assets		(919,824)	(2,534,650)
Disposal of fixed asset investment		-	125,058
Receipts from sale of tangible fixed assets		90,817	147,655
Net Cash Outflow for Capital Expenditure and Financial Investment		(829,007)	(2,261,937)
Disposals			
Net proceeds from disposal of manufacturing business	3(a)	5,735,689	-
Net proceeds from disposal of shares	3(b)	3,850,594	-
Disposal of subsidiary undertaking - settlement of overdraft	3(c)	-	3,000,000
Net Cash Inflow from Disposals		9,586,283	3,000,000
Net Cash (Outflow)/Inflow before Management of Liquid Resources and Financing		(1,540,876)	2,361,453
Management of Liquid Resources			
Withdrawals from short term deposits		3,503,753	243,000
Net Cash Inflow from Management of Liquid Resources		3,503,753	243,000
Financing			
Capital element of finance lease rental payments		(1,432,620)	(1,658,229)
Lease finance acquired		332,768	1,105,234
Capital element of unsecured loan payments		(78,951)	(67,728)
Unsecured loan received		-	38,550
Decrease in debt and lease financing	31	(1,178,803)	(582,173)
Net Cash Outflow from Financing		(1,178,803)	(582,173)
Increase in Net Cash in Year	31	784,074	2,022,280

Principal accounting policies

The financial statements have been prepared in accordance with the Companies Act 1985 and 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. The going concern basis continues to be adopted for the reasons explained in note 1.

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

Assets under construction are classified separately and depreciated from the date they are brought into use at appropriate rates.

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 (including investments in subsidiaries)

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 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. 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, comprises:

- Licensing, evaluation and development fees are recognised once it can be determined with reasonable certainty that such income will be received. Non-returnable licence fees are recognised when the associated conditions are satisfied. Licence fees which are returnable if contractually specified conditions are not met are treated as creditors until such conditions are fully satisfied.
- Royalties are recognised in the period in which the sales by third parties that give rise to the royalties take place.
- Product sales are recognised when the goods are despatched to customers.
- Other turnover is recognised at the point at which goods or services are provided to third parties.

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. This basis is supported by the projected cash flow of the Group for the foreseeable future, which takes into account the expected future proceeds of the underwritten Rights Issue and the Issue for Cash announced on 28th January 2004. The projections indicate that, without the proceeds of the Rights Issue and the Issue for Cash, the Group would not have sufficient working capital to meet its requirements for the foreseeable future, unless other actions were pursued successfully.

The Rights Issue and the Issue for Cash are conditional on shareholders' approval at an EGM to be held on 20th February 2004. The underwriting agreement contains conditions typical to such agreements and the Issue for Cash is subject to the underwriting agreement becoming unconditional. The Rights Issue and the Issue for Cash are therefore subject to some uncertainty, depending on the satisfaction of these conditions. However the Directors have a reasonable expectation that the Rights Issue and the Issue for Cash will proceed and, therefore, that the Group will have sufficient working capital for the foreseeable future. Consequently they 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

On 15th April 2003 the Group disposed of its Icodextrin manufacturing business to Baxter Healthcare Limited. The results of this business have been included in the consolidated profit and loss account up to the date of disposal as a discontinued activity and the discontinued activities comparative figures have been adjusted accordingly.

On 12th June 2002 the Group made a deemed disposal of its DNA contract manufacturing business through the flotation on AIM of Cobra Biomanufacturing PLC ("CBM"). The results of this business have been included in the consolidated profit and loss account for the comparative year up to the date of disposal as a discontinued activity.

On the flotation of CBM in June 2002 the Group retained its interests in CBM comprising six million shares and representing approximately 46% of CBM's post-flotation issued share capital. On 29th May 2003 the Group sold five million of its holding of six million CBM shares. As referred to in note 34, Post balance sheet events, the Group has sold its remaining balance of one million shares since the year end.

3. Profit on divestments

Profits arose during the year on the disposal of the Icodextrin manufacturing business and on the sale of CBM shares referred to in note 2 and, in the comparative period, on the deemed disposal of the DNA contract manufacturing business, also referred to therein, as follows:

	2003 £	2002 £
Profit on disposal of Icodextrin manufacturing business (note (a) below)	4,218,031	-
Profit on sale of CBM shares (note (b) below)	1,467,818	-
Profit on deemed disposal of DNA contract manufacturing business (note (c) below)	-	2,873,899
	5,685,849	2,873,899
(a) The profit on disposal of the Icodextrin manufacturing business comprised:	2003 £	
Gross disposal proceeds	6,800,135	
Less - Payment to Paul Capital Royalty Acquisition Fund (note 5)	(637,847)	
Less - Transaction costs	(426,599)	
	(1,064,446)	
Net proceeds	5,735,689	
Less - Net book value of assets disposed of:		
Tangible fixed assets	(1,217,523)	
Stocks and prepayments	(300,135)	
	(1,517,658)	
Net profit on divestment	4,218,031	
(b) The profit on sale of the CBM shares comprised:	2003 £	
Sale proceeds	4,000,000	
Less - Transaction costs	(149,406)	
Net proceeds	3,850,594	
Less - Carrying value of investment attributable to shares sold	(2,382,776)	
Net profit on divestment	1,467,818	
(c) Deemed disposal of DNA contract manufacturing business		

The profit on divestments of £2,873,899 on the deemed disposal of the DNA contract manufacturing business represented the increase in consolidated net assets arising on the transaction, full details of which were disclosed in the Group's Annual Report for the year ended 30th September 2002. The cash received relates to the settlement of the subsidiary's overdraft.

Notes to the Financial Statements

for the year ended 30th September 2003

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

2003	Turnover £	Research and development expenditure £	Other expenses £	Other operating income £	Loss before taxation £	Net assets £
Licensing, evaluation & development fees	932,556	-	-	-	-	-
Royalties	1,977,424	-	-	-	-	-
Product sales	2,219,118	-	-	-	-	-
Total pharmaceutical activities	5,129,098	(10,859,992)	(9,721,024)	7,345,806	(2,357,879)	7,765,092
Other activities	1,400,957	(53,670)	(1,894,735)	-	(472,177)	(144,272)
Total	6,530,055	(10,913,662)	(11,615,759)	7,345,806	(2,830,056)	7,620,820

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

Geographical segments

2003	Turnover by destination £	Turnover by origin £	Loss before taxation £	Net assets £
United Kingdom	1,775,984	6,530,055	(2,830,056)	7,620,820
North America	1,102,704	-	-	-
Europe	2,681,841	-	-	-
Rest of the World	969,526	-	-	-
Group	6,530,055	6,530,055	(2,830,056)	7,620,820

2002	Turnover by destination £	Turnover by origin £	Loss before taxation £	Net assets £
United Kingdom	7,667,048	13,249,816	(5,260,937)	10,216,785
North America	938,881	-	-	-
Europe	4,255,727	-	-	-
Rest of the World	388,160	-	-	-
Group	13,249,816	13,249,816	(5,260,937)	10,216,785

Segmental reporting re discontinued activities

2003	Turnover £	Research and development expenditure £	Other expenses £
Product sales	1,602,254	-	-
Total pharmaceutical activities	1,602,254	-	(1,429,521)
2002	Turnover £	Research and development expenditure £	Other expenses £
Product sales	3,610,345	-	-
Total pharmaceutical activities	3,610,345	(752,360)	(3,586,415)

4. Segmental analysis by class of business (continued)

Geographical segments re discontinued activities

2003

	Turnover by destination £	Turnover by origin £
United Kingdom	12,085	1,602,254
North America	755,350	-
Europe	615,319	-
Rest of the World	219,500	-
Group	1,602,254	1,602,254

2002

	Turnover by destination £	Turnover by origin £
United Kingdom	271,214	3,610,345
North America	803,941	-
Europe	2,159,690	-
Rest of the World	375,500	-
Group	3,610,345	3,610,345

5. Other operating income

Other operating income includes the release to consolidated profit and loss account of monies received from Paul Capital Royalty Acquisition Fund ("PCRAF") as explained in more detail below and, in respect of the comparative year, 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 was 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 years to 30th September 2003 and 2002 includes, respectively, £2,345,806 and £1,621,796, in respect of the partial release of this deferred income. The balance will be released to the consolidated profit and loss account under "Other operating income" in the year to 30th September 2004.

In February 2002 a second transaction ("the Second Agreement") with PCRAF was entered into whereby PCRAF provided a further £5m for which it was 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 the Group might have been required to repay the £5m in certain circumstances. As at 30th September 2002 this condition remained outstanding and accordingly this amount was included in "Creditors: amounts falling due within one year". Following the confirmation announced on 9th January 2003 that the outstanding condition had been satisfied, this amount has been taken to the consolidated profit and loss account as other operating income in the year to 30th September 2003.

While 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 re-purchase PCRAF's interests in the royalty and revenue streams concerned for a consideration calculated to give PCRAF an agreed minimum rate of return. PCRAF's entitlement to participate in the revenue stream for sales of Icodextrin to Baxter was re-purchased on the disposal of the Icodextrin manufacturing business which was completed on 15th April 2003, further information on which is given in notes 2 and 3.

6. Interest receivable and payable

(a) Interest receivable

	2003 £	2002 £
Bank interest receivable	254,166	398,131
Other interest receivable	-	33,795
	254,166	431,926

(b) Interest payable

	2003 £	2002 £
On bank overdraft - repayable within 5 years, not by instalments	1,601	-
On unsecured loans	8,858	15,430
On finance leases	106,052	222,636
	116,511	238,066

Notes to the Financial Statements

for the year ended 30th September 2003

7. Loss on ordinary activities before taxation

	2003 £	2002 £
Loss on ordinary activities before taxation is stated after charging:		
Depreciation - tangible owned fixed assets	235,209	539,749
- tangible fixed assets held under finance leases	840,052	1,074,861
Amortisation of intangible fixed assets	200,027	272,047
Provision for impairment of value of current asset investments	-	2,521
Auditors' remuneration for:		
- Audit (Company £20,000) (2002 £20,000)	39,150	44,862
Operating leases - hire of other assets	45,262	31,762
- hire of plant and machinery	7,110	18,343
- rental of premises	486,663	607,911
Loss on disposal of tangible fixed assets	18,995	35,411
And after crediting:		
Profit on disposal of tangible fixed assets	54,186	73,166

Remuneration of the Company's Auditors for provision of non-audit services to the Company and its subsidiary undertakings was £108,184 (2002 £105,010). This comprised fees in respect of taxation compliance £20,400 (2002 £21,790) and transaction assistance fees £87,784 (2002 £83,220).

8. Taxation

The current year tax credit represents refundable R & D tax credits less withholding taxes suffered. 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 2003, the total tax losses in Group companies amounted to £53m (2002 £48m). 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	2003	2002
UK corporation tax	£	£
R & D tax credit		
Current year	518,299	1,120,810
Prior years	(160,217)	1,717,081
Withholding taxes	(123,991)	-
	234,091	2,837,891
(b) Factors affecting the tax credit for the year	£	£
Loss on ordinary activities before taxation	2,830,056	5,260,937
Loss on ordinary activities at 30%	849,017	1,578,281
Effects of:		
Adjustments to tax credit in respect of prior periods	(160,217)	1,717,081
Carry forward of tax losses	(1,545,652)	(1,264,500)
Other timing differences	27,000	46,593
Amortisation of goodwill	(60,008)	(81,614)
Expenses not deductible for tax purposes	(334,516)	(13,317)
Non taxable income arising on consolidation	785,167	862,170
Adjustment in respect of R & D tax credits	797,291	(6,803)
Withholding taxes suffered	(123,991)	-
	234,091	2,837,891

9. Directors and employees

	2003 Number	2002 Number
--	----------------	----------------

Employees		
Average weekly number of persons (including Directors) employed by the Group during the year		
Research and development	68	88
Administration and marketing	60	75
Production	27	67
	155	230

	2003	2002
	£	£
Staff costs (for the above persons)		
Wages and salaries	6,953,694	8,638,821
Social security costs	706,048	817,040
Other pension costs (note 28)	425,566	466,803
	8,085,308	9,922,664

Directors' Remuneration

Remuneration paid to the Directors of the holding company	£	£
Aggregate emoluments	923,292	1,432,184
Amounts invoiced from third parties	-	6,866
Contributions to money purchase pension schemes	136,513	145,920
	1,059,805	1,584,970

Emoluments payable to the highest paid Director	£	£
Aggregate emoluments	347,563	321,826
Contributions to money purchase pension scheme	46,170	43,973
	393,733	365,799

4 Directors (2002 : 5) have benefits accruing under money purchase pension schemes.

No Director waived emoluments in respect of the year ended 30th September 2003 (2002 None).

Further details of the remuneration and Share Options of Directors are given in the Remuneration Report on pages 22 to 26.

10. Intangible fixed assets

Goodwill relates to the research and development activities originally acquired by the Group on its acquisition of Cobra Therapeutics Limited ("Cobra") which were transferred into the direct ownership of M L Laboratories PLC when Cobra left the Group as a result of the flotation on AIM of Cobra Biomanufacturing PLC, referred to in note 2. Goodwill 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, this being the Directors' estimate of its useful economic life.

Notes to the Financial Statements

for the year ended 30th September 2003

10. Intangible fixed assets (continued)

GROUP COST	Goodwill £
At 1st October 2002	4,000,539
Additions	-
At 30th September 2003	4,000,539
AGGREGATE AMORTISATION	£
At 1st October 2002	500,068
Charge for the year	200,027
At 30th September 2003	700,095
Net book value at 30th September 2003	3,300,444
Net book value at 30th September 2002	3,500,471
COMPANY COST	Goodwill £
At 1st October 2002	3,550,478
Additions	-
At 30th September 2003	3,550,478
AGGREGATE AMORTISATION	£
At 1st October 2002	50,007
Charge for the year	200,027
At 30th September 2003	250,034
Net book value at 30th September 2003	3,300,444
Net book value at 30th September 2002	3,500,471

11. Tangible fixed assets

Group COST	Plant & machinery £	Computer & office equipment £	Motor vehicles £	Assets under construction £	Short leasehold buildings £	Total £
At 1st October 2002	7,206,188	1,521,078	965,330	-	42,354	9,734,950
Additions	438,954	114,939	212,372	180,267	-	946,532
Divestment of Icodextrin manufacturing plant	(4,163,854)	-	-	-	(42,354)	(4,206,208)
Disposals	(51,082)	(36,961)	(335,702)	-	-	(423,745)
At 30th September 2003	3,430,206	1,599,056	842,000	180,267	-	6,051,529

DEPRECIATION

At 1st October 2002	4,871,772	1,089,696	462,550	-	24,093	6,448,111
Charge for year	640,803	165,442	267,987	-	1,029	1,075,261
Divestment of Icodextrin manufacturing plant	(2,963,562)	-	-	-	(25,122)	(2,988,684)
Disposals	(48,280)	(20,470)	(299,370)	-	-	(368,120)
At 30th September 2003	2,500,733	1,234,668	431,167	-	-	4,166,568

NET BOOK VALUE

At 30th September 2003	929,473	364,388	410,833	180,267	-	1,884,961
At 30th September 2002	2,334,416	431,382	502,780	-	18,261	3,286,839

The net book value of tangible fixed assets includes £959,205 (2002 £2,480,165) in respect of assets held under finance leases.

Company
COST

At 1st October 2002	5,310,157	871,473	788,779	-	42,354	7,012,763
Additions	40,888	59,430	161,326	-	-	261,644
Transfer to subsidiaries	-	-	(19,250)	-	-	(19,250)
Divestment of Icodextrin manufacturing plant	(4,163,854)	-	-	-	(42,354)	(4,206,208)
Disposals	(28,797)	(36,961)	(256,802)	-	-	(322,560)
At 30th September 2003	1,158,394	893,942	674,053	-	-	2,726,389

DEPRECIATION

At 1st October 2002	3,333,148	641,063	388,661	-	24,093	4,386,965
Charge for year	429,522	82,313	218,572	-	1,029	731,436
Transfer to subsidiaries	-	-	(19,250)	-	-	(19,250)
Divestment of Icodextrin manufacturing plant	(2,963,562)	-	-	-	(25,122)	(2,988,684)
Disposals	(26,091)	(20,470)	(247,820)	-	-	(294,381)
At 30th September 2003	773,017	702,906	340,163	-	-	1,816,086

NET BOOK VALUE

At 30th September 2003	385,377	191,036	333,890	-	-	910,303
At 30th September 2002	1,977,009	230,410	400,118	-	18,261	2,625,798

The net book value of tangible fixed assets includes £610,516 (2002 £2,107,798) in respect of assets held under finance leases.

12. Fixed asset investments

Group COST	Investment £
At 1st October 2002	2,859,331
Disposal (notes 2 and 3(b))	(2,382,776)
At 30th September 2003	476,555

Notes to the Financial Statements

for the year ended 30th September 2003

12. Fixed asset investments (continued)

The Group investment comprised its interest in CBM which, at 30th September 2003, had a market value of £1,050,000 and represented approximately 5% of its issued share capital.

Company CARRYING VALUE	Investment £	Subsidiaries £	Total £
At 1st October 2002	6,000,000	4,243,084	10,243,084
Disposal (note 2)	(5,000,000)	-	(5,000,000)
At 30th September 2003	1,000,000	4,243,084	5,243,084

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 Biomanufacturing PLC	England	Ordinary Shares	5	DNA contract manufacturing

13. Stocks

	Group		Company	
	2003	2002	2003	2002
	£	£	£	£
Raw materials & consumables	736,645	949,555	60,830	112,926
Finished goods	-	267,833	-	267,833
	736,645	1,217,388	60,830	380,759

14. Debtors

	Group		Company	
	2003	2002	2003	2002
	£	£	£	£
(a) Amounts falling due within one year:				
Trade debtors	378,757	1,266,444	229,434	810,562
Other debtors	385,762	2,694,515	272,798	193,968
Corporation tax	1,478,992	2,050,576	682,260	1,226,632
Prepayments and accrued income	1,610,307	2,332,305	1,386,579	2,164,132
	3,853,818	8,343,840	2,571,071	4,395,294
(b) Amounts falling due after more than one year:				
Amounts owed by subsidiary undertakings	-	-	17,960	3,560,815
	3,853,818	8,343,840	2,589,031	7,956,109

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

15. Current asset investments

Group & Company	2003	2002
	£	£
Investments quoted on a recognised stock exchange, at cost	39,260	39,260
Provision for impairment of value	(38,221)	(38,221)
At 30th September 2003	1,039	1,039
Aggregate market value of quoted investments	1,201	1,039

Current asset investments include a holding of 1,451,600 shares in Enhance Biotech, Inc, held at nil book value. These shares are traded on an "over the counter bulletin board" in the US. Trades in the three months prior to the date of these financial statements have been at prices ranging between \$3.20 and \$6.00. However, the shares are extremely illiquid and the Group is currently restricted under US securities regulations from disposing of these shares, on which basis the Directors have determined that no value should be attributed to the investment at this stage.

16. Cash and short term deposits

Cash and short term deposits of £6,580,678 (2002 £9,748,370) includes short term deposits amounting to £6,244,247 (2002 £9,748,000) including £500,000 held as security for an overdraft facility of that amount from Barclays Bank PLC and an amount of £500,000 (2002 £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 from HSBC.

The cash balance of the Group is that of the Company, net of the overdrafts (see note 17) and other cash balances of the subsidiary undertakings.

17. Creditors

	Group		Company	
	2003	2002	2003	2002
	£	£	£	£
(a) Amounts falling due within one year:				
Bank overdraft	-	448,013	12,824	176
Obligations under finance leases	280,714	895,306	183,055	648,217
Unsecured loans	49,387	78,951	49,387	78,951
Trade creditors	2,639,470	2,621,266	1,598,348	1,636,365
Other taxation and social security	218,475	571,502	161,146	180,427
Other creditors	3,069,121	7,023,848	23,933	5,018,593
Accruals	1,908,507	3,479,682	1,420,903	2,162,221
	8,165,674	15,118,568	3,449,596	9,724,950

Notes to the Financial Statements

for the year ended 30th September 2003

17. Creditors (continued)

	Group		Company	
	2003	2002	2003	2002
	£	£	£	£
(b) Amounts falling due after more than one year:				
Obligations under finance leases	228,336	713,596	129,728	633,072
Unsecured loans	4,701	54,088	4,701	54,088
Amounts owed to subsidiary undertakings	-	-	201,000	201,000
	233,037	767,684	335,429	888,160

The Company has provided unlimited multilateral guarantees in respect of the bank overdrafts of its subsidiaries, which at 30th September 2003 amounted to £22,318,377 (2002 £18,630,332).

18. Deferred income

Deferred income at 30th September 2003 comprised the balance outstanding of the PCRAF monies to be applied to the clinical development of ADEPT in the US market, as explained in note 5, and licensing fees received but not yet credited to the consolidated profit and loss account, in accordance with our accounting policy on turnover, as follows:

	2003	2002
	£	£
Group		
PCRAF balance outstanding	508,436	2,854,241
Licensing fees not yet credited	306,173	-
	814,609	2,854,241
	£	£
Company		
PCRAF balance outstanding	508,436	2,854,241
	508,436	2,854,241

19. Called-up share capital

	2003	2002
	£	£
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 (2002: 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 2004 are as follows:

Date of Grant	Subscription Price	Number of Options	Exercise Date	Expiry Date
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	1,830,956	09/02/01	09/02/08
18/03/98	£1.20	67,846	18/03/01	18/03/08
06/07/98	£0.885	632,339	06/07/01	06/07/08
08/03/99	£1.065	325,000	08/03/02	08/03/09
		3,632,674		

19. 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 2004 are as follows:

Date of Grant	Subscription Price	Number of Options	Exercise Date	Expiry Date
20/08/99	£1.40	298,495	20/08/02	20/08/09
20/08/99	£1.40	282,551	20/08/04	20/08/09
10/11/00	£1.415	414,092	10/11/03	10/11/10
02/11/01	£0.37	3,451,423	02/11/04	02/11/11
17/04/03	£0.1475	6,950,616	17/04/06	17/04/13
11,397,177				

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 18 to 21.

Details of Directors' Share Options are shown in the Remuneration Report on pages 22 to 26.

20. 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 2002	1,581,686	36,502,990	8,335,897	(36,203,788)	10,216,785
Loss for financial year	-	-	-	(2,595,965)	(2,595,965)
At 30th September 2003	1,581,686	36,502,990	8,335,897	(38,799,753)	7,620,820

	Share Capital	Share Premium Account	Special Reserve	Merger Reserve	Profit & Loss Account	Equity Shareholders' Funds
(b) Company	£	£	£	£	£	£
At 1st October 2002	1,581,686	36,502,990	4,048,952	8,335,897	(11,299,042)	39,170,483
Loss for financial year	-	-	-	-	(2,457,453)	(2,457,453)
At 30th September 2003	1,581,686	36,502,990	4,048,952	8,335,897	(13,756,495)	36,713,030

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 2003

21. Finance lease obligations

	Group		Company	
	2003	2002	2003	2002
	£	£	£	£
At 30th September 2003 the Group and Company had obligations under finance leases as follows:				
Payable within one year	280,714	895,306	183,055	648,217
Payable between one and two years	185,603	625,670	111,752	565,236
Payable between two and five years	42,733	87,926	17,976	67,836
	509,050	1,608,902	312,783	1,281,289

	Group & Company	
	2003	2002
	£	£
At 30th September 2003 the Group and Company had obligations under unsecured loans as follows:		
Payable within one year	49,387	78,951
Payable between one and two years	4,701	49,387
Payable between two and five years	-	4,701
	54,088	133,039

22. Financial instruments

Primary financial instruments employed by the Group, other than short-term debtors and creditors, comprise cash, short term deposits, unsecured loans, current asset investments, 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 2003 was to place the majority of its cash on short term deposits with its 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 loans 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	(54,730)	6,244,247	6,189,517
US dollars	402,830	-	402,830
Euros	(11,669)	-	(11,669)
At 30th September 2003	336,431	6,244,247	6,580,678
Sterling	(448,711)	9,748,000	9,299,289
US dollars	1,244	-	1,244
Euros	(176)	-	(176)
At 30th September 2002	(447,643)	9,748,000	9,300,357

The current year's cash and current bank accounts include 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.

22. Financial instruments (continued)

The interest rate profile of financial liabilities was :

Financial liabilities

	Fixed rate		Floating rate	
	2003 £	2002 £	2003 £	2002 £
Sterling				
Finance leases	509,050	1,608,902	-	-
Unsecured loans	54,088	133,039	-	-
	563,138	1,741,941	-	-

The weighted average interest rate on finance leases at 30th September 2003 was 8.8% (2002 9.4%).

	Group		Company	
	2003 (Months)	2002 (Months)	2003 (Months)	2002 (Months)
The weighted average period to maturity of finance leases was:	20	20	18	20

The weighted average interest rate on the unsecured loans at 30th September 2003 was 9.7% (2002 9.8%) and the period to maturity was 8 months (2002 19 months).

The fair value of finance leases at 30th September 2003, calculated by discounting cash flows at prevailing interest rates, was £650,000 (2002 £1,621,000).

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 :

	2003 £	2002 £
Sterling	698,176	(1,191,479)
Other currencies, principally US dollars	524,038	544,234
	1,222,214	(647,245)

As at 30th September 2003 the Group had committed undrawn overdraft facilities amounting to £973,460

23. 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 £2,457,453 (2002 £4,153,552).

24. 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 £2,595,965 (2002 £2,423,046) and on 158,168,563 ordinary shares (2002:158,168,563), 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 2003 would be to reduce the loss per ordinary share.

Notes to the Financial Statements

for the year ended 30th September 2003

25. Other financial commitments

At 30th September 2003 the Group had annual commitments under non-cancellable operating leases as follows:

	2003		2002	
	Land & buildings £	Other £	Land & buildings £	Other £
Expiring within one year	182,875	6,620	45,500	4,897
Expiring between one and two years	129,865	2,990	218,326	-
Expiring between two and five years	37,900*	5,702	129,865*	2,802
Expiring in over five years	115,717**	-	195,000**	382
	466,357	15,312	588,691	8,081

* Subject to a three year rent review

** Subject to a five year rent review

26. Capital commitments

	Group		Company	
	2003 £	2002 £	2003 £	2002 £
Capital expenditure on tangible fixed assets that had been contracted for but has not been provided for in the financial statements	63,828	48,574	240	4,754

27. Contingent liabilities

Group & Company

As explained in note 5, under agreements entered into in July 2001 and February 2002, in certain circumstances the Group may be required to make payments to PCRAF to repurchase its interests in the royalty and revenue streams concerned. As explained in note 17, the Company has provided unlimited multilateral guarantees in respect of the bank overdrafts of its subsidiaries. At 30th September 2003 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.

28. 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 £425,566 (2002 £466,803). Contributions totalling £65,219 (2002 £13,913) were payable at the year end.

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

	2003 £	2002 £
Operating loss	(8,653,560)	(8,328,696)
Depreciation of tangible fixed assets	1,075,261	1,614,610
Amortisation of goodwill	200,027	272,047
Provision for impairment of value of current asset investments	-	2,521
Net profit on disposal of tangible fixed assets	(35,191)	(37,755)
Decrease in stocks	180,609	505,029
Decrease/(increase) in debtors	3,882,851	(1,223,677)
(Decrease)/increase in creditors	(5,887,374)	9,496,385
Decrease in deferred income	(2,039,632)	(1,621,796)
Net cash (outflow)/inflow from operating activities	(11,277,009)	678,668

30. Working capital effect of disposal of Icodextrin manufacturing business

2003

£

Stocks	269,638
Debtors	30,497
Payment to PCRAF	(637,847)
	(337,712)

31. Reconciliation of net cash flow to movement in funds

2003

£

2002

£

Increase in cash in year	784,074	2,022,280
Movement in short term deposits	(3,503,753)	(243,000)
Movement in borrowings	1,178,803	582,173
Change in Net Funds Resulting from Cash Flows	(1,540,876)	2,361,453
Finance leases transferred on deemed disposal of CBM	-	296,629
Movement in Net Funds	(1,540,876)	2,658,082
Opening Net Funds	7,558,416	4,900,334
Closing Net Funds	6,017,540	7,558,416

32. Analysis of net funds

2002 Cash flow 2003
£ £ £

Cash at bank and in hand	370	336,061	336,431
Bank overdraft	(448,013)	448,013	-
	(447,643)	784,074	336,431
Short term deposits	9,748,000	(3,503,753)	6,244,247
Unsecured loans	(133,039)	78,951	(54,088)
Finance leases due within one year	(895,306)	614,592	(280,714)
Finance leases due in more than one year	(713,596)	485,260	(228,336)
	7,558,416	(1,540,876)	6,017,540

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.

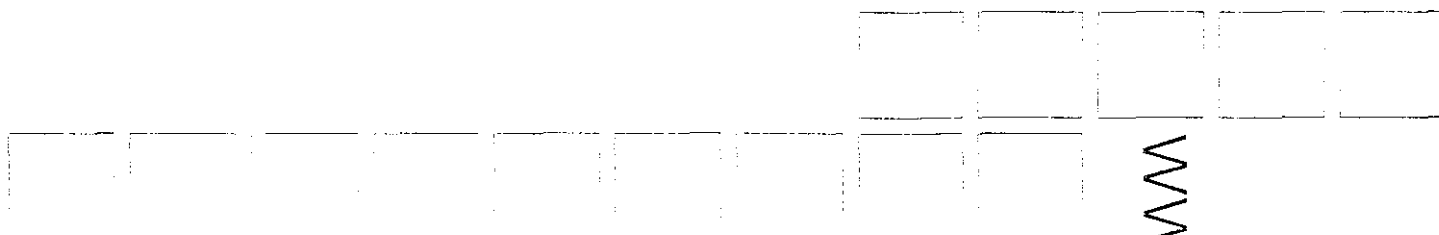
33. Related party transactions

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.

34. Post balance sheet events

On 10th December 2003 the Group sold its remaining holding of one million CBM shares at a price of £1.25 per share, generating net proceeds, after expenses, of £1,231,249 and a profit for the Group of £754,694.

On 28th January 2004, the Company announced an underwritten Rights Issue and an issue for Cash to raise £14.3m, net of expenses.



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