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Maelor plc

annual report and financial statements 2006

"Maelor is a specialist pharmaceuticals and devices company with a focus on supporting patients in critical care. We commercialise our portfolio outside this focus through effective partnerships."

Highlights

Operational highlights

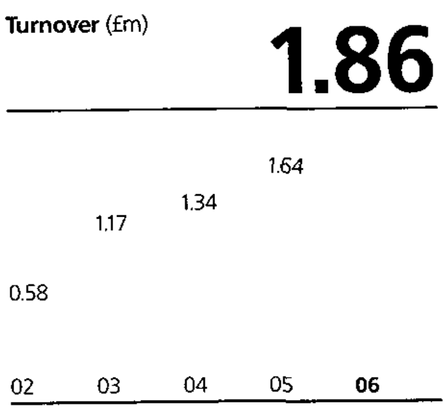
- Volplex® UK rights re-acquired and product re-launched successfully
  - H2 sales increased by 35% versus H1
- OptiFlo™
  - UK in-market sales grew by 32% versus 2005
- Licensing agreement with Plethora Solutions plc for micelle nanotechnology drug delivery system for use in the treatment of interstitial cystitis and painful bladder syndrome

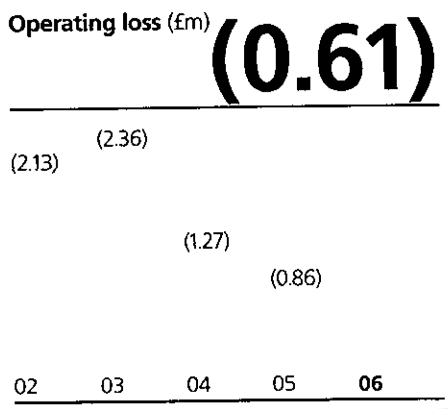
Financial highlights

- Turnover up 13% to £1,858,750 (2005: £1,639,294)
  - H1 2005/6 versus H1 2004/5: 11%
  - H2 2005/6 versus H2 2004/5: 16%
- Operating loss reduced by 29% to £608,547 (2005: £862,679)
- Cash balance of £1,296,463 (2005: £1,467,692)

Strategic review highlights

- Transforming Maelor into a focused specialist business in critical care
- Rationalising products and distributors to focus on high potential profitable opportunities
- Ceasing active search for micelle propofol partner
- Outlicensing micelle nanotechnology drug delivery system
- Management team in place to deliver new strategy





Chairman's statement

I am pleased to present the results for the past financial year, a year of significant change and achievement for Maelor as it began its transformation into a company with a new focus under new leadership.

The Board initiated a major transition during the second half of the year, under the leadership of Tim Wright, the Company's new Chief Executive Officer. Arising from this the Company has developed a new strategy which is focused on establishing it as a specialist critical care business.

Overall the Company has performed satisfactorily, achieving a 13% increase in sales and 29% reduction in operating losses. The Company's cash position remains sound and the Board is confident that it has sufficient funds with which to achieve profitability.

Financial summary
Maelor's turnover of £1,858,750 (2005: £1,639,294) represents an increase of 13% over last year. This increase results from improvement in sales of both our major marketed products Volplex and OptiFlo.

The Group's operating loss for the year was reduced by 29% to £608,547 despite the one-off costs relating to the management change made in October 2005.

Group cash balances at 31 March 2006 were £1,296,463 (2005: £1,467,692) and show an improvement on our interim statement figure of £1,235,727. During the second half of the year we put in place measures to improve our cash flow which have led to more efficient management of our debtors.

"The Board initiated a major transition during the second half of the year, under the leadership of Tim Wright, the Company's new Chief Executive Officer. Arising from this the Company has developed a new strategy which is focused on establishing it as a specialist critical care business."

Business summary

The Board took the decision to re-aquire rights to Volplex, our treatment for hypovolaemia (low blood volume) and to market the drug ourselves in the UK. The process of re-launching the product was achieved ahead of schedule and we are already seeing the benefits of this decision in improved sales, with sales in the market for the second half of the year up 35% compared to the first half.

The success of OptiFlo, the range of urethral catheter cleansing products sold by Bard Limited continued, with its market share increasing to 54% from 46% in 2005.

One of the main concerns of our strategic review was the future of our micelle drug delivery technology and in particular our propofol formulation which employs this proprietary technology.

Through the strategic review we have come to more fully appreciate the potential of the underlying micelle technology, a drug delivery system for drugs with poor water solubility. The licensing agreement we have established with Plethora Solutions Plc ("Plethora"), a specialist urology company, will enable the development of a treatment for interstitial cystitis and painful bladder syndrome, a condition which afflicts some two million women in the United States and Europe.

We also concluded that we should discontinue our active search for a partner for micelle propofol. This decision was based on the increasingly generic nature of the market and the difficulty in finding suitable partners in this context.

Board changes

I would like to thank my predecessor Alastair Macpherson, who I replaced as Chairman in January 2006 following his retirement. Alastair became Chairman when Maelor listed on AIM in 1997 and provided outstanding service to the Company throughout his period in office.

In October 2005 Tim Wright joined the Company as its new Chief Executive Officer and was welcomed onto the Board. Tim has extensive international experience in the pharmaceutical sector having held senior commercial roles at Pfizer and SmithKline Beecham. His most recent roles were with Elan Pharmaceuticals where he was General Manager for Ireland and Vice President, International Marketing. During his time at Elan Tim was instrumental in the establishment, significant growth and ultimate successful divestment of their European business and has led the strategic review process, which was recently completed within Maelor.

We are also delighted to announce the appointment of Nigel Goldsmith as our new Finance Director. Nigel joined us on 12 June 2006 from Almedica International Inc, where he was the Chief Financial Officer.

Outlook

This is an important time for Maelor as we build a specialist critical care business, through establishing a commercial presence marketing the first of our products, Volplex and seeking further partnerships.

I am confident that the management team that is now in place has the ability and commitment to deliver the new strategy and that we have a sound base upon which to build the Company.

Geoff McMillan
Chairman

Summary

- Clear focus under new leadership
- Building a specialist critical care business
- Commercialising non-core portfolio through effective partnerships
- Sufficient funds with which to achieve profitability

Chief Executive's review

I am very pleased to be making my first report to you since joining Maelor in October 2005. The second half of the financial year has been an intense time for Maelor, as we have undertaken a thorough strategic review of the business.

The review process clearly identified that Maelor has strength and creativity in improving existing products and formulations to fulfil unmet market needs. This approach has delivered commercialised brands such as Volplex (blood volume replacement) and OptiFlo/Contisol® (range of catheter irrigation solutions) and patented drug delivery technology through our micellar system.

It also became clear, however, that the business was fragmented both in terms of therapeutic and geographical focus. Furthermore, the need to build a stronger commercial capability for both the identification and exploitation of new opportunities was identified.

From a financial perspective, as the results show, cost control is rigorous and we believe that our existing products, coupled with our new commercial capabilities, provide a solid platform for growth.

The conclusions of the strategic review which underpin our future strategy relate to the following key areas:

- transforming Maelor into a focused specialist business in critical care
- rationalising products and distributors to focus on high potential profitable opportunities
- ceasing active search for micelle propofol partner
- outlicensing micellar technology drug delivery system, achieved through agreement with Plethora
- putting in place a management team to deliver new strategy

"Since October, we have rigorously evaluated Maelor's existing portfolio and competencies. As a result of this we have developed a clear strategy for the Company, which is already delivering positive results. We are achieving sales growth from both Volplex and OptiFlo and have leveraged our micelle technology through a licensing agreement with Plethora."

Transforming Maelor into a focused specialist business in critical care

Critical care patients include those undergoing emergency or elective surgery and are commonly cared for in Intensive Care Units. They require support from a wide range of specialist drugs and devices. Primary customers are anaesthetists and intensive care specialists and given the relatively low numbers of these specialist physicians they are easy for a company like Maelor to access. Maelor has the experience and capabilities to support both devices and drugs, together with existing relationships in critical care through the development of our current portfolio.

Maelor has successfully brought back and re-launched Volplex, our succinylated gelatin product currently used in operating theatres and wards to maintain blood volume. This step marks a significant milestone for the business as it is the first brand that has been directly commercialised by Maelor. In-market sales in the second six months of the year increased by 35% over the first six months, following Maelor's active promotion. To further support growth and Maelor's presence in this sector we have accessed selling time of twelve specialist sales representatives across the UK. We have also recently appointed a Commercial Director with over 20 years of relevant pharmaceutical industry experience.

It is our intention to build this critical care portfolio by identifying complementary pharmaceuticals and devices to distribute as well as by extending our existing product lines.

Rationalising products and distributors to focus on high potential profitable opportunities

As part of our strategic review we have looked very closely at all products within our portfolio, and their related distribution agreements, in order to ensure that we are operating as efficiently as possible. It is our intention to commercialise critical care brands fully ourselves while commercialising our non-core portfolio through efficient partnerships.

Geographic focus

It is well-recognised that currently 80% of world-wide pharmaceutical sales are derived from eight main territories: US, Canada, France, Germany, Italy, Spain, Japan and the UK. Analysis of Maelor's existing distribution agreements showed a number of territories outside these countries where the size of opportunity is inadequate when weighed against the costs of ongoing legal and regulatory support, coupled with the potential distraction to the business at this stage of development. These agreements are now either being terminated or treated as a low priority.

Looking forward, China has high potential. An existing agreement has encouraged us to actively pursue registration for Volplex. We were pleased to be advised that Volplex has been accepted into the regulatory approval process although regulatory timelines in China are currently difficult to predict.

Portfolio focus

Volplex is a core asset and a pivotal part of our portfolio. Similarly OptiFlo/ContiSol, our range of catheter irrigating solutions remain important products for Maelor and we will continue to commercialise them through partnerships. In the UK OptiFlo continues to perform well with in-market sales growth of 32% over the previous year, reaching a 54% market share.

While catheter flushing is common practice in the UK, elsewhere in Europe this is not the case. Given the costs of education in order to change an established clinical practice we do not intend to pursue commercialisation elsewhere in Europe. ContiSol has been launched in Canada where initial sales have been disappointing, again due to the need to shift clinical practice. As the size of the aging US population continues to make this an attractive market, a project has been initiated to identify the most efficient route to commercialising ContiSol in this market.

Chief Executive's review continued

Portfolio focus continued
In the context of focusing our business on the high potential opportunities, we have taken the decision to discontinue sales of oral syringes. The area of medical supplies is a highly competitive, low margin sector. We believe that Maelor's efforts can be better directed into higher potential areas that align with our focused strategy. Similarly given the low prices in the urethral lubricant market, we do not plan to progress Tendagel® to market.

Our poloxamer-based scientific expertise has produced some interesting early stage development candidates and we are continuing to explore opportunities to leverage these projects with third parties, both in the human and animal sector, particularly in the area of wound care.

Cease active search for micelle propofol partner
A key part of our strategic review has been to evaluate the future opportunities for this product. Our market research has shown that this market has become increasingly competitive and price sensitive with the arrival of a number of generic products. For some time Maelor has been seeking a partner for micelle propofol without success due to these trends. We have therefore decided to discontinue our active search for a partner for micelle propofol, to discontinue our agreement with Arnolds Veterinary Products and to focus our resources on finding a licensee for the underlying micelle technology.

Outlicense micellar nanotechnology drug delivery system
We are pleased to have granted Plethora, a specialist urology company, a licence to progress development of a micellar formulation for treatment of interstitial cystitis and painful bladder syndrome. These conditions are estimated to afflict up to two million women in the United States and Europe. Under the terms of this agreement, Plethora will be responsible for product development and Maelor will receive an upfront payment, milestones and royalties.

Put in place a management team to deliver new strategy
Following my appointment in October 2005, and Geoff McMillan's appointment as Chairman in January 2006, I have appointed a new Commercial Director to lead our sales and marketing efforts. I am also delighted to have announced the appointment of Nigel Goldsmith as Finance Director with effect from 12 June 2006.

In the last six months we have rigorously evaluated Maelor's existing portfolio and competencies, developed a clear strategy, put a strong team in place and are already seeing the positive results, with the sales growth of Volplex and OptiFlo and the partnering of our patented micelle technology.

The announcement of our 2005/06 results has enabled us to set out a clear vision for Maelor and to clarify a number of outstanding questions from shareholders. We look forward to delivering the milestones that will enable us to become established as a leading specialist critical care business.

Tim Wright
Chief Executive Officer

Summary

- Building a focused specialist critical care business
- Commercialising non critical care portfolio through effective partnerships
- Focus on high potential opportunities
- Management team in place to deliver new strategy

Directors

Geoff McMillan, BSc, aged 49
Non-executive Chairman
Geoff is chief executive officer of Speciality European Pharma Ltd and a non-executive director of Galapagos NV, with over 25 years experience within the pharmaceutical and biotechnology industry. Having worked for Smith and Nephew, Roche, Xenova Group plc and Elan, he was most recently chief executive officer of Biofocus plc. Geoff brings a record of deal making, ranging from product and technology licensing to mergers and acquisitions and collaborative drug discovery to the Board of Maelor.

Timothy Wright, MBA, aged 40
Chief Executive Officer
With over 15 years experience in the pharmaceutical industry, Tim has held senior commercial positions at Pfizer and SmithKline Beecham both domestically and internationally. His most recent roles were with Elan Pharmaceuticals where he was general manager for Ireland and vice president, international marketing. During his time at Elan Tim was instrumental in the establishment, significant growth and ultimate successful divestment of their European business.

Nigel Goldsmith, B.A.(Hons), A.C.A., aged 44
Finance Director and Company Secretary
Nigel spent over nine years at KPMG, latterly as senior manager, prior to moving into industry in 1996. He has now almost ten years experience working in the pharmaceutical and life sciences sectors, where he has held senior financial positions at Life Sciences International plc and most recently at Almedica International Inc where for the last five years he was chief financial officer.

Ann Hardy, B.Sc. (Hons), aged 47
Operations Director
Ann Hardy has over 20 years experience in the pharmaceutical industry, where she has held senior positions in operations, quality and technical management for Glaxo Pharmaceuticals, Evans Medical Ltd and Medeva Pharma Ltd. Ann holds a BSc with Honours in Biology and has a Diploma in Company Direction. She has responsibility for both commercial and technical operations within Maelor.

John Gregory, F.C.A., aged 57
Non-executive Director
Currently non-executive chairman of Noble VCT plc and a non-executive director of The AiM VCT plc, John is also a non-executive director or chairman of a number of private companies and was, prior to these appointments, an executive director of Noble Fund Managers. John's earlier career was in the City and included posts as a director of Singer & Friedlander Holdings and managing director of Henry Ansbacher & Co. He is Chairman of the Remuneration Committee.

Peter Murray, M.A. (Oxon), M.Sc. (London), F.Inst.D., aged 47
Non-executive Director
With over 25 years experience in pharmaceuticals and devices, Peter left Napp Laboratories to form Cambridge Laboratories in 1987, leading it to profitability and ultimately to international status. In 1996 he formed High Crane Limited, focusing on management consultancy and in 2001 co-founded Acorus Therapeutics Limited, to provide niche hospital orientated pharmaceutical products and medical devices. He is Chairman of the Audit Committee.

Company information

Directors	H G McMillan	(Non-executive Chairman – appointed 1 May 2005)
	T Wright	(Chief Executive Officer – appointed 17 October 2005)
	N J Goldsmith	(Finance Director – appointed 12 June 2006)
	A Hardy	(Operations Director)
	J H Gregory	(Non-executive Director)
	P Murray	(Non-executive Director)
	S C Appelbee	(Chief Executive Officer – resigned 28 September 2005)
	M A F Macpherson	(Non-executive Chairman – retired 20 January 2006)
Secretary	N J Goldsmith	(appointed 12 June 2006)
	T Wright	(appointed 24 May 2006 – resigned 12 June 2006)
	M A Cope	(resigned 24 May 2006)

Registered office
Riversdale
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Wrexham LL14 3JG

Company registration number
3337415

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Liverpool L3 9SX

Solicitors
Brabners Chaffe Street
1 Dale Street
Liverpool L2 2ET

Principal bankers
HSBC
17–19 Regent Street
Wrexham LL11 1RY

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

Report of the Directors

The Directors present their annual report and the audited financial statements for the year ended 31 March 2006.

Principal activities

The Company is a holding company. The principal activities of its trading subsidiary, Maelor Pharmaceuticals Limited, are the development and commercial exploitation of healthcare products and related activities.

Business review and future developments

The Chairman's Statement and Chief Executive's Review describe the Group's activities and future prospects.

Results and dividends

The retained loss for the year ended 31 March 2006 was £660,592 (2005: £663,760). No dividend will be paid in respect of the year (2005: £nil).

Directors

The Directors of the Company during the year are set out in the Board's Remuneration Report on page 14. A third party indemnity provision for the benefit of the Directors was in force during the financial year.

T Wright and N J Goldsmith, who have been appointed since the last meeting, offer themselves for election as directors and P Murray retires by rotation and being eligible, offers himself for re-election at the Annual General Meeting.

Research and development

As part of its normal activities the Company carries out research and development; the relevant costs incurred are charged to the profit and loss account.

Substantial interests in share capital

Save as detailed below, the Directors are not aware of any other shareholder with 3% or more of the issued share capital of the Company as at 31 March 2006.

	Ordinary shares	
Name	Number	Percent
Chase Nominees Limited	6,124,812	17.9
Barclayshare Nominees Ltd	2,755,802	8.0
TD Waterhouse Nominees (Europe) Ltd	2,471,928	7.2
Capita Trust Company Limited 9695C Account	1,404,296	4.1

Taxation

The Company is not a close company within the provisions of the Income and Corporation Taxes Act 1988.

Policy and practice on payment of creditors

It is the policy of the Group that each of the companies in the Group should agree appropriate terms and conditions for its transactions with suppliers by means ranging from standard written terms to individually negotiated contracts. Payments should then be made in accordance with those terms and conditions, provided that the supplier has also complied with them. The number of days' purchases outstanding for Maelor Pharmaceuticals Limited, the Group's trading company, at 31 March 2006, was 54 (2005: 58).

Charitable and political contributions

Charitable contributions made by the Group during the year amounted to £nil (2005: £88). There were no political donations.

Report of the Directors continued

Directors' interests

The interests, all beneficial, of the Directors in the shares and share option schemes of the Company as recorded in the register of Directors' interests at 31 March 2006 were as follows:

	Number of shares/options						
	Held/ outstanding at 31 March 2005	Bought, (expired), (sold), or granted	**Held/ outstanding at 31 March 2006**	Sale price p	Exercise price p	Date from which options exercisable	Expiry date
Executive							
T Wright							
(Chief Executive Officer							
– appointed 17 October 2005)							
Shares	–	300,000	**300,000**	N/A	N/A	N/A	N/A
EMI options (Note 1)	–	500,000	**500,000**	N/A	10.0	17.10.08	17.10.15
A Hardy (Operations Director)							
Shares	10,000	–	**10,000**	N/A	N/A	N/A	N/A
EMI Options (Note 1)	23,210	–	**23,210**	N/A	121.5	04.07.04	04.07.11
EMI Options (Note 1)	12,000	–	**12,000**	N/A	52.0	11.06.05	11.06.12
EMI Options (Note 1)	15,000	–	**15,000**	N/A	28.5	16.07.06	16.07.13
EMI Options (Note 1)	37,500	–	**37,500**	N/A	19.0	30.06.07	30.06.14
EMI Options (Note 1)	–	187,500	**187,500**	N/A	11.5	11.04.08	11.04.15
S C Appelbee							
(Chief Executive Officer							
– resigned 28 September 2005)							
Shares	104,784	–	**104,784**	N/A	N/A	N/A	N/A
EMI options (Note 1)	50,000	(50,000)	–	N/A	54.5	31.05.05	31.05.12
EMI options (Note 1)	100,000	(100,000)	–	N/A	27.5	27.06.06	27.06.13
EMI options (Note 1)	25,000	(25,000)	–	N/A	28.5	16.07.06	16.07.13
EMI options (Note 1)	–	187,500	**187,500**	N/A	11.5	05.04.08	05.04.15
Non-executive							
H G McMillan							
(Chairman							
– appointed 1 May 2005)							
Shares	–	300,000	**300,000**	N/A	N/A	N/A	N/A
J H Gregory							
Shares	19,211	–	**19,211**	N/A	N/A	N/A	N/A
SES options (Note 2)	20,000	–	**20,000**	N/A	52.0	11.06.05	11.06.09
P Murray							
No interests	–	–	–	N/A	N/A	N/A	N/A
M A F Macpherson							
(Chairman – retired 20 January 2006)							
Shares	142,193	(142,193)	–	N/A	N/A	N/A	N/A
SES options (Note 2)	20,000	–	**20,000**	N/A	52.0	11.06.05	11.06.09

Directors' interests continued

Note 1 – Executive Management Incentive (EMI) options

All options granted under this category are, for taxation purposes, treated as approved.

Note 2 – Senior Executive Share (SES) options

All options granted under this category are, for taxation purposes, treated as unapproved.

The expiry of options under both the above categories is due to the non-achievement of conditional performance criteria by the due date.

The market price of the shares at the end of the year was 7.88p. The lowest price during the year was 6.25p and the highest price was 12.50p.

Save as mentioned above, there were no changes in the interests of the Directors in the share capital of the Company or Group, or any rights to subscribe thereto, between 31 March 2006 and 15 June 2006.

Auditors

Baker Tilly have indicated their willingness to continue as auditor. A resolution for their reappointment is to be proposed at the forthcoming Annual General Meeting.

Statement as to disclosure of information to auditors

The Directors who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditors are unaware. Each of the Directors has confirmed that they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

By order of the Board

N J Goldsmith

N J Goldsmith
Secretary
15 June 2006

Riversdale
Cae Gwilym Road
Newbridge
Wrexham
LL14 3JG

Corporate governance

Compliance with the Combined Code

The rules of the Alternative Investment Market (AIM) do not compel the Company to comply with the Combined Code (the Code). Nevertheless, the Company fully endorses both the spirit and principles of the Code and seeks to comply wherever possible, whilst taking account of both its own size and its resources. Precisely how the Company has applied these principles is set out in the following statement.

Board of Directors

The Board meets at regular intervals, normally no less than ten times a year. The Company is committed to maintaining a balance of Executive and Non-executive Directors and the Board consists of six members, three are Executive Directors, the remaining three, one of whom is Chairman, are Independent Non-executive Directors. T Wright was appointed Executive Director on 17 October 2005, N J Goldsmith was appointed Executive Director on 12 June 2006 and H G McMillan was appointed on 1 May 2005 as a Non-executive Director. M A F Macpherson retired as Chairman on 20 January 2006 with H G McMillan assuming the role as at that date. The Board believes that, given its size and complexity, it is not appropriate to specify a Senior Independent Director.

All Non-executive Directors are members of both the Audit and Remuneration Committees. Their biographies on page 7 illustrate their relevant corporate and industry experience.

Given the Company's limited resources and manpower, there is no separate Nominations Committee. However, any new appointments at Board level are considered and approved by the full Board. A detailed introduction to the activities of the Company is given to any new appointee who is also provided with any appropriate training deemed necessary. The Company Secretary, to whom all Directors have full access, attends all Board and Committee meetings.

Audit Committee

P Murray is Chairman of the Audit Committee, which meets at least twice a year. The Finance Director is generally in attendance at those meetings and also acts as secretary to the Committee. An invitation is also extended to the auditor to attend meetings of the Committee in order to discuss related matters. On a more formal basis, the Committee also reviews with them those reports to be issued by the auditors to the Directors.

The Audit Committee also undertakes a formal assessment of the auditor's independence each year which includes:

- a review of the non-audit services provided to the Group and related fees;
- discussion with the auditor of a written report detailing all relationships with the Company and any other parties that could affect independence or the perception of independence;
- a review of the auditor's own procedures for ensuring the independence of the audit firm and partners and staff involved in the audit, including the regular rotation of the audit partner; and
- obtaining written confirmation from the auditor that, in their professional judgement, they are independent.

An analysis of the fees payable to the external audit firm in respect of both audit and non-audit services during the year is set out in Note 3 to the financial statements.

Internal control

At the present time, given the aforementioned limitations imposed by manpower and resources, there is no internal audit function. The Board is responsible for the Company's system of internal control, which is designed to manage rather than eliminate the risk of failure to achieve business objectives; it can therefore only provide a reasonable and not an absolute assurance against material misstatements or losses.

Proper briefing of all Directors at Board meetings is considered an important issue, and all Board papers are distributed in advance of those meetings; meetings are either adjourned or decisions deferred on occasions when the Board seeks the provision of further information upon which to base its decisions. There also exists a formal schedule of matters specifically reserved for decisions by the Board.

During the year the Directors have reviewed and are satisfied with the adequacy of the Group's internal financial controls. These controls include the following:

- a comprehensive annual budgetary process, reviewed and approved by the Board; and
- the monitoring of actual results against budgets, together with the revisiting of forecasts whenever it is deemed appropriate, no less than at monthly intervals.

Using the guidance on internal controls contained in the Combined Code as a benchmark, the Group continues to develop its review procedures of all other aspects of internal control, including operational and compliance issues, and risk management.

Principal risks and uncertainties
Maelor's business is influenced by a range of factors, some of which may be beyond the control of the Group and its Board. The risk factors set out below, are regularly reviewed by the Board in the course of operating its business and should be considered carefully.

There may be other risks which the Group is not aware of, which are not deemed to be material, but turn out to be material.

- Adverse information about one or more of Maelor's products is received by the Group's customer base, with a negative impact on demand for its products.

Maelor conducts extensive clinical trials on its products before they are launched in their respective markets. In the event of the Group becoming aware that any adverse effects are attributed to the use of its products, we would immediately take steps to fully investigate these and in accordance with the responsibilities placed upon us by the Medical and Healthcare products Regulatory Agency, would immediately notify our customers and/or withdraw those products from sale, as appropriate. Where these were proven to be false or ill-founded, we would consider issuing information to our customers communicating the facts to them.

- Maelor experiences a significant increase in the cost of producing its product.

In the event of a significant increase in the cost of producing one or more of our products we would seek alternative sources of supply at the earliest opportunity to mitigate the impact on our profitability.

- The Group is unable to fulfil its commitments to supply its products, with adverse consequences for its customers.

Maelor has obligations under some of its key contracts to guarantee the supply of its products. The Group safeguards its ability to meet these obligations, by closely managing its relationships with its suppliers, as well as continuously reviewing its stock levels to ensure that these are adequate, while at the same time properly controlled.

- A product liability or similar lawsuit is issued against Maelor, resulting in substantial financial penalties.

We are confident that the robustness of the clinical trials process prior to the launch of our products, minimises the risk of claims against the Group as a result of its products. We also continuously review the production quality of Maelor's products, to ensure that this is consistently high. Were a claim to be lodged against the Group in respect of its products, Maelor believes that its product liability insurance would indemnify it in the majority of cases.

Communication with shareholders
The Board has a strong commitment to the maintenance of good investor relations and seeks, wherever possible, to build a relationship of mutual understanding with both its institutional and private investors.

Corporate social responsibility
Maelor takes its Corporate Social Responsibility (CSR) seriously. As part of the Company's CSR policy, staff are encouraged to get involved in voluntary work in the community. This can range from assisting at local hospitals or schools, to working in a charity shop or getting involved in nearby environmental projects. Several members of staff are already involved in the community and spend one day a month on paid leave helping others.

Maelor continues to recycle as much of its waste as possible.

Going concern
The Board believes that Maelor has sufficient working capital to see the Company through to profit. The Board will continue to monitor the progress of the acquisition, development and launch of new products and the financial position in order to ensure that the Group continues to have sufficient funding to continue in business. For this reason, the Board continues to adopt the going concern basis in preparing the financial statements.

The Board's remuneration report

As well as complying as far as practicably possible with the provisions of the Combined Code as disclosed in the Company's corporate governance statement, the Board has applied the Principles of Good Governance relating to directors' remuneration as described below.

The level and composition of Directors' remuneration

The Board believes that it does not pay more than is necessary to attract and retain Directors needed to run the Company successfully.

Statement of remuneration policy

The Remuneration Committee, consisting of all three Non-executive Directors and chaired by J H Gregory, meets at least once a year (or more frequently as required). The Committee is responsible for the remuneration of the Executive Directors, including their benefits in kind, terms of employment and share options; the Executive Directors also consult the Committee in relation to the remuneration of senior employees and staff share option schemes. It takes account of remuneration paid to the directors and senior employees of other companies of a similar size and comparable industry sector in the UK, and the relative performance of such companies, to ensure that the remuneration packages offered are competitive and designed to attract, retain and motivate Executive Directors and senior employees.

The remuneration of the Non-executive Directors is determined by the Board as a whole, based on outside advice and review of current practices in other companies. The Chief Executive Officer and Company Secretary (who also acts as secretary to the Committee) are both normally in attendance, except when their own remuneration is under discussion.

Full details of the remuneration packages of individual Directors and information on share options, pensions and other benefits are set out below.

Directors' emoluments

Details of the Directors' emoluments for the year are as follows:

	Salaries/ fees £	Benefits £	Compensation for loss of office £	**Year ended 31 March 2006 Total £**	Year ended 31 March 2005 Total £	**Year ended 31 March 2006 Pension £**	Year ended 31 March 2005 Pension £
Current Executive							
T Wright (appointed 17 October 2005)	76,290	1,372	–	**77,662**	–	**7,813**	–
A Hardy	78,807	13,973	–	**92,780**	54,998	**11,043**	5,824
Current Non-executive							
H G McMillan (appointed 1 May 2005)	17,500	–	–	**17,500**	–	–	–
J H Gregory	16,250	–	–	**16,250**	15,000	–	–
P Murray	16,250	–	–	**16,250**	15,000	–	–
Former Directors							
S C Appelbee (resigned 28 September 2005)	57,750	3,320	93,498	**154,568**	121,562	**12,993**	17,531
D P L Williams (resigned 30 November 2004)	–	–	–	**–**	156,983	–	14,880
M A F Macpherson (retired 20 January 2006)	16,667	–	–	**16,667**	20,000	–	–
Total	279,514	18,665	93,498	**391,677**	383,543	**31,849**	38,235
Pension contributions				**31,849**	38,235		
Aggregate remuneration				**423,526**	421,778		

Directors' service contracts

All Directors of the Company have service contracts. Details are set out below for those Directors who served during the year:

- T Wright was appointed Director on 17 October 2005. His service contract is with Maelor plc and specifies a notice period of twelve months on either side. His annual salary with effect from 17 October 2005 is £125,000. He is entitled to pension contributions of 15% of his annual salary, participation in an incentivisation scheme under which, on fulfilment of performance criteria, he may be awarded up to 30% of his annual salary in a combination of cash and share options, the provision of private healthcare, permanent health insurance and life assurance. He is also entitled to participate both in the Maelor plc Enterprise Management Incentive (EMI) and Senior Executive Share (SES) Option Schemes.
- A Hardy was appointed Director on 27 July 2004. Her service contract is with Maelor plc and specifies a notice period of twelve months on either side. Her annual salary with effect from 1 January 2005 was £72,177 and was increased to £77,951 from 1 January 2006. She is entitled to pension contributions of 15% of her annual salary, the provision of private healthcare, permanent health insurance and life assurance. She is also entitled to participate both in the Maelor plc EMI and SES Option Schemes.
- The Chairman and other Non-executive Directors do not have service agreements. However, each has been appointed pursuant to a letter of appointment. M A F Macpherson, as Chairman of the Company, was paid £20,000 per annum until his retirement on 20 January 2006. H G McMillan was paid £15,000 per annum as a Non-executive Director. This increased to £30,000 per annum on his appointment to Chairman on 20 January 2006. J H Gregory was paid £15,000 per annum, which includes a fee for his role as Chairman of the Remuneration Committee, and P Murray was paid £15,000 per annum, which includes a fee for his role as Chairman of the Audit Committee. Both Mr Gregory's and Mr Murray's remuneration were increased to £20,000 per annum from 1 January 2006. No Non-executive Director receives benefits other than participation in the Maelor plc SES Option Scheme.
- S C Appelbee resigned on 28 September 2005. His service contract was with Maelor plc and specified a notice period of twelve months on either side. His annual salary with effect from 1 January 2005 was £115,500 and he was entitled to pension contributions of 15% of his annual salary, the provision of private healthcare, permanent health insurance and life assurance. He was also entitled to participate both in the Maelor plc EMI and SES Option Schemes.

No Director had a material interest in a contract of significance with the Company or with any subsidiary undertaking during the year.

By order of the Board

J H Gregory
Chairman – Remuneration Committee
15 June 2006

Statement of Directors' responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice. Company law requires the Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Group and the Company, and of the profit or loss of the Group for that period. In preparing those financial statements, the Directors are required to:

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. They are also responsible for ensuring that the report of the Directors and other information included in the annual report is prepared in accordance with company law in the United Kingdom, and further for ensuring that the annual report includes information required by the Listing Rules of the Financial Services Authority (or AIM Rules).

The maintenance and integrity of the 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 information contained in the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

Independent auditor's report
to the members of Maelor plc

We have audited the financial statements on pages 18 to 36.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, 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 other transactions is not disclosed.

We read other information contained in the annual report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's statement, the Chief Executive's review, the Corporate governance statement and the Board's remuneration report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and Parent Company's affairs as at 31 March 2006 and of the Group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Baker Tilly

Baker Tilly
Registered Auditor
Chartered Accountants
Number One Old Hall Street
Liverpool L3 9SX
15 June 2006

Consolidated profit and loss account
for the year ended 31 March 2006

	Note	Year ended 31 March 2006 £	Year ended 31 March 2005 £
Turnover	2	**1,858,750**	1,639,294
Cost of sales		**(1,117,782)**	(1,035,302)
Gross profit		**740,968**	603,992
Research and development		**(89,888)**	(344,339)
Administration		**(1,259,627)**	(1,122,332)
Operating loss		**(608,547)**	(862,679)
Interest receivable and similar income	6	**51,784**	65,366
Interest payable	7	**(13,351)**	(16,931)
Loss on ordinary activities before taxation	3	**(570,114)**	(814,244)
Taxation (payable)/recoverable	8	**(90,478)**	150,484
Retained loss attributable to the Group	20	**(660,592)**	(663,760)
Basic loss per ordinary share	10	**(1.93)p**	(1.95)p
Diluted loss per ordinary share		**(1.93)p**	(1.95)p

All operations are continuing.

Statement of total recognised gains and losses
for the year ended 31 March 2006

	2006 £	2005 £
Loss for the financial year	**(660,592)**	(663,760)
Unrealised surplus on revaluation of properties	**–**	88,250
Total gains and losses recognised since last annual report	**(660,592)**	(575,510)

Note of historical cost profits and losses
for the year ended 31 March 2006

	Note	2006 £	2005 £
Reported loss on ordinary activities before taxation		**(570,114)**	(814,244)
Difference between an historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	20	**2,520**	1,020
Historical cost loss on ordinary activities before taxation		**(567,594)**	(813,224)
Historical cost loss for the year sustained after taxation		**(658,072)**	(662,740)

The notes on pages 22 to 36 form part of these financial statements.

Consolidated balance sheet
at 31 March 2006

	Note	31 March 2006 £	31 March 2006 £	31 March 2005 £	31 March 2005 £
Fixed assets					
Tangible assets	11		**383,305**		384,593
Current assets					
Stocks	13	**205,590**		132,138	
Debtors – due within one year	14	**379,374**		660,782	
– due after more than one year	14	**–**		80,000	
Cash at bank and in hand		**1,296,463**		1,467,692	
		1,881,427		2,340,612	
Creditors: amounts falling due within one year	15	**(696,553)**		(517,847)	
Net current assets			**1,184,874**		1,822,765
Total assets less current liabilities			**1,568,179**		2,207,358
Creditors: amounts falling due after more than one year	16		**(173,899)**		(193,128)
Net assets			**1,394,280**		2,014,230
Capital and reserves					
Called up share capital	18		**3,428,083**		3,410,458
Shares to be issued	19		**23,017**		–
Share premium account	20		**12,154,094**		12,154,094
Revaluation reserve	20		**151,169**		153,689
Profit and loss account	20		**(14,362,083)**		(13,704,011)
Shareholders' funds – equity	21		**1,394,280**		2,014,230

The financial statements on pages 18 to 36 were approved by the Board of Directors and authorised for issue on 15 June 2006 and were signed on its behalf by:

A Hardy
Director

T Wright
Director

The notes on pages 22 to 36 form part of these financial statements.

Company balance sheet
at 31 March 2006

	Note	31 March 2006 £	31 March 2006 £	31 March 2005 £	31 March 2005 £
Fixed assets					
Tangible assets	11	**368,200**		375,000	
Investments	12	**2**		912,017	
			368,202		1,287,017
Current assets					
Debtors – due after more than one year	14	**303,031**		131,888	
Cash at bank and in hand		**915,849**		1,402,710	
		1,218,880		1,534,598	
Creditors: amounts falling due within one year	15	**(20,039)**		(18,845)	
Net current assets			**1,198,841**		1,515,753
Total assets less current liabilities			**1,567,043**		2,802,770
Creditors: amounts falling due after more than one year	16		**(172,763)**		(193,128)
Net assets			**1,394,280**		2,609,642
Capital and reserves					
Called up share capital	18		**3,428,083**		3,410,458
Shares to be issued	19		**23,017**		
Share premium account	20		**12,154,094**		12,154,094
Revaluation reserve	20		**151,169**		153,689
Profit and loss account	20		**(14,362,083)**		(13,108,599)
Shareholders' funds – equity	21		**1,394,280**		2,609,642

The financial statements on pages 18 to 36 were approved by the Board of Directors and authorised for issue on 15 June 2006 and were signed on its behalf by:

A Hardy
Director

T Wright
Director

The notes on pages 22 to 36 form part of these financial statements.

Consolidated cash flow statement

for the year ended 31 March 2006

	Note	**Year ended 31 March 2006 £**	Year ended 31 March 2005 £
Cash flow from operating activities	25	**(300,746)**	(854,757)
Returns on investments and servicing of finance	26	**38,433**	48,435
Taxation received	26	**108,487**	379,378
Capital expenditure	26	**(15,857)**	(1,787)
Cash outflow before management of liquid resources and financing		**(169,683)**	(428,731)
Financing	26	**(1,546)**	(17,325)
Decrease in cash in the year		**(171,229)**	(446,056)

Reconciliation of net cash flow to movement in net funds

for the year ended 31 March 2006

	Note	**Year ended 31 March 2006 £**	Year ended 31 March 2005 £
Decrease in cash in the year	27	**(171,229)**	(446,056)
Cash outflow from decrease in debt and lease financing	27	**19,171**	17,325
Changes in funds resulting from cash flows	27	**(152,058)**	(428,731)
Movement in net funds in the year	27	**(152,058)**	(428,731)
Net funds at the start of the year		**1,255,721**	1,684,452
Net funds at the end of the year	27	**1,103,663**	1,255,721

The notes on pages 22 to 36 form part of these financial statements.

Notes to the financial statements
for the year ended 31 March 2006

1 Accounting policies
The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's and Company's financial statements.

Basis of preparation
The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules modified to include the revaluation of freehold property.

Basis of consolidation
The financial statements of the Group consolidate the financial statements of the Company and all its subsidiary undertakings, whose financial statements were also made up to 31 March 2006.

On 5 November 1997, as part of a Group reconstruction, the Company became the holding Company of Maelor Pharmaceuticals Limited. The combination was accounted for by the merger method of accounting as set out in FRS 6 "Mergers and Acquisitions" and Schedule 4(A) of the Companies Act 1985, on the basis that it met the criteria set out in paragraph 13 of that Standard with respect to Group reconstructions.

In the Company's financial statements, investments in subsidiary undertakings are stated at cost, less any provision for diminution in the value of these.

Under section 230(4) of the Companies Act 1985 the Company is exempt from the requirement to present its own profit and loss account.

Turnover
Turnover represents the amount charged or chargeable in respect of the provision of, and in relation to, the development of healthcare products, goods and services, all of which fall within the Group's ordinary activities, stated net of value added tax.

Licence fee
Amounts received in respect of licence fee downpayments are amortised on a straight line basis over the length of the licence period unless, at the balance sheet date, there is a potential for them to be refunded, in which case they are treated as deferred income and not credited to revenue.

Depreciation of tangible fixed assets
Depreciation is provided to write off the cost or valuation less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Plant and machinery	20% – 25% per annum
Fixtures, fittings and equipment	25% – 50% per annum
Freehold property	2% per annum

Stocks
Stocks are stated at the lower of cost and net realisable value.

Leases and hire purchase contracts
Tangible fixed assets acquired under finance leases and hire purchase contracts are capitalised at the estimated fair value at the date of inception of each lease or contract. The total finance charges are allocated over the period of the lease in such a way as to give a reasonably constant charge on the outstanding liability.

Rentals paid under operating leases are charged to income as incurred.

1 Accounting policies continued

Research and development

Expenditure on research and development incurred during the year is classified as an operating cost and charged against profits.

Share-based payments

In accordance with FRS 20 "Share-based Payments", the fair value of equity-settled share-based payments to employees is determined at the date of grant and is expensed on a straight line basis over the vesting period based on the Group's estimate of share options that will eventually vest. In the case of options granted, fair value is measured by a Black-Scholes pricing model. Further details are set out in Note 19b.

Taxation

The charge for taxation is based upon the result for the year and takes into account deferred taxation.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements.

Deferred tax is recognised in the statement of total recognised gains and losses on revaluations where at the balance sheet date there is an agreement to sell the asset.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a discounted basis.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

The Group has surrendered its research and development (R&D) tax losses for the appropriate R&D tax refund (see Note 8).

Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits payable on demand, less overdrafts payable on demand.

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise term deposits of less than one year (other than cash), government securities and investments in money market managed funds.

Post retirement benefits

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The amount charged against profits represents the contributions payable to the scheme in respect of the financial year.

Foreign currencies

Transactions in foreign currencies are translated into Sterling and recorded at rates of exchange approximating to those ruling at the date of the transaction. Monetary assets and liabilities are translated at rates ruling at the balance sheet date. All differences are taken to the profit and loss account.

Grants

Revenue based grants are credited to the profit and loss account in the year of receipt. Capital based grants are amortised over the estimated useful life of the asset.

Notes to the financial statements continued
for the year ended 31 March 2006

2 Turnover
Turnover for the year is analysed as follows:

	2006 £	2005 £
Classification of business		
Medical devices	**1,546,294**	1,158,661
Pharmaceutical products	**312,456**	480,633
	1,858,750	1,639,294
Geographical analysis		
United Kingdom and Ireland	**1,850,467**	1,639,294
Rest of Europe	**5,067**	–
Rest of world	**3,216**	–
	1,858,750	1,639,294

In the view of the Directors, it is not practical to disclose the business or geographical analysis of net assets and operating loss because of the use of common services.

3 Loss on ordinary activities before taxation

	2006 £	2005 £
Loss on ordinary activities before taxation is stated:		
after charging		
Auditor's remuneration:		
Audit services:		
statutory audit	**18,000**	16,000
audit-related services	**1,836**	1,650
Further assurance services	**2,800**	12,000
Tax services:		
compliance services	**16,544**	11,044
advisory services	**14,461**	3,900
Operating lease rentals	**21,993**	24,235
Depreciation of owned assets	**16,898**	27,399
Research and development expenditure projects	**89,888**	344,339
Exchange losses	**5,589**	9,575
Exceptional item – compensation for loss of office	**93,498**	46,986
Loss on disposal of fixed assets	**247**	–
after crediting		
Exchange gains	**343**	1,424

4 Remuneration of Directors

	2006 £	2005 £
Directors' emoluments:		
fees as Directors	**66,667**	50,000
remuneration as Executives	**231,512**	286,557
compensation for loss of office	**93,498**	46,986
pension costs	**31,849**	38,235
	423,526	421,778

The emoluments of the highest paid Director were £92,780 (2005: £121,562). Company pension contributions totalling £11,043 (2005: £17,531) were paid on behalf of the highest paid Director during the year.

	Number of Directors	
	2006	2005
Retirement benefits are accruing to the following number of Directors under:		
defined contribution schemes	**2**	2

5 Staff numbers and costs

The average number of persons employed by the Group (including Directors) during the year, was as follows:

	Number of employees	
	2006	2005
Technical	**3**	3
Administration	**5**	5
	8	8

The aggregate payroll costs of those persons were as follows:

	2006 £	2005 £
Wages and salaries	**537,693**	576,076
Social security costs	**48,500**	63,493
Other pension costs (see Note 24)	**48,453**	48,762
	634,646	688,331

6 Interest receivable and similar income

	2006 £	2005 £
On current asset investments	**51,784**	65,366

Notes to the financial statements continued

for the year ended 31 March 2006

7 Interest payable

	2006 £	2005 £
On bank loans and overdrafts	**13,351**	14,479
Finance charges payable in respect of finance leases and hire purchase contracts	**–**	1,125
Other interest	**–**	1,327
	13,351	16,931

8 Taxation

(a) Analysis of charge/(credit) for the year

	2006 £	2005 £
Current tax:		
UK corporation tax	**(5,961)**	(70,484)
adjustment in respect of prior years	**16,439**	–
	10,478	(70,484)
Deferred tax:		
origination and reversal of timing differences	**80,000**	(93,000)
discount	**–**	13,000
	80,000	(80,000)
Tax on loss on ordinary activities	**90,478**	(150,484)

(b) Factors affecting tax charge/(credit) for the year

	2006 £	2005 £
The tax assessed for the year is higher than the standard rate of corporation tax in the UK of 30% as explained below:		
Loss on ordinary activities before tax	**(570,114)**	(814,244)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2005: 30%)	**(171,034)**	(244,273)
Effects of:		
expenses not deductible for tax purposes	**7,892**	12,000
difference between depreciation for period and capital allowances	**(24,531)**	7,364
R&D uplift	**(3,725)**	–
trading losses carried forward/utilised	**185,437**	224,909
research and development relief	**–**	(70,484)
adjustment in respect of prior years	**16,439**	–
Current tax charge/(credit) for the year (Note 8(a))	**10,478**	(70,484)

Tax losses amounting to approximately £10.3 million (2005: £9.7 million) are available to relieve future profits of the Group.

9 Loss attributable to members of the Parent Company

	2006 £	2005 £
Dealt with in the financial statements of the Parent Company	**(1,256,004)**	61,524
Retained by subsidiary undertakings	**(672,387)**	(725,284)
Consolidation adjustments	**1,267,799**	–
	(660,592)	(663,760)

10 Loss per ordinary share

The calculations for basic loss per share uses the numerators and denominators noted below:

	2006 £	2005 £
Loss attributable to the Group	**(660,592)**	(663,760)
Weighted average number of shares in issue during the year – basic	**34,280,833**	34,104,583

Basic and diluted loss per share are the same as there is no dilution at (1.93p) (2005: (1.95p)).

11 Tangible fixed assets

Group	Plant and machinery £	Fixtures, fittings and equipment £	Freehold land and buildings £	Total £
Cost or valuation				
At 1 April 2005	306,257	253,384	375,000	934,641
Additions	–	16,357	–	16,357
Disposals	(27,582)	(116,458)	–	(144,040)
At 31 March 2006	**278,675**	**153,283**	**375,000**	**806,958**
Depreciation				
At 1 April 2005	305,692	244,356	–	550,048
Charge for the year	–	10,098	6,800	16,898
Disposals	(27,017)	(116,276)	–	(143,293)
At 31 March 2006	**278,675**	**138,178**	**6,800**	**423,653**
Net book value				
At 31 March 2006	**–**	**15,105**	**368,200**	**383,305**
At 31 March 2005	565	9,028	375,000	384,593

Freehold land and buildings in the balance sheets of both the Group and the Company include land at an estimated valuation of £35,000 (2005: £35,000) upon which depreciation has not been charged.

The freehold property occupied by the Company was valued by external valuers, Wingetts Estate Agents and Valuers, as at 31 March 2005, on the basis of Existing Use Value in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors.

The Directors have not updated the valuation in 2006 because they are not aware of any material change in the value.

Notes to the financial statements continued
for the year ended 31 March 2006

11 Tangible fixed assets continued

On an historical cost basis these fixed assets would have been included at:

	2006 £	2005 £
Cost	**249,036**	249,036
Aggregate depreciation	**23,445**	27,725

Company	Plant and machinery £	Fixtures, fittings and equipment £	Freehold land and buildings £	Total £
Cost or valuation				
At 1 April 2005	46,362	7,135	375,000	428,497
At 31 March 2006	**46,362**	**7,135**	**375,000**	**428,497**
Depreciation				
At 1 April 2005	46,362	7,135	–	53,497
Charge for the year	–	–	6,800	6,800
At 31 March 2006	**46,362**	**7,135**	**6,800**	**60,297**
Net book value				
At 31 March 2006	**–**	**–**	**368,200**	**368,200**
At 31 March 2005	–	–	375,000	375,000

12 Fixed asset investment

Company	Shares in subsidiary undertakings £
Cost	
At the beginning of the year	912,017
Provision against investment in Maelor Pharmaceuticals Limited	(912,015)
At the end of the year	2

Subsidiary undertakings	Principal activity	Country of incorporation	Class and percentage of shares held by Company
Maelor Pharmaceuticals Limited	Healthcare products	England and Wales	100% Ordinary
Maelor Laboratories Limited	Dormant	England and Wales	100% Ordinary

The voting rights are in proportion to the shares held.

13 Stocks

	Group 2006 £	Group 2005 £	Company 2006 £	Company 2005 £
Raw materials and consumables	**111,937**	132,138	–	–
Finished goods	**93,653**	–	–	–
	205,590	132,138	–	–

14 Debtors

	Group 2006 £	Group 2005 £	Company 2006 £	Company 2005 £
Due within one year:				
trade debtors	**354,959**	512,811	–	–
taxation recoverable	**5,961**	124,926	–	–
prepayments and accrued income	**18,454**	23,045	–	–
	379,374	660,782	–	–
Due after more than one year:				
amounts owed by Group undertakings	–	–	**303,031**	131,888
deferred tax asset (see Note 17)	–	80,000	–	–
	–	80,000	**303,031**	131,888

15 Creditors: amounts falling due within one year

	Group 2006 £	Group 2005 £	Company 2006 £	Company 2005 £
Bank loans (see Note 16)	**20,037**	18,843	**20,037**	18,843
Trade creditors	**510,536**	335,127	–	–
Taxation and social security	**15,806**	19,977	–	–
Other creditors	**2,727**	–	**2**	2
Accruals and deferred income	**147,447**	143,900	–	–
	696,553	517,847	**20,039**	18,845

The bank borrowings are secured by a fixed and floating charge over the assets of the Company, and by a multilateral guarantee by the Company and its subsidiary, Maelor Pharmaceuticals Limited.

Notes to the financial statements continued
for the year ended 31 March 2006

16 Creditors: amounts falling due after more than one year

	Group		Company	
	2006	2005	**2006**	2005
	£	£	**£**	£
Bank loans	**172,763**	193,128	**172,763**	193,128
Grant creditor	**1,136**	–	**–**	–
	173,899	193,128	**172,763**	193,128

Payments in respect of bank loans and overdrafts are due as follows:

	Group		Company	
	2006	2005	**2006**	2005
	£	£	**£**	£
Within one year (see also Note 15)	**20,037**	18,843	**20,037**	18,843
Between one and two years	**21,379**	20,155	**21,379**	20,155
Between two and five years	**73,117**	69,282	**73,117**	69,282
Greater than five years	**78,267**	103,691	**78,267**	103,691
	192,800	211,971	**192,800**	211,971

The bank loan is repayable by monthly instalments of £2,471, the last falling due in November 2013. Interest is charged on the loan at 2% above base rate.

17 Deferred taxation

	2006	2005
	£	£
Group		
Balance at 1 April	**80,000**	–
Transfer to profit and loss account	**(80,000)**	80,000
Balance at 31 March	**–**	80,000
Asset		
Tax losses	**–**	93,000
Discount	**–**	(13,000)
Discounted deferred tax asset	**–**	80,000

A discounted deferred tax asset of £nil (2005: £80,000) has been recognised, which is the extent to which recoverability can be foreseen with reasonable probability.

At 31 March 2006, the Group has tax losses, in excess of the amount disclosed above, of approximately £3.1 million (2005: £2.9 million) before discounts at future rates of taxation.

Deferred tax has not been provided on the revaluation of the freehold land and buildings as tax would only be payable if the asset is sold. Based on the current tax rates and as a consequence of indexation the tax payable would not be significant.

18 Called up share capital

	2006	2005
	£	£
Authorised		
40,000,000 ordinary shares of 10p each	**4,000,000**	4,000,000
Allotted, called up and fully paid		
Shares at the start of the year: 34,104,583 ordinary shares of 10p each	**3,410,458**	3,410,458
Shares issued during the year (see Note 19b): 176,250 ordinary shares of 10p each	**17,625**	–
Shares at the end of the year: 34,280,833 ordinary shares of 10p each	**3,428,083**	3,410,458

19a Share options

Share options outstanding at the beginning and end of the year were as follows:

	Note	Outstanding at 31 March 2005	Date granted	Exercise price (p)	Number of options during the year Granted/ (exercised)	(Expired)	**Outstanding at 31 March 2006**
SES options	a	4,200	27.04.00	137.5	–	–	**4,200**
SES options	b	3,982	04.07.01	121.5	–	(3,982)	**–**
SES options	c	70,000	11.06.02	52.0	–	(30,000)	**40,000**
SES options	d	15,000	16.07.03	28.5	–	(15,000)	**–**
EMI options	e	38,722	04.07.01	121.5	–	–	**38,722**
EMI options	f	50,000	31.05.02	54.5	–	(50,000)	**–**
EMI options	g	36,000	11.06.02	52.0	–	–	**36,000**
EMI options	h	100,000	27.06.03	27.5	–	(100,000)	**–**
EMI options	i	52,000	16.07.03	28.5	–	(25,000)	**27,000**
EMI options	j	67,500	30.06.04	19.0	–	–	**67,500**
EMI options	k	–	05.04.05	11.5	375,000	–	**375,000**
EMI options	l	–	16.08.05	10.0	86,500	(7,000)	**79,500**
EMI options	m	–	17.10.05	10.0	500,000	–	**500,000**
		437,404			**961,500**	**(230,982)**	**1,167,922**

Senior Executive Share (SES) options:

All options granted under this category are, for taxation purposes, treated as unapproved.

a. Exercisable at any time following 27 April 2003 and before the fourth anniversary thereof.

b. Exercisable at any time following 4 July 2004 and before the fourth anniversary thereof.

c. Exercisable at any time following 11 June 2005 and before the fourth anniversary thereof.

d. Exercisable at any time following 16 July 2006 and before the fourth anniversary thereof.

Executive Management Incentive (EMI) options:

e. Exercisable at any time following 4 July 2004 and before the tenth anniversary thereof.

f. Exercisable at any time following 31 May 2005 and before the tenth anniversary thereof.

g Exercisable at any time following 11 June 2005 and before the tenth anniversary thereof.

h. Exercisable at any time following 27 June 2006 and before the tenth anniversary thereof.

i. Exercisable at any time following 16 July 2006 and before the tenth anniversary thereof.

j. Exercisable at any time following 30 June 2007 and before the tenth anniversary thereof.

k. Exercisable at any time following 05 April 2008 and before the tenth anniversary thereof.

l. Exercisable at any time following 16 August 2008 and before the tenth anniversary thereof.

m. Exercisable at any time following 17 October 2008 and before the tenth anniversary thereof.

Notes to the financial statements continued
for the year ended 31 March 2006

19b Share-based payments
Equity-settled share-based payments
See Note 19a for more detailed share option information.

	SES Options		EMI Options	
	Number of options	WAEP* £	Number of options	WAEP* £
At 1 April 2003				
Options outstanding (excluding those pre 07/11/02)	–	–	–	–
Movements during 2003/04				
Options granted	15,000	0.285	164,000	0.280
Options exercised	–	–	–	–
Options forfeited	–	–	–	–
Options lapsed	–	–	–	–
At 31 March 2004				
Options outstanding	15,000	0.285	164,000	0.280
Movements during 2004/05				
Options granted	–	–	67,500	0.190
Options exercised	–	–	–	–
Options forfeited	–	–	(12,000)	(0.293)
Options lapsed	–	–	–	–
At 31 March 2005				
Options outstanding	15,000	0.285	219,500	0.251
Movements during 2005/06				
Options granted	–	–	961,500	0.106
Options exercised	–	–	–	–
Options forfeited	–	–	(132,000)	(0.268)
Options lapsed	(15,000)	(0.285)	–	–
At 31 March 2006				
Options outstanding	–	–	1,049,000	0.116
Range of exercise prices		28.5p		10.0p to 29.5p
Options exercisable	–	–	–	–

* weighted average exercise price

19b Share-based payments continued

Equity-settled share-based payments continued

The fair value of the options is estimated at the date of grant using the Black-Scholes option pricing model. The following table gives the assumptions applied to the options granted in the respective periods shown.

	2005/06	2004/05	2003/04
Average share price (pence)	**9.1**	17.3	27.6
Weighted average exercise price (pence):			
SES	**–**	28.5	28.5
EMI	**11.6**	25.1	28.0
Weighted average fair value of options granted in the period (pence):			
SES	**–**	1.4	1.4
EMI	**5.1**	4.1	3.9
Expected volatility (%)	**62.2%**	62.2%	62.2%
Dividend yield (%)	**N/A**	N/A	N/A
Risk-free interest rate (%):			
SES	**–**	4.5%	4.5%
EMI	**4.5%**	4.5%	4.5%
Expected lives (years):			
SES	**–**	4	4
EMI	**10**	10	10

The expected volatility is based on the historical volatility of the underlying security (calculated based on the standard deviation of the day to day logarithmic price returns expressed as an annual percentage) adjusted for any expected changes to future volatility due to publicly available information.

The charge for equity-settled share-based payments in respect of share options is £23,017 (2005: £nil).

In return for the supply of services, Utek-pax Ltd was issued 176,250 shares at a price of 10p per share. The charge for this is £17,625 (2005: £nil).

20 Reserves

	Group		
	Revaluation reserve £	Share premium account £	Profit and loss account £
At beginning of year	153,689	12,154,094	(13,704,011)
Loss sustained for the year	–	–	(660,592)
Transfer from revaluation reserve to profit and loss account	(2,520)	–	2,520
At end of year	**151,169**	**12,154,094**	**(14,362,083)**

	Company		
	Revaluation reserve £	Share premium account £	Profit and loss account £
At beginning of year	153,689	12,154,094	(13,108,599)
Loss sustained for the year	–	–	(1,256,004)
Transfer from revaluation reserve to profit and loss account	(2,520)	–	2,520
At end of year	**151,169**	**12,154,094**	**(14,362,083)**

Notes to the financial statements continued
for the year ended 31 March 2006

21 Reconciliation of movement in shareholders' funds

	Group		Company	
	2006 £	2005 £	**2006** £	2005 £
(Loss)/profit for the financial year	**(660,592)**	(663,760)	**(1,256,004)**	61,524
Revaluation of assets	**–**	88,250	**–**	88,250
Shares issued	**17,625**	–	**17,625**	–
Shares to be issued	**23,017**	–	**23,017**	–
Net (reduction)/addition to shareholders' funds	**(619,950)**	(575,510)	**(1,215,362)**	149,774
Opening shareholders' funds	**2,014,230**	2,589,740	**2,609,642**	2,459,868
Closing shareholders' funds	**1,394,280**	2,014,230	**1,394,280**	2,609,642

22 Financial instruments
The Group had the following financial instruments at the year end, all of which are held on the balance sheet:

a) Liabilities

Group	On demand or within one year £	Between one and two years £	Between two and five years £	Five years or more £	Total medium/ long-term £	Total financial liabilities £
Bank loan	**20,037**	**21,379**	**73,117**	**78,267**	**172,763**	**192,800**
At 31 March 2006	**20,037**	**21,379**	**73,117**	**78,267**	**172,763**	**192,800**
Bank loan	18,843	20,155	69,282	103,691	193,128	211,971
At 31 March 2005	18,843	20,155	69,282	103,691	193,128	211,971

The bank loan is repayable by monthly instalments of £2,471, the last falling due in November 2013. Interest is charged at 2% above base rate.

b) Assets

	Total £	Floating £	Fixed £	Non interest bearing £
Currency				
Sterling	**1,294,970**	**1,294,970**	**–**	**–**
Euro	**461**	**461**	**–**	**–**
At 31 March 2006	**1,295,431**	**1,295,431**	**–**	**–**
Sterling	1,466,381	1,466,381	–	–
Euro	450	450	–	–
At 31 March 2005	1,466,831	1,466,831	–	–

The floating rate financial assets comprise bank deposits bearing interest at commercial rates. There are no material differences between the carrying value of the financial instruments and their fair value. Bank and term deposits earned an average interest rate of 4.6% (2005: 4.6%).

22 Financial instruments continued

c) Currency exposures

At 31 March 2006 the Group had no currency exposures.

Treasury

The Group's main exposure is to the Euro. The Group's policy is to hedge significant transaction exposure to the Euro by using forward contracts and options. The Group did not have any forward contracts or options in place at 31 March 2006.

The Group invests funds, which are surplus to short-term requirements, in fixed rate deposits operating within parameters for credit ratings and credit limits for individual institutions, that are approved and monitored by the Board.

23 Commitments

There are no capital commitments contracted for at the end of the financial year for which no provision has been made.

Annual commitments under non-cancellable operating leases, none of which relate to land and buildings, are as follows:

	Group		Company	
	2006 £	2005 £	**2006 £**	2005 £
Operating leases which expire:				
within one year	**–**	–	**–**	–
in the second to fifth year	**21,993**	21,993	**–**	–
	21,993	21,993	**–**	–

An unlimited cross guarantee exists between the Parent Company and Maelor Pharmaceuticals Limited in respect of bank borrowings.

24 Pension scheme

The Group operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the Group to the fund and amounted to £48,453 (2005: £48,762).

25 Reconciliation of operating loss to operating cash flows

	2006 £	2005 £
Operating loss	**(608,547)**	(862,679)
Depreciation charge	**16,898**	27,399
Loss on disposal of fixed asset	**247**	–
(Increase)/decrease in stocks	**(73,452)**	41,437
Decrease in debtors	**162,443**	232,937
Increase/(decrease) in creditors	**178,648**	(293,851)
Issue of share options	**23,017**	–
Net cash flow from operating activities	**(300,746)**	(854,757)

Notes to the financial statements continued
for the year ended 31 March 2006

26 Analysis of cash flows

Group	2006 £	2005 £
Return on investment and servicing of finance		
Interest received	**51,784**	65,366
Interest paid	**(13,351)**	(15,806)
Interest element of finance lease rental payments	**–**	(1,125)
	38,433	48,435
Taxation		
R&D tax credit received	**108,487**	379,378
	108,487	379,378
Capital expenditure		
Purchase of tangible fixed assets	**(16,357)**	(1,787)
Receipts from sales of tangible fixed assets	**500**	–
	(15,857)	(1,787)
Financing		
Issue of ordinary share capital	**17,625**	–
Repayment of loan	**(19,171)**	(13,029)
Capital element of finance lease rental payments	**–**	(4,296)
	(1,546)	(17,325)

27 Analysis of net funds

Group	At beginning of year £	Cash flow £	**At end of year £**
Cash in hand, at bank	1,467,692	(171,229)	**1,296,463**
Debt due within one year	(18,843)	(1,194)	**(20,037)**
Debt due after one year	(193,128)	20,365	**(172,763)**
	(211,971)	19,171	**(192,800)**
Total	1,255,721	(152,058)	**1,103,663**