

Chairman's Statement

“Turnover has increased, costs are under tight control, and we believe that we have sufficient working capital to see us through to profitability.”

During the past financial year, Maelor's management has continued to work hard to put the Company onto a stronger footing. In the two years since the appointment of Stephen Appelbee as Chief Executive, turnover has more than doubled, and losses have almost halved.

We have made substantial progress with our product portfolio. Our lead product, the catheter maintenance range, OptiFlo™, has increased its community prescription market share in the UK from 26% to 42% in that two-year period. We have also launched two other brands, Volplex®, our blood plasma substitute product and ContiSol™, our own catheter maintenance brand, and Maelor's products are now available in five countries.

Turnover has increased, costs are under tight control, and we believe that we have sufficient working capital to see us through to profitability.

Financial summary

Maelor's turnover of £1,340,005 (2003: £1,169,744) represents a 15% increase over last year, driven primarily by greater sales of Volplex in the second half of the year.

The Group's loss for the year at £1,118,016 (2003: £2,076,930) was a lower figure than we budgeted and represents a 46% reduction from the previous year. Group cash balances at 31 March 2004 were £1,913,748 (2003: £3,294,656).

Business summary

During the year, we have made substantial progress with our broadening product portfolio. Sales of OptiFlo, distributed by Bard Limited (Bard), continue to grow, and the product remains the major contributor to turnover.

We also launched ContiSol, our own brand of urethral catheter cleansing solutions, in Greece and Spain. Further launches in Europe and other parts of the world are expected in the next 12 months.

Growth in Volplex 500ml sales in the UK has been most encouraging. With the market being dominated by NHS contracts, our distributor, Cambridge Laboratories, has won over half of the business tendered since the launch of Volplex. This success has encouraged us to invest in the Volplex 1 litre presentation, whose recent approval should result in improved profit margins later in 2004.

The approval of the TendaGel™ Marketing Authorisation Application in the UK was announced in November 2003. We continue to conduct an extensive commercial review of this product's potential with our UK distributor, Bard, in the light of significant changes in the market since we began the original development of this product.

Work on micelle propofol continues to provide us with compelling data. That we have not so far attracted a partner to assist in the commercial exploitation of this product is a major disappointment to us. Our success in other areas, however, gives us the comfort that we no longer need revenue from micelle propofol to achieve profitability, but we do not underestimate the importance of this product to Maelor's future growth potential.

Corporate activity

While Maelor continues to grow organically, your Board has recognised the importance of expanding our current portfolio through the acquisition of products or businesses that are complementary to our strategy. This process started in earnest about a year ago, and has already resulted in the acquisition of two new products, at least one of which, Maelor Oral Syringes, should be making a contribution to our bottom line in the current financial year. Whilst we have also had merger discussions with several companies, we have only considered those opportunities, which we consider would accelerate our drive to profitability and allow us to retain control of Maelor as an innovative healthcare company.

During the year, we received an unsolicited approach to acquire the Company. We gave proper consideration to it but were unable to negotiate a suitable basis for making any recommendation to shareholders and the approach was subsequently withdrawn.

Outlook

Your Board believes that, with costs under tight control, our current portfolio of products is capable of delivering profitability. The Company is now on a sound footing and with an enlarged portfolio of income-producing products we are managing the risks associated with the life sciences sector. Our portfolio is to be supplemented in the current financial year by the launch of at least one new product, which will support Maelor's future growth.

We remain committed to the search for a partner for micelle propofol and continue to seek out further commercial opportunities that will assist in the drive to profitability.

Alastair Macpherson

Chairman

Chief Executive's Review

“With profitability in sight, we are seeking further growth opportunities through the acquisition of compatible businesses or products.”

During the last year, we have matured significantly as a company by broadening our portfolio, as well as by increasing the market penetration of our leading products. Our initiative in gaining CE Mark accreditation has enabled us to launch our own brand of our most successful product (OptiFlo) in two countries under the trade name of ContiSol. Maelor is committed to the continued roll-out of ContiSol in those markets where Bard has not already acquired the distribution rights. We are supplementing our existing range with both in-house developments and in-licensed opportunities, with the result that in the current year we will see the introduction of further products, the first of these being Maelor Oral Syringes.

Approved products

OptiFlo

OptiFlo, our range of catheter cleansing solutions sold by Bard, has continued its outstanding sales performance. The product's share of the UK community prescription market has now reached 42% (2003: 33%), and at its present rate of growth it will become the market leader in the current financial year. We have now moved to a quarterly manufacturing schedule to avoid seasonal variations in our sales to Bard.

We are in discussions with Bard about expanding their territory. Bard's sales in Italy, a market where it is normal practice to change catheters frequently rather than cleanse the indwelling catheter, have been disappointing, and they have decided to stop promoting the product there.

Volplex

Volplex's first full year since its approval in the UK has seen a number of milestones achieved. Our partner, Cambridge Laboratories, has had several major successes in the highly competitive NHS tender market. Volplex is winning over half of these contracts less than a year since its first successful tender. We were pleased to announce that the 1 litre pack size had been approved by the UK regulatory authorities, as this should further enhance the product's competitiveness by making the administration of Volplex more convenient for our hospital customers.

The importance of the 1 litre pack size was outlined in a major clinical trial published in the medical journal *Clinical Drug Investigation* (*Clin Drug Invest* 2004: 24(2): 73-79). The safety and tolerability of Volplex in elective surgery was investigated in a 76-patient study at the Derriford Hospital, Plymouth, UK. The investigators noted that the mean volume of Volplex used exceeded 1 litre, as well as concluding that no major adverse events were related to the use of the product.

We were pleased to announce in December 2003 that Volplex was approved in Argentina. Launch has been delayed due to a technical issue beyond our control, which we hope to have solved by the end of 2004. We believe that Volplex approval in the major market of Bangladesh, which was expected during 2003/04, is imminent.

The Volplex agreement with the greatest commercial potential for Maelor was signed in February 2004, when we welcomed Helicon Group Pty Ltd (Helicon) as our partner for China. Helicon should be completing the marketing authorisation application in 2004 and, following approval, will be marketing and distributing the product through a network of sales offices in China.

ContiSol

During the year, we created a third revenue stream for Maelor, resulting from our being authorised to apply our own CE Marks to medical devices. Within six months we developed our own range of catheter cleansing solutions, ContiSol, and launched the product in Greece and Spain.

We have previously reported that the regulatory authorities in North America considered our range of catheter cleansing solutions to be a drug, rather than a device, and therefore subject to a more complex and expensive approval process. We are pleased to report that we have lobbied Canada's Therapeutic Products Directorate, who found our arguments sufficiently compelling to reverse their opinion. Subsequently, we have submitted a marketing authorisation application as a device and in May 2004 received approval for ContiSol in Canada. We are actively seeking a distribution partner for this important market.

Having had this major success, we can turn our attention to the Food and Drug Administration in the United States, where we hope our arguments will be equally persuasive.

TendaGel

Our pleasure at the UK approval of TendaGel has been tempered by the general collapse in prices of such products in the international market, which has squeezed profitability. We are examining ways in which we can gain a return on our investment.

An interim analysis of the Phase III clinical trial was presented at the World Congress of Endourology in Montreal in September. The authors concluded that TendaGel was effective and had safety advantages over the competing products with which it was compared.

Development products

Micelle propofol

It remains our greatest challenge to conclude a development deal for micelle propofol that accurately reflects our assessment of the true value of the product. The additional trials that we have conducted confirm our belief in the formulation, as well as making us more determined to secure a major partner for this important product.

Our partner for veterinary micelle propofol, Dechra plc, has experienced some further delays during the validation of stability batches, and it is now unlikely that this product will be available before 2005.

Micelle technology

In March 2004, we announced that we had acquired the intellectual property rights to new technology associated with inhaled anaesthetics from KBIG Limited (KBIG). This may enable us to develop a means of administering propofol (the world's best-selling injectable general anaesthetic), and other similar products, in a wider range of clinical settings.

Later in the same month we signed a collaborative study agreement with a US-based pharmaceutical company in connection with our micelle technology. This is the first agreement with an external party to apply our innovative technology to a New Chemical Entity and, if successful, could lead to future collaboration in this area.

New product acquisitions

We have enhanced the value of our product portfolio with the addition of new revenue streams. These acquisitions are the result of our targeted strategy in the fields of critical and palliative care.

Maelor Oral Syringes fulfil an un-met need for individually wrapped devices to give doses of liquid products accurately to patients (usually infants or the infirm), who cannot easily be treated by other routes of administration.

This niche product will be sold direct to our customers, thus enabling Maelor to retain a significantly greater profit margin.

Prospects

We believe that Maelor has made substantial progress in the last financial year. With losses almost halving and revenues increasing by 15%, we retain a very tight control over costs.

Last year's fundraising has enabled us to invest in carefully chosen development areas, which will result in fast returns. Volplex 1 litre, ContiSol and Maelor Oral Syringes are three examples which should be making further contributions in the current financial year.

We are already creating a strong international patent position following the acquisition of inhaled anaesthetic technology from KBIG. By establishing further collaborations with our micelle technology we shall ensure that Maelor remains at the leading edge of this innovative area.

Finally, with profitability in sight, we are seeking further growth opportunities through the acquisition of compatible businesses or products.

Stephen Appelbee

Chief Executive Officer

Consolidated profit and loss account

for the year ended 31 March 2004

	Year ended 31 March 2004		Year ended 31 March 2003	
	£	£	£	£
Turnover	1,340,005		1,169,744	
Cost of sales	(805,080)		(804,413)	
Gross profit	534,925		365,331	
Research and development	(680,349)	(1,565,268)		
Administration	(1,123,665)	(1,159,346)		
	(1,804,014)		(2,724,614)	
Operating loss	(1,269,089)		(2,359,283)	
Interest receivable and similar income	75,404		38,679	
Interest payable	(6,733)		(2,208)	
Loss on ordinary activities before taxation	(1,200,418)		(2,322,812)	
Taxation recoverable	82,402		245,882	
Retained loss attributable to the Group	(1,118,016)		(2,076,930)	
Basic loss per ordinary share	(3.28)p		(9.37)p	
Diluted loss per ordinary share	(3.28)p		(9.37)p	

The Group's activities are classified as continuing.

Statement of total recognised gains and losses

for the year ended 31 March 2004

	2004	2003
	£	£
Reported loss on ordinary activities after taxation	(1,118,016)	(2,076,930)
Revaluation	—	67,989
Total recognised gains and losses since previous financial statements	(1,118,016)	(2,008,941)

Note of historical cost profits and losses

for the year ended 31 March 2004

	2004	2003
	£	£
Reported loss on ordinary activities before taxation	(1,200,418)	(2,322,812)
Difference between a historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	1,020	510
Historical cost loss on ordinary activities before taxation	(1,199,398)	(2,322,302)
Historical cost loss for the year sustained after taxation	(1,116,996)	(2,076,420)

Consolidated balance sheet

at 31 March 2004

	31 March 2004		31 March 2003	
	£	£	£	£
Fixed assets				
Tangible assets		321,955		360,231
Current assets				
Stocks	173,575		100,075	
Debtors	1,202,613		596,862	
Cash at bank and in hand	1,913,748		3,294,656	
		3,289,936		3,991,593
Creditors: amounts falling due within one year		(807,353)		(639,642)
Net current assets		2,482,583		3,351,951
Total assets less current liabilities		2,804,538		3,712,182
Creditors: amounts falling due after more than one year		(214,798)		(4,426)
Net assets		2,589,740		3,707,756
Capital and reserves				
Called up share capital		3,410,458		3,410,458
Share premium account		12,154,094		12,154,094
Revaluation reserve		66,459		67,479
Profit and loss account		(13,041,271)		(11,924,275)
Shareholders' funds – equity		2,589,740		3,707,756

These financial statements were approved by the Board of Directors on 1 June 2004 and were signed on its behalf by:

D P L Williams

Director

S C Appelbee

Director

Consolidated cash flow statement

for the year ended 31 March 2004

	Year ended 31 March 2004 £	Year ended 31 March 2003 £
Cash flow from operating activities	(1,659,890)	(2,066,285)
Returns on investments and servicing of finance	68,671	40,406
Taxation received	—	320,690
Capital expenditure	(11,781)	(11,131)
Cash outflow before management of liquid resources and financing	(1,603,000)	(1,716,320)
Financing	222,092	2,872,864
(Decrease)/increase in cash in the year	(1,380,908)	1,156,544

Reconciliation of net cash flow to movement in net funds

for the year ended 31 March 2004

	Year ended 31 March 2004 £	Year ended 31 March 2003 £
(Decrease)/increase in cash in the year	(1,380,908)	1,156,544
Cash (inflow)/outflow from (increase)/decrease in debt and lease financing	(222,092)	3,800
Changes in funds resulting from cash flows	(1,603,000)	1,160,344
Movement in net funds in the year	(1,603,000)	1,160,344
Net funds at the start of the year	3,287,452	2,127,108
Net funds at the end of the year	1,684,452	3,287,452

Notes to the preliminary results for the year ended 31 March 2004

1. The financial information set out in this report, which was approved by the directors on 1st June 2004, does not constitute the Company's statutory accounts for the year ended 31 March 2004 or 31 March 2003 but is derived from those accounts. Statutory accounts for 2003 have been delivered to the Registrar of Companies and those for 2004 will be delivered following the Company's Annual General Meeting. The auditors have still to report on the 2004 accounts but have indicated that they will be issuing an unqualified report in all respects. The 2003 audit report was unqualified and did not contain statements under section 237(2) or (3) of the Companies Act 1985.
2. The preliminary results have been prepared on the basis of the accounting policies as set out in the financial statements for the year ended 31 March 2003. Key elements of the Company's principal accounting policies are noted below.

Basis of preparation and consolidation

The financial statements of the Group consolidate the financial statements of the Company and its subsidiary undertakings whose financial statements were also made up to 31 March 2004.

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.

3. Loss per ordinary share

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

	2004 £	2003 £
Loss attributable to the Group	(1,118,016)	(2,076,930)
Weighted average number of shares in issue during the year	34,104,583	22,174,218

Basic and diluted loss per share are the same as there is no dilution.

4. The directors do not propose the payment of a dividend.
5. The Report and Accounts of the Company for the year ended 31 March 2004 will be sent to shareholders shortly. The Annual General Meeting will be held in Wrexham on Tuesday 27 July 2004.

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