



Annual Report & Accounts 2005

Experience, Excellence, Delivery

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Customised  
Biopharmaceutical  
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Angel Biotechnology Holdings plc  
 REPORT AND CONSOLIDATED FINANCIAL STATEMENTS  
 for the period ended 31 December 2005

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**Fred Mann**, Technical Marketing Manager - Millipore

'It is extremely beneficial for Millipore to be able to access such services locally in the North East of England and we are very happy to be continuing our relationship for another year.'



## Introducing Angel Biotechnology Holdings plc

**ANGEL OPERATES WITHIN THE GROWING BIOPHARMACEUTICALS SEGMENT** of the worldwide pharmaceuticals market. Biopharmaceuticals are medicines whose active ingredients typically cannot be chemically synthesised. Based on natural and modified proteins and antibodies, they offer new and improved ways to treat a wide range of diseases including cancer, diabetes and heart conditions. Biologics (biological products) such as vaccines are also considered to be part of this sector. Biologics as medicines, for example Interferon, are expensive to produce and often satisfy unmet needs for treatment of important diseases. They typically command higher prices than small molecule based drugs.

There is a trend to outsource the manufacture of biologics to support clinical development and only to consider in house manufacturing at a later stage. Angel is focusing on the early stage high value market, aiming to produce material for pre-clinical research and Phases I, II and III clinical trials. Angel has the capacity to produce drug substance and currently has contracts to do so.

Angel is managed by a team that has more than 100 years combined experience in pharmaceutical and biopharmaceutical manufacture, gained in companies such as GlaxoSmithKline Beecham and Serologicals Inc.

Angel operates out of two sites, at Cramlington, near Newcastle upon Tyne and at Pentlands Science Park near Edinburgh. Certification of its Pentlands facility by the MHRA to the EU clinical trials regulations as cGMP (current Good Manufacturing Practice) compliant was received in July 2005. Certification of its Cramlington facility is expected to be applied for and completed by 2006.

Early involvement in the development of efficient producer strains and thus an efficient process at the pilot stage makes Angel the obvious choice as manufacturer of product for pre-clinical and clinical studies. This is because the cost of transferring a complex process to a new manufacturer and the inherent risks and the regulatory implications of so doing make this a risky, unattractive, costly and time consuming option. Angel has also anticipated the impact of new regulatory specifications that require drug products for use in clinical trials to be manufactured to cGMP and has designed its production facilities accordingly.

Angel is positioned to capitalise on the future growth of the biopharmaceutical sector. Angel differentiates itself from its competitors by offering vertically integrated biopharmaceutical manufacturing solutions, reducing risk, cost and timelines for clients. The Directors believe that by providing a combination of technical expertise and commercial, regulatory and management experience, Angel will successfully develop into a market leader.

### Thomas Flynn, Chief Executive Officer - Therapeutic Proteins Inc

'TPI is very fortunate to have a true collaboration partner in Angel, a team that demonstrates their significant abilities on an ongoing basis to help TPI in completing its technical portion of the dossier on a timely basis. Manufacturing is a critical component in the overall commercialization process, the skill sets and proactive attitude of the Angel team will ensure that TPI exceeds our customers' expectations for quality and product supply.'





## Directors

### Secretary

E M Oliver FCA

### Registered Office

44 Colbourne Crescent  
Nelson Park  
Cramlington  
Northumberland  
NE23 1WB

### Auditors

Baker Tilly  
Chartered Accountants  
1 St James' Gate  
Newcastle upon Tyne  
NE1 4AD

### Bankers

Lloyds TSB Bank plc  
Business 2 Corporate  
Service Centre  
P O Box 686  
1st Floor  
Black Horse House  
Sandyford Road  
Newcastle upon Tyne  
NE99 1JW

### Dr P B Harper

#### Executive Chairman

Dr Paul Harper, aged 60, Executive Chairman, has over 30 years' experience of the life sciences industry covering both drug development and medical devices. Dr Harper has served as Chief Executive of Cambridge Antibody Technology Limited and Provensis Limited. He has also served as Corporate Development Director of Unipath, then the medical diagnostics business of Unilever, and as Director of Research and Development for Johnson & Johnson Limited. He is Chairman of Sareum Holdings plc and a Director of Reneuron Group plc and Physiomics plc, all AIM quoted companies. In addition, he is Chairman of Regen Tec Limited, Food and Drug Analytical Services Limited and Monica Healthcare Limited. Formerly head of Antimicrobial Chemotherapy for Glaxo, Dr Harper holds a doctorate in molecular virology and is the author of over 50 publications.

### S Duncan

#### Deputy Chairman

Stuart Duncan, aged 58, Deputy Chairman, has more than 30 years' experience in the pharmaceutical ingredients business. He is a graduate of Glasgow University (BSc Chemistry) and spent 22 years with Glaxo in a range of senior roles. He was Director of Sales and Marketing for Synpac from 1991 until 1998, when he was appointed Deputy Managing Director, responsible for a UK operation with £24 million turnover and 250 staff. He was responsible for a joint venture in India manufacturing antibiotics with sales of £15 million and was invited to act as Vice President of Synpac in North Carolina in the successful development and sale of a biotechnology project (Pompe's Disease) to the Genzyme Corporation. Mr Duncan was appointed Managing Director of ACS Dobfar UK Limited in 2001.

### E M Oliver FCA

#### Finance Director

Edward Oliver, aged 64, Finance Director. Edward Oliver is a Chartered Accountant with considerable experience both in professional practice and in industry. Formerly a senior partner at the London based firm of Chartered Accountants, AGN Shipleys, Edward Oliver has since 2002 provided consultancy and advisory services to companies through his firm, Olivers. Mr Oliver is a Director of AIM quoted Zyzygy plc and Sareum Holdings plc.



### G T Sherriff

#### Chief Operating Officer and Business Development Director

Gordon Sherriff, aged 46, Chief Operating Officer and Business Development Director, trained as an Immunologist and has over 26 years' experience in biologics manufacturing gained with the National Blood Service, the International Blood Group Reference Laboratory in Oxford, the Bio-Products Laboratory in London, Serologicals Inc. and Excell Biotech Limited, of which he was a co-founder. He has held a number of senior scientific, operational, technical and managerial roles in these organisations. He has significant cGMP manufacturing, process development and quality systems experience having been responsible for the implementation in three organisations of MHRA (formerly MCA) manufacturer's licences and for ISO 9001 certification. He has also successfully maintained an FDA manufacturer's licence and has significant regulatory experience including the CMC element of IND submissions. As a result, Mr Sherriff has a detailed understanding of regulatory issues and customer needs and concerns when contracting out their development and cGMP manufacturing.

### F J Fernandez

#### Non-Executive Director

Francisco Javier Fernandez, aged 34, Non-Executive Director, is currently the Marketing Director for Suan Farma, S.A. of Spain where he has worked for five years. He has a degree in Economics and Business Administration and an MBA and has seven years' experience in the global pharmaceutical industry earned principally with Suan Farma, S.A., which is a shareholder of the Company and represents Angel commercially in Spain.

### Sir Peter Brown

#### Non-Executive Director

Sir Peter Brown, aged 60, Non-Executive Director, is currently a Political Consultant and Director of PRB Consultancy Service Limited. He was elected in May 2005 to Cambridgeshire County Council serving on the Local Government Association and Corporate Services Panel. Sir Peter Brown has served the Conservative Party for 37 years and is one of the senior professional Agents in the Conservative Party. He worked as Constituency Agent to the Rt Hon Sir John Major during his term of Office as Prime Minister and is past Chairman of the National Society of Conservative Agents.

### Registrars

Capita Registrars  
Northern House  
Woodsome Park  
Fenay Bridge  
Huddersfield  
HD8 0LA

### Broker and Financial Advisers

H B Corporate  
40 Marsh Wall  
London  
E14 9TP

### Nominated Advisers

Grant Thornton  
Corporate Finance  
Grant Thornton House  
Melton Street  
Euston Square  
London  
NW1 2EP

### Solicitors

Bircham Dyson Bell  
50 Broadway  
Westminster  
London  
SW1H 0BL

Robert Muckle  
Norham House  
12 New Bridge  
Street West  
Newcastle upon Tyne  
NE1 8AS

### Heather Fairhead, Chief Executive Officer - Phico Therapeutics Ltd

'We are confident we have made the right decision in selecting Angel to carry out these important steps to GMP manufacture of our first product. The team at Angel has been very supportive and we have benefited from their valuable experience. They understand and are able to accommodate the needs of Phico as an early stage biotech company. We look forward to the successful completion of this project and the supply of material for our first human clinical trial.'

### Eric Johansen, Vice President - Molecular Microbiology of Chr. Hansen A/S

'Continuing our collaboration with Angel Biotechnology will enable us to incorporate the latest research findings thereby increasing our benefits from this fruitful interaction. We have benefited greatly from working with Angel Biotechnology using the competences and equipment they already have in place. This allows us to continue improving our processes without investing valuable R&D time in first developing the relevant competences and investing in the required equipment.'

## Chairman's Statement

### Results for the Twelve Months Ended 31 December 2005

**ANGEL BIOTECHNOLOGY HOLDINGS plc** has enjoyed a successful financial year of trading. The Company offers process development services to support pre-GMP and GMP manufacturing to supply biotechnology and pharmaceutical companies worldwide. Angel's principal activity is the manufacture and supply of bio-materials for use in clinical trials through all phases of the drug development process. Angel are also able to manufacture licensed drugs and vaccines.

The Company was admitted to the AIM Market of the London Stock Exchange in November 2005 raising £1.5 million (gross). A portion of the funds raised were for the completion of our state-of-the-art clinical manufacturing facilities in Cramlington, Northumberland. Good progress was made in 2005 with MHRA licensing of the facility expected in Q2 2006. Angel has a second facility at Pentlands, near Edinburgh dedicated to cell therapy, stem cells and related products. This was inspected for compliance with the EU Clinical Trials Regulations by the UK licensing authority, the MRHA in June 2005 following which Angel were granted a Manufacturers Licence confirming compliance with cGMP.

Angel Biotechnology has created a unique offering in the contract manufacturing arena by providing clients with customised services to support their development requirements from optimisation of process through supply of material for pre-clinical and clinical research to launch quantities under one roof. This provides significant savings in time and cost to the client who does not have to transfer their project from one company to another, avoiding the risks that accompany such activities. In addition to the state-of-the-art clinical manufacturing facilities and process development laboratories, Angel has built a highly skilled management team to take the business forward. The Company now has the combination of resources and skills required to deliver on our business plan.

### Business Development

Angel worked with thirteen customers in 2005, seven of which were new, from the US and Europe. Angel has demonstrated the ability to secure business in the global market, to manage a large customer base and provide customer service that is second to none. Contracts won last year and this year enable us to look forward to improved performance in 2006 and beyond. These contract wins include the following:

Angel signed a 3 year contract in 2005 with US company Therapeutic Proteins Inc for the development and manufacture of three bio similar products. Under the contract Angel agreed to scaleup and manufacture three generic recombinant protein biologics, granulocyte colony stimulating factor (GCSF), interferon alpha (INF- $\alpha$ 2b) and erythropoietin (EPO). The three contracts combined will run through to August 2008. The contract is worth an estimated £7.9 million. Additionally, Angel has a co-marketing agreement with TPI whereby Angel will receive commission payments on all new business brought by Angel under the terms of the collaboration. Angel is also assisting TPI with regulatory support for bio-similar therapeutic proteins.

A twelve month contract was signed in 2005 with Danish food and pharmaceutical ingredients firm Chr. Hansen to develop improved processes for the manufacturing of a currently marketed fermented product. The project uses Angel's state-of-the-art high throughput screening technology with the objectives of improving the productivity of the manufacturing process and thereby reducing the overall capital expenditure necessary to produce each unit of product. This contract continued into 2006 when it was extended until April 2006.

The long-term working relationship between Angel and Millipore Bioprocessing Ltd. (Millipore) which was established in 2003 was continued in 2005 and was extended with a new contract in 2006 confirming Angel's substantial experience, expertise and history of delivery.

### Alan Stuttle, Chief Executive Officer - BioEos

'Angel has provided us with valuable expertise and support for scale up and large volume manufacture of our veterinary trial product. The team at Angel have worked very effectively to ensure that our timelines have been met and this is much appreciated. BioEos also looks forward to a long-term relationship with Angel for our current and future products.'

A biological scale up development contract was signed with USA company Industrial Biotechnology Corporation (IBC). The contract continues in 2006. Under the contract Angel will provide fermentation and scale up optimisation of selected chemicals and production of samples prior to commercial production for IBC. We look forward to assisting IBC develop, produce and manufacture many chemicals at lower costs and with less impact to the environment than traditional chemical production methods.

Angel signed a contract with young enterprising UK biotech firm BioEos. Under the agreement Angel progressed with process scale up and production of a vaccine product to be used in clinical trials. BioEos is developing a novel Sweet Itch vaccine for horses that suppresses the allergic response to midge bites, which underlies this condition. Currently there are no veterinary pharmaceutical agents specifically approved for the treatment of this condition. The contract was extended in January 2006.

The first part of a contract was signed in 2005 with Phico Therapeutics, an early stage biotech company developing a novel anti-bacterial platform technology. Further contracts were announced in May 2006. Angel will evaluate and scale up processes utilising Phico's novel methodology which will be employed to manufacture therapeutic products. This programme of works will lead to the GMP manufacturing of Phico's first product which is designed to eliminate nasal carriage of *Staphylococcus aureus*, including MRSA.

In January 2006, Angel announced the signing of a significant GMP contract with a USA based company. Under the contract, valued at US \$0.8 million, Angel will manufacture and supply GMP materials for use in an autologous cell therapy in UK-based clinical trials. The cells will be used in a novel area of transplant medicine. The nature of the work is highly specialist and draws on Angel's core expertise in finding GMP solutions for challenging projects.

### Grant Support

Angel became the manufacturing partner in a consortium awarded a grant from the UK Department of Trade and Industry (DTI) for stem cell development therapy. The £2.1 million grant will fund a 3-year stem cell bio processing project entitled Therapeutic Products from Human Stem Cells. Angel's key role within this is to establish the capability to manufacture stem cell banks to GMP standards for clinical trials and for their application as therapeutic products. Led by ReNeuron Ltd, the other consortium members include RegenTec Ltd, The Institute of Psychiatry and Kings College London. The aim of the project is to utilise the specific research, development and commercial expertise of the consortium members to develop and manufacture stem cell therapeutics for clinical and subsequent commercial application to address neurodegenerative diseases such as stroke, Huntington's disease and Parkinson's disease. The potential for the products of this research is considerable and alongside other consortium members, we hope to be able to contribute to the development of successful clinical solutions to these important diseases.

Angel was also awarded a DTI R&D grant of £200,000 for a development project in March 2005 for its progression of an anti-viral antibody programme. This is to help prevent infections due to Respiratory Syncytial Virus (RSV) in new born and young children. It is anticipated that this innovative project will result in a prophylactic treatment for a major worldwide pathogen.

Angel received authorisation in November 2005 for the £450k final instalment of their RSA grant through One NorthEast. The grant is designed to facilitate organic growth and the creation of high calibre jobs at Angel. We believe that this award demonstrates the commitment of the regional development agency to Angel and is acknowledgement that the Company has real growth potential. We look forward to the continuing strategic support that One NorthEast has to offer

Progress to date has matched the strategy and budget for the year. All the indicators for the next fiscal period point to strong positive growth in both research activities and the generation of revenues to support the research.

### Financials

During this period revenues amounted to £1.12 million, with approx. 75% of this figure being earned in the second half of the year, reflecting the steep change in Angel's operating performance following re-structuring and re-financing of the Company. Losses for the period were £0.98 million in line with expectations.

### Outlook

Angel Biotechnology has emerged from a challenging period in the Company's history and has begun to realise the potential that the Angel team and a loyal group of investor shareholders believed was possible. This good progress and solid performance reflects the dedication in particular, of the staff, the Executive team and the Board. We are determined to build on this success and the stream of important announcements made to date evidence that intent.

Dr Paul Harper - Chairman  
23 May 2006

## Chief Operating Officer's Statement

### Strategy and Business Model

**ANGEL'S PRINCIPAL ACTIVITY** is the manufacture and supply of clinical grade materials for use in our client's drug development work. We have invested in a highly experienced management team and extremely flexible facilities which allow Angel to provide creative, low cost solutions for our clients. Our flexibility and service offering allow us to capitalise on new technologies and emerging trends within the industry; maximising market penetration.

We are providing specialist solutions for cell based therapies eg Stem Cells. The market for these therapies is expanding and Angel is in an excellent position to capitalise and become a market leader in providing such specialist services. We have a number of contracts moving into GMP where we have provided the client with a customised solution which meets their needs and accelerates their route to clinic. We expect to grow this part of our business in 2006, creating a differentiated offering for potential clients.

### Market

The market for our services is continuing to expand and diversify. Angel's business strategy allows us to embrace these changes as opportunities to be converted to growth. We add value with our vertically integrated offering, providing clients with the option to use one Contract Manufacturing Organisation (CMO) for their whole clinical development programme. This reduces the inherent technical risk, potential delays and increased cost of transferring projects between CMOs

Geographic trends are evident and the market for biological manufacturing services in North America is strong. Angel has been particularly active in this market in 2005 which has led to significant US derived contracts including a 3 year manufacturing agreement worth £7.9 million

Angel's turnover increased considerably in the second half 2005. This in part was due to increased business development activity in a growing market and part due to the gaining of an MHRA licence at our GMP facility in Edinburgh, which removed a barrier and facilitated signing of GMP manufacturing contracts.

### In-House Development

Our in-house development programmes were established in 2005. As part of the stem cell consortium described in the Chairman's Statement, we were awarded a 3 year DTI grant worth £750,000 to Angel. The grant is being used for the development of applications using stem cells in indications such as Parkinson's and Huntington's disease. Under the terms of the award, Angel will develop the process and assay methodologies associated with cGMP manufacture and regulatory approval of the cells. Work progressed well on this project through 2005.

Angel were awarded a further grant of £200,000 over 31 months by the DTI in 2005. In collaboration with a university spin-out company we are developing a new anti-viral antibody for the prevention of serious lower respiratory tract disease caused by Respiratory Syncytial Virus (RSV) in high risk patients. Good progress was made in 2005.

### Regulatory Environment.

Angel's primary source of income is from services leading to the supply of drugs for clinical evaluation. The EU Clinical Trials Directive enacted in July 2004, requires products for all clinical evaluation to be manufactured under a code of Good Manufacturing Practice. These standards must be met regardless of the subsequent regulatory destination of the products manufactured. Compliance with these standards account for a significant proportion of the manufacturing cost. In 2005, Angel's Edinburgh GMP facility successfully underwent a comprehensive review by the GMP inspectorate of the UK Medicines and Healthcare Products Regulatory Agency (MHRA). Our Cramlington facility will undergo similar inspection in 2006.

### Objectives for the Coming Year

In 2006, we look forward to successfully building on the foundations of our Contract Manufacturing Operations established and grown in 2005.

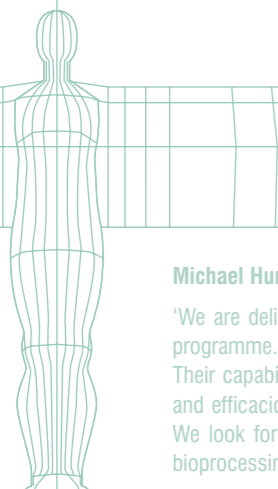
Our primary objective for the year is to complete the construction and validation of our Cramlington cGMP. This will be followed by licensing by the MHRA under the EU Clinical Trials directive allowing us to fulfil the pipeline of contracts we currently have in place and to facilitate the projected growth of the business in 2006.

To generate revenues, we will continue to advance our worldwide business development pipeline, particularly in North America. Specifically, the appointment of experienced Business Development Managers and a North American agent to increase in market presence.

We will progress our Research and Development activities in the fields of Stem Cells and RSV with the continuing support of the DTI.

We aim to expand our current customer base, secure repeat business from our existing clients and favour contracts with recurring revenues. This will facilitate growth while allowing us to control costs.

Gordon Sherriff - Chief Operating Officer  
23 May 2006



### Michael Hunt, Chief Executive Officer - ReNeuron

'We are delighted to be working with Angel as our manufacturing partner on the ReN005 Huntington's programme. Angel is an emerging leader in the outsourced GMP manufacture of cell-based therapies. Their capabilities play well to one of ReNeuron's key competitive strengths: the ability to generate stable and efficacious stem cell lines which are capable of rapid and early scale up for the clinic and beyond. We look forward to a continuing partnership with Angel both on this contract and with the stem cell bioprocessing consortium.'

### Ian Williams, Head of Business Investment and Finance Team - One NorthEast

'Angel Biotechnology is a leading biopharmaceutical company - a sector in which the North East has renowned strength and which contributes greatly to the regional economy. We are delighted that the Company is using the final instalment of its grant to press ahead with the completion of its GMP facility at Cramlington which could generate new, high quality jobs for the region.'

## Directors' Report

The Directors submit their report and the audited financial statements of Angel Biotechnology Holdings plc (the Company) for the period 4 March 2005 to 31 December 2005.

### Principal Activities

The principal activity of the Company is that of a holding company. The principal activity of the Group is the manufacture and supply of biologics - biological products whose active ingredients cannot be chemically synthesized. The Group supplies the biopharmaceuticals contract manufacturing sector of the biologics market and within that sector is focusing on the early stage drug development work such as CMC and pre-clinical studies, along with drug products for Phases I, II and III of clinical trials.

### History of Share Issues

The Company was incorporated on 4 March 2005 as Lanstop plc with the authorised share capital of £5,000,000 divided 500,000,000 Ordinary Shares of 1p each of which two were issued.

On 7 June 2005, Lanstop plc changed its name to Angel Biotechnology Holdings plc. On 30 June 2005, each of the authorised and issued shares of the Company was sub-divided into 10 Ordinary Shares of 0.1p each.

On 20 July 2005 the Company allotted and issued 115,762,900 Ordinary Shares (including the subscriber shares) to the vendors of all the shares in Angel Biotechnology Limited. On the same day the Company conditionally allotted and on 2 August 2005 the Company issued 20,000,000 Ordinary Shares at a price of 0.5p.

On 4 October 2005 the Company issued 320,806,900 Ordinary Shares at 0.5p per share.

On 17 November 2005, 136,363,637 Ordinary Shares of 0.1p were issued at 1.1p per Ordinary Share, when the Company listed on the Alternative Investment Market (AIM) of the London Stock Market, and a further 8,894,002 Ordinary Shares were issued at 1.1p per share.

### Review of Developments

The Board of Directors judge the Group's financial performance during the period by reference to the budget that it established. During the year the Board proactively managed its expenditure according to the revenue achieved. A comprehensive review of the year is given in the Chairman's statement. The Chief Operating Officer's statement explains the Company's future plans.

### Statement of Directors' Responsibilities

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing those financial statements, the Directors are required to:

- Select suitable accounting policies and then apply those 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 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 which enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Directors

The Directors in office during the period under review and their interests in the equity of the Company were:

		Date of appointment	31 December 2005 No.Ordinary Shares	Holding %
Dr P B Harper	Executive Chairman	20 June 2005	13,362,100	2.2
S Duncan	Deputy Chairman	20 June 2005	10,000,000	1.7
E M Oliver FCA	Finance Director	20 July 2005	Nil	Nil
G T Sherriff	Chief Operating Officer and Business Development Director	20 June 2005	1,000,000	0.2
F J Fernandez	Non-Executive Director	20 June 2005	Nil	Nil
Sir Peter Brown	Non-Executive Director	4 October 2005	Nil	Nil

KCA Bottomley was appointed as Director on 4 March 2005 and resigned on 20 July 2005.

Broadway Directors Limited were appointed as Director on 4 March 2005 and resigned on 20 July 2005.

Mr Duncan and Mr Sherriff hold respectively 270,000 and 550,000 share options at an exercise price of 0.5p per Ordinary Share and exercisable at any time from 20 July 2007 until 20 July 2015 (note 27).

As this is the Company's first accounting period all Directors retire by rotation and offer themselves for re-election.

### Substantial Shareholdings

The Company has been informed that on 31 December 2005 the following shareholders held substantial holdings in the issued Ordinary Shares of the Company.

	Number of Ordinary Shares	Holding %
Excelsyn Engineering Technology Limited	109,262,900	18.2
Invesco Perpetual AIM VCT Fund	31,818,185	5.3
Bioscience VCT plc	31,489,555	5.2
Zyzygy plc	30,642,910	5.1
Suan Farma SA	30,037,000	5.0
Billam AG	21,736,500	4.4
Capital North East No. 1 Limited Partnership*	25,451,100	4.2
John Story	24,500,000	4.1
Edward Coventry	20,000,000	3.3
North East Seed Capital Fund Limited Partnership*	10,950,600	1.8
North East Regional Investment Fund Three Limited*	10,897,400	1.8

\* Each of these companies is an investment fund operated and controlled by Northern Enterprise Limited which, through such funds, holds and controls an aggregate of 47,299,100 Ordinary Shares representing on Admission 7.9% of the Enlarged Issued Share Capital.

No other person has reported an interest of more than 3% in the Ordinary Shares.

### Payment Policy

The Group pays its suppliers as it would wish to be paid and supports initiatives aimed at ensuring good practice in this area. Trade creditors of the Group were equivalent to 47 days purchases, based on the average daily amount invoiced to suppliers to the Group during the year.

### Auditors

A resolution to re-appoint Baker Tilly as auditors will be proposed at the Annual General Meeting (AGM).

By order of the Board

Edward Oliver - Finance Director and Company Secretary  
23 May 2006

## Corporate Governance Report

### Introduction

Angel Biotechnology Holdings plc was listed on AIM on 17 November 2005. Although the rules of AIM do not require the Company to comply with the Combined Code on Corporate Governance (the Code), the Company fully supports the principles set out in the Code and will attempt to comply wherever possible, given the resources available to the Company. Details are provided below of how the Company applies the Code.

### The Board

The Board is responsible to shareholders for the proper management of the Group. A statement of Directors' responsibilities in respect of the financial statements is set out on page 10.

The Board of Directors comprises three Executive Directors and three independent Non-Executive Directors. Of the Executive Directors, the Finance Director is part time and holds prominent positions in other companies and as such adds to the breadth of vision of the Board.

The Board meets monthly and receives reports covering finance, business development, operations and technical matters together with any other material deemed necessary for the Board to discharge its duties. It is the Board's responsibility to review and approve the Group's strategy, budgets, major items of expenditure and acquisitions.

All Board meetings were fully attended during the period.

Under the Articles of Association, all Directors must offer themselves for re-election at least once every three years. One third of Directors retire by rotation at every Annual General Meeting and are eligible for re-appointment.

### Board Committees

The Board has established an Audit Committee and a Remuneration Committee, both with delegated responsibilities. The terms of reference are as close to the model terms of the Institute of Chartered Secretaries and Administrators as is possible for a board with three independent Non-Executive Directors.

### Audit Committee

The Audit Committee comprises Sir Peter Brown, the independent senior Non-Executive Director as Chairman, Javier Fernandez and the Financial Director. It is scheduled to meet twice a year. It is the Audit Committee's role to provide formal and transparent arrangements for considering how to apply the financial reporting and internal control principles of the code, whilst maintaining an appropriate relationship with the independent auditors of the Group.

The Committee opened the audit of the 2005 accounts to competitive tender to ensure the shareholders were receiving value for money. Three firms made bids. As a result the Committee recommended the appointment of Baker Tilly and Tait Walker resigned as auditors. Grant Thornton remain the Company's nominated adviser.

The Committee is responsible for monitoring the quality of internal control, ensuring that the financial performance of the Company is properly measured and reported on, meeting with the auditors and reviewing reports from the auditors.

### Remuneration Committee

The Remuneration Committee comprises the Chairman, Sir Peter Brown and Javier Fernandez. It meets at least once a year. It is the Remuneration Committee's role to establish a formal and transparent policy on Executive remuneration and to set remuneration packages for individual Directors.

### Shareholder Relations

The Company meets with its institutional shareholders and analysts as appropriate and will use the AGM to encourage the communication with private shareholders. In addition the Company intends to use the annual report and accounts, interim statements and website to provide further information to shareholders. The Company uses the services of Buchanans Communications to assist in the communication with Shareholders.

The Board considers Sir Peter Brown to be the Senior Independent Director, the chair of the Audit Committee and a member of the Remuneration Committee.

The Company publishes information for shareholders on its website.

### Internal Risks and Management

The Board is responsible for the system of internal control and for reviewing its effectiveness. Such systems are designed to manage rather than eliminate risk and can provide only reasonable and not absolute assurance against material misstatement or loss. Each year, on behalf of the Board, the Audit Committee reviews the effectiveness of systems. This is achieved primarily by considering the risks potentially affecting the Group and from discussions with the external auditors.

The Group does not currently have an internal audit function due to the small size of the administration function, which amounts to three people, and the detailed level of Director review and authorisation of transactions.

A comprehensive budgeting process is completed once a year and is reviewed and approved by the Board. The Group's results, as compared against budget are reported to the Board on a monthly basis and are discussed in detail.

The Group maintains appropriate insurance cover in respect of lives of the Executive Directors as well as against material loss or claims against the Group and reviews the adequacy of cover regularly.

### Going Concern

The Board has considered the applicability of the going concern basis in the preparation of these financial statements. This included the review of internal budgets and financial results. The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operation for the foreseeable future. For this reason they have adopted the going concern basis in the preparation of the financial statements.

### Corporate Social Responsibility

Angel Biotechnology Holdings plc is a small dedicated team of professional people who operate to high standards. Included within those standards is a commitment to best practice on meeting the Company's social responsibilities.

### Health and Safety

The Company is proactive in considering the safety of staff, visitors and the public. It operates a safety committee and has regular inspections by an independent specialist adviser. It had no notifiable safety incidents during the period.

### Employees

Angel Biotechnology is committed to a policy of equal opportunities in the recruitment, engagement and treatment of its staff.

The motivation of staff and the maintenance of an environment, where innovation and team working is encouraged, are seen as key objectives by the Board. Regular company meetings are held with staff where issues are discussed in an open manner.

### Environment

The Group disposes of its waste products through regulated channels using reputable agents.

### Compliance Statement

The Board has reviewed compliance with the Combined Code.

The Group has complied substantially with the other Code Provisions set out in Section 1 of the Combined Code on Corporate Governance issued by the UK Listing Authority since the date of admission to AIM.

By order of the Board

Edward Oliver - Finance Director and Company Secretary  
23 May 2006

## Remuneration Committee Report

### Introduction

The Company recognises the value of the Combined Code on Corporate Governance issued by the London Stock Exchange. It seeks to comply with the Combined Code so far as practicable and appropriate for a public company of its size and nature. The Company also seeks to follow the Guidance for Smaller Quoted Companies on the Combined Code issued by the Quoted Companies Alliance in August 2004. Companies trading on AIM are not required to provide a formal remuneration report.

However, in line with current best practice, this report provides information to enable a greater level of understanding as to how remuneration is determined by the Board.

The Remuneration Committee of the Board is responsible for considering staff and Directors' remuneration packages and makes its recommendations to the Board. The Committee comprises the Chairman and two Non-Executive Directors. It meets at least once a year to review salaries and share option schemes for staff and Directors.

### Remuneration Policies

Remuneration packages are designed to be competitive and to reward above average performances. At present Executive Directors receive salary, death in service benefit, critical illness and medical cover and a 14% pension contribution.

The Chief Operating Officer is entitled also to a performance related bonus. The Deputy Chairman and the Chief Operating Officer also hold share options that were issued prior to the Company being listed.

### Service Contracts

The three Executive Directors have executive service agreements with the Company dated 11 November 2005. The service agreements are subject to termination with six months notice being given by either party.

### Pensions

The Group does not have a pension scheme but made contributions to Executive Directors' personal pension schemes of 14% of annual salaries.

### Share Option Scheme

In setting up a share option scheme, the Company took into account the recommendations of shareholder bodies, such as the insurance companies on the number of options to issue, the criteria for vesting and the desirability of granting share options to Executive Directors. As a result, the Company did not initiate any new share options scheme for Executive Directors. It approved the following share incentive arrangements for staff on 20 July 2005, an Inland Revenue approved EMI share option scheme.

Share options of 7,198,000 were granted to staff, including the Deputy Chairman and the Chief Operating Officer on 20 July 2005 at an offer price of 0.5p. Under the scheme the options are exercisable at any time from 20 July 2007 to 20 July 2015. There are no performance conditions attached to these options.

### Non-Executive Directors

The Non-Executive Directors entered into letters of engagement dated 31 August 2005 for the Deputy Chairman and 11 November 2005 for the other two. Members may request copies of these letters by sending a stamped addressed envelope to the Company Secretary. The appointments can be terminated upon three months' notice being given by either party in respect of Sir Peter Brown and Javier Fernandez. In the case of Stuart Duncan his letter of appointment is for a fixed period ceasing on 31 August 2006.

### Directors' Remuneration

Details of Directors' annualised remuneration as at 31 December 2005 is set out below:

	Salary £	Healthcare £	Emoluments £	Pension £	Total £
<b>Executive Directors</b>					
Dr P Harper	50,000	-	50,000	-	50,000
Mr G Sherriff	80,000	933	80,933	9,600	90,583
Mr E Oliver	60,000	-	60,000	7,200	67,200
<b>Non-Executive</b>					
Mr S Duncan	58,900	1,250	60,150	-	60,150
Sir Peter Brown	12,000	-	12,000	-	12,000
Mr J Fernandez	12,000	-	12,000	-	12,000
<b>Total</b>	<b>272,900</b>	<b>2,183</b>	<b>275,083</b>	<b>16,800</b>	<b>291,983</b>

### Remuneration Review

The Remuneration Committee is undertaking a complete review of staff salaries. In doing so it is considering the demands that have been placed on staff, the Company's achievements and the awards being made within the industry in the Newcastle area. The committee have considered that it is not yet appropriate to make changes to the salaries of Directors.

By order of the Board

Edward Oliver - Finance Director and Company Secretary  
23 May 2006

## Independent Auditor's Report to the Members of Angel Biotechnology Holdings plc

We have audited the financial statements of Angel Biotechnology Holdings plc for the year ended 31 December 2005 which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement and the related notes.

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. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions is not disclosed.

We read 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 Operating Officer's Statement, the Directors' Report, the Corporate Governance Report and the Remuneration Committee 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 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 December 2005 and of the Group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

BAKER TILLY  
Registered Auditor  
Chartered Accountants  
1 St James' Gate  
Newcastle upon Tyne  
NE1 4AD

23 May 2006

## Consolidated Profit and Loss Account

For year ended 31 December 2005

	Notes	£	2005 £	£	Proforma 2004 £
<b>Turnover</b>	1		<b>1,118,513</b>		743,475
Cost of sales			<b>(1,027,391)</b>		(859,800)
<b>Gross Profit/(Loss)</b>			<b>91,122</b>		(116,325)
Net operating expenses			<b>(1,027,342)</b>		(753,445)
<b>Operating Loss</b>	2		<b>(936,220)</b>		(869,770)
Interest receivable	3		<b>2,523</b>		3,466
Interest payable	4		<b>(52,403)</b>		(59,818)
			<b>(49,880)</b>		(56,352)
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>			<b>(986,100)</b>		(926,122)
Tax on ordinary activities	6		<b>7,580</b>		91,518
<b>LOSS ON ORDINARY ACTIVITIES AFTER TAXATION</b>			<b>(978,520)</b>		(834,604)
Dividends (inc non equity) written back			-		15,295
<b>LOSS FOR THIS FINANCIAL PERIOD</b>	18		<b>(978,520)</b>		(819,309)
Basic and diluted loss per share	7		<b>(0.004)</b>		(2.318)

The loss on ordinary activities before taxation arises from the Group operations all of which are continuing.

There are no recognised gains or losses other than stated in the profit or loss account.

During the period the Company gained a subsidiary company, Angel Biotechnology Limited. The profit and loss account has been prepared using merger accounting principles and is presented as if the Group had been in existence throughout both the current and prior periods. Further information is given in the notes on accounting policies. As required by the Companies Act 1985 this profit and loss account also covers the first statutory accounting period of Angel Biotechnology Holdings plc from its date of incorporation on 4 March 2005 to 31 December 2005. This includes the results for the merged Group solely from the date of the merger.

**Consolidated Balance Sheet**

31 December 2005

	Notes	£	2005 £	Proforma 2004 £
<b>Fixed Assets</b>				
Intangible Assets	9		-	5,000
Tangible fixed assets	10		<b>3,581,814</b>	3,185,905
			<b>3,581,814</b>	3,190,905
<b>Current Assets</b>				
Debtors	12		<b>499,635</b>	176,084
Cash at bank			<b>1,025,035</b>	88,498
			<b>1,524,670</b>	264,582
<b>Creditors</b>				
Amounts falling due within one year, including convertible debts	13		<b>(689,865)</b>	(1,734,541)
<b>Net Current Assets/(Liabilities)</b>				
			<b>834,805</b>	(1,469,959)
<b>Total Assets Less Current Liabilities</b>				
			<b>4,416,619</b>	1,720,946
<b>Creditors</b>				
Amounts falling due after more than one year	14		<b>(24,164)</b>	(71,056)
<b>Government Grants</b>				
	15		<b>(45,596)</b>	(228,020)
<b>Net Assets</b>				
			<b>4,346,859</b>	1,421,870
<b>Capital and Reserves</b>				
Called up share capital	17		<b>601,827</b>	115,763
Share premium account	18		<b>2,207,035</b>	2,736,685
Merger reserve	18		<b>3,947,095</b>	-
Profit and loss account	18		<b>(2,409,098)</b>	(1,430,578)
<b>Equity Shareholders' Funds</b>				
	23		<b>4,346,859</b>	1,421,870

These financial statements were approved by the Directors on 23 May 2006 and are signed on their behalf by:  
Edward Oliver - Finance Director and Company Secretary

**Balance Sheet**

31 December 2005

	Note	£	2005 £
<b>Fixed Assets</b>			
Investment in subsidiary	11		<b>115,763</b>
<b>Current Assets</b>			
Debtors - amounts due after more than one year	12		<b>2,693,099</b>
Cash at bank			-
<b>Net Current Assets</b>			
			<b>2,693,099</b>
<b>Net Assets</b>			
			<b>2,808,862</b>
<b>Capital and Reserves</b>			
Called up share capital	17		<b>601,827</b>
Share premium account	18		<b>2,207,035</b>
Profit and loss account	18		-
<b>Equity Shareholders' Funds</b>			
	23		<b>2,808,862</b>

These financial statements were approved by the Directors on 23 May 2006 and are signed on their behalf by:  
Edward Oliver - Finance Director and Company Secretary

**Consolidated Cash Flow Statement**

31 December 2005

	Note	2005 £	Proforma 2004 £
Net cash outflow from operating activities	26a	(1,369,130)	(658,551)
Returns on investments and servicing of finance	26b	(12,316)	(56,352)
Taxation	26b	91,518	37,835
Capital expenditure and financial investment	26b	(589,313)	(1,611,675)
<b>Cash Outflow Before Financing</b>		<b>(1,879,241)</b>	<b>(2,288,743)</b>
Financing		2,815,778	2,169,982
<b>Increase/(Decrease) in Cash in the Period</b>		<b>936,537</b>	<b>(118,761)</b>
<b>Reconciliation of Net Cash Flow to Movement in Net Debt</b>			
		2005 £	Proforma 2004 £
Increase/(decrease) in cash in the period		936,537	(118,761)
Net cash outflow/(inflow) from loans		67,045	(1,125,867)
Other non-cash items		983,122	1,082,224
<b>Movement in Net Debt in the Period</b>		<b>1,986,704</b>	<b>(162,404)</b>
<b>Net Debt at 1 January 2005</b>		<b>(1,282,726)</b>	<b>(1,120,322)</b>
<b>Net Debt at 31 December 2005</b>		<b>703,978</b>	<b>(1,282,726)</b>

**Accounting Policies**

For year ended 31 December 2005

**Basis of Accounting**

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards.

**Basis of Preparation****1 Acquisition**

Angel Biotechnology Holdings plc was incorporated on 4 March 2005. On 20 July 2005, the Company acquired the entire share capital of Angel Biotechnology Limited. In consideration the Angel Biotechnology Limited shareholders received Ordinary Shares in Angel Biotechnology Holdings plc. In accordance with the requirements of Financial Reporting Standard 6, this acquisition has been dealt with using merger accounting principles. As a consequence, although the combination did not take place until 20 July 2005, the financial information is presented as though the merged business had always been a single group.

**2 Basis of 2004 Comparative Information**

Throughout this document the comparative figures of 2004 relate solely to the Company's subsidiary, Angel Biotechnology Limited. The 2004 comparative figures for the consolidated profit and loss account have been presented as if the merger took place on the first day of each financial period presented and as though the Group, as presently constituted, had been in existence throughout those periods. The figures for the year to 31 December 2004 have been extracted from the audited financial statements of Angel Biotechnology Limited. The comparative figures for the balance sheet and cash flow have been on the same basis.

**3 Going Concern**

The Directors regularly review the forecasts of trading and cash flows and compare these with available funding, consider that the Group has sufficient resources to continue for the foreseeable future and that they continue to adopt the going concern basis in the preparation of the financial statements.

**4 Research and Development**

Research and development expenditure is written off in the period that it is incurred.

**5 Fixed Assets**

All fixed assets are initially recorded at cost.

**6 Depreciation**

Depreciation is calculated to write off the cost of an asset over its useful economic life as follows:

Leasehold improvements	-	the remaining life of the lease
Plant and machinery	-	ten years, straight-line basis
Fixtures and computers	-	ten years, straight-line basis

**7 Amortisation of intangibles**

Amortisation is calculated so as to write off the cost of an asset over the useful economic life of that asset as follows:

Licence fee	-	three years, straight-line basis
-------------	---	----------------------------------

**8 Operating Lease Agreements**

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight-line basis over the period of the lease.

**9 Pension Contributions**

The Group operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the Company. The annual contributions payable are charged to the profit and loss account. Differences between contributions payable in the year and contributions actually paid are shown either as accruals or prepayments in the balance sheet.

**10 Revenue Recognition**

The revenue shown on the profit and loss account relates to the manufacture and supply of biologics. The revenue recognised represents the proportion of total contract value which costs incurred to date bear to total expected contract costs.

## Accounting Policies

For year ended 31 December 2005

### Basis of Preparation (Continued)

#### 11 Long-Term Contracts

The attributable profit on long-term contracts is recognised once their outcome can be assessed with reasonable certainty. The profit recognised reflects the proportion of work completed to date on the project.

Costs associated with long-term contracts are included in stock to the extent that they cannot be matched with contract work accounted for as turnover. Long-term contract balances included in stocks are stated at cost, after provision has been made for any foreseeable losses and the deduction of applicable payments on account.

Full provision is made for losses on all contracts in the year in which the loss is first foreseen.

#### 12 Deferred Taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more tax, or a right to pay less tax in the future.

Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing difference can be deducted.

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 non-discounted basis.

#### 13 Foreign Currency

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

#### 14 Deferred Government Grants

Deferred government grants in respect of capital expenditure are treated as deferred income and are credited to the profit and loss account over the life of the assets to which they relate.

## Notes to the Financial Statements

For year ended 31 December 2005

### 1 Turnover and Segmental Reporting

	2005 %	Proforma 2004 %
The Group's turnover was derived in the UK from its principal activity. An analysis of turnover by geographical destination is given below:		
United Kingdom	17	11
Rest of Europe	50	55
USA and Canada	33	34
	<b>100</b>	<b>100</b>

### 2 Operating Loss

	2005 £	Proforma 2004 £
Operating loss is stated after charging:		
Amortisation of intangibles	5,000	5,000
Depreciation of owned fixed assets	193,404	182,721
Auditors remuneration:		
Audit	15,000	6,750
Tax	2,000	1,000
Rentals under operating leases:		
Land and buildings	139,700	42,500
Others	9,319	12,773
Research and Development	150,961	700,423
and crediting:		
Amortisation of government grants	182,424	182,424
Other operating income	138,658	-
Profit on disposal of fixed assets	-	1
Net profit in currency translation	3,085	843

### 3 Interest Receivable

	2005 £	Proforma 2004 £
Bank interest receivable	2,519	3,466
Other interest	4	-
	<b>2,523</b>	<b>3,466</b>

## Notes to the Financial Statements (Continued)

For year ended 31 December 2005

4 Interest Payable	2005 £	Proforma 2004 £
Bank interest payable	14,839	17,618
Other similar charges	37,564	42,200
	<u>52,403</u>	<u>59,818</u>
Other similar charges in the current year represents amounts payable to investors following amounts received in advance of the issue of shares.		
5 Employees	2005 £	Proforma 2004 £
Staff costs during the period (including Directors)		
Wages and salaries	1,026,085	804,592
Social security costs	107,846	86,290
Pension costs	71,831	63,902
	<u>1,205,762</u>	<u>954,784</u>
Average number of employees		
Administration and finance	9	6
Research and development and production	29	26
	<u>38</u>	<u>32</u>
	£	£
Directors emoluments		
Directors emoluments	211,697	197,442
Pension contributions to money purchase schemes	9,520	19,139
	<u>221,217</u>	<u>216,581</u>
	£	£
Highest paid Director		
Emoluments	78,903	69,544
Pension contributions to money purchase scheme	3,200	7,068
	<u>82,103</u>	<u>76,612</u>
Number of Directors receiving pension benefits		
Directors with money purchase schemes	4	3

## Notes to the Financial Statements (Continued)

For year ended 31 December 2005

6 Taxation	2005 £	Proforma 2004 £
<b>(a) Analysis of charge in the year</b>		
Current tax:		
Research and development tax credit	7,580	91,518
<b>(b) Factors affecting current tax charge</b>		
The tax assessed for the period is lower than the standard rate of corporation tax in the UK. The timing differences are explained below:		
Loss on ordinary activities before taxation	(986,100)	(926,122)
Loss on ordinary activities multiplied by the standard rate of corporation tax 19% (2004 – 19%)	(187,359)	(175,963)
Expenses not deductible for tax purposes	19,335	702
Capital allowances in excess of depreciation	(108,821)	(301,870)
Additional relief for R & D expenditure	(8,671)	(51,383)
Surrender of tax losses for R & D tax credit refund	1,421	17,160
Unrelieved tax losses and other deductions arising in the period	276,515	421,988
Income not taxable for tax purposes	-	(1,762)
Other short term timing differences	-	(390)
Total current tax (note 6(a))	<u>(7,580)</u>	<u>(91,518)</u>
Tax losses of approximately £5,400,000 (2004: £4,000,000) remain available to carry forward against future taxable trading profits.		
7 Loss Per Share	2005 £	Proforma 2004 £
The calculations of loss per share are based on the following losses and numbers of shares.		
Loss on ordinary activities after tax	(978,520)	(819,100)
	No	No
Weighted average no of shares:		
For basic and diluted loss per share	227,766,398	353,525
Basic and diluted loss per share	<u>£0.004</u>	<u>£2.318</u>
Basic and diluted loss per share are the same as there is no dilution.		

**Notes to the Financial Statements (Continued)**

For year ended 31 December 2005

**8 Parent Company Profit for the Period**

The Parent Company has taken advantage of Section 230 of the Companies Act 1985 and has not included its own profit and loss account in these financial statements. The Company's profit for the period was £nil.

**9 Intangible Fixed Assets**

	Licence fee £
<b>Group</b>	
<b>Cost</b>	
At 1 January 2005 and 31 December 2005	15,000
<b>Amortisation</b>	
At 1 January 2005	10,000
Charge in the period	5,000
At 31 December 2005	15,000
<b>Net book value</b>	
31 December 2005	-
31 December 2004	5,000

**10 Tangible Fixed Assets**

	Leasehold improvements £	Laboratory equipment £	Fixtures and computers £	Total £
<b>Group</b>				
<b>Cost</b>				
At 1 January 2005	1,893,138	1,626,384	50,826	3,570,348
Additions	388,624	188,881	11,808	589,313
At 31 December 2005	2,281,762	1,815,265	62,634	4,159,661
<b>Depreciation</b>				
At 1 January 2005	78,014	294,487	11,942	384,443
Charge in the period	35,843	150,768	6,793	193,404
At 31 December 2005	113,857	445,255	18,735	577,847
<b>Net book value</b>				
31 December 2005	2,167,905	1,370,010	43,899	3,581,814
31 December 2004	1,815,124	1,331,897	38,884	3,185,905

**Notes to the Financial Statements (Continued)**

For year ended 31 December 2005

**11 Fixed Asset Investments**

	Subsidiary undertakings £
<b>Company</b>	
Cost	
Additions	115,763
At 31 December 2005	115,763
Net book value at 31 December 2005	115,763

On 20 July 2005, the Company acquired 100% of the issued Ordinary Share capital of Angel Biotechnology Limited and in consideration the shareholders in Angel Biotechnology Limited received Ordinary Shares in Angel Biotechnology Holdings plc. The acquisition has been accounted for under the rules of merger accounting as a Group reorganisation. The principal activity of Angel Biotechnology Limited, a company incorporated in the UK, was the manufacture and supply of biologics.

**12 Debtors**

	2005 Group £	2005 Company £	Proforma 2004 Group £
Trade debtors	331,682	-	11,684
Amounts owed by subsidiary undertakings	-	2,693,099	-
Corporate tax research and development tax credit	7,580	-	91,518
Other debtors	108,711	-	29,633
Prepayments and accrued income	51,662	-	43,249
	499,635	2,693,099	176,084

The Directors have confirmed that they will not seek repayment of the inter-company balance owing from Angel Biotechnology Limited within the next 12 months and therefore this balance is considered to be repayable in more than a year from the balance sheet date.

**Notes to the Financial Statements (Continued)**

For year ended 31 December 2005

**13 Creditors: Amounts Falling Due Within One Year**

	2005 Group £	2005 Company £	Proforma 2004 Group £
Bank loan and overdraft	296,890	-	317,043
Trade creditors	214,612	-	211,580
Other taxation and social security	109,346	-	82,449
Other creditors	3	-	983,674
Accruals and deferred income	69,014	-	139,795
	<u>689,865</u>	<u>-</u>	<u>1,734,541</u>

The following liabilities disclosed under creditors falling due within one year are secured by the Company:

	2005 £	Proforma 2004 £
Bank overdraft	<u>250,000</u>	273,034
Bank loans	<u>46,890</u>	44,009
	<u>296,890</u>	<u>317,043</u>

Bank overdrafts are secured on an unlimited debenture dated 10 October 2002.

Bank loans are secured on certain assets of the Company. The loans are repayable in monthly instalments with interest being charged at a normal commercial rate.

**14 Creditors: Amounts Falling Due After More Than One Year**

	2005 Group £	2005 Company £	Proforma 2004 Group £
Bank loans	<u>24,164</u>	-	71,056

The amount included above is repayable by monthly instalments within the next two years.

**15 Government Grants**

	2005 £	Proforma 2004 £
<b>Group</b>		
<b>Received and receivable</b>		
At 1 January 2005 and 31 December 2005	<u>565,000</u>	565,000
<b>Amortisation</b>		
At 1 January 2005	<u>336,980</u>	154,556
Credit to profit and loss account	<u>182,424</u>	182,424
At 31 December 2005	<u>519,404</u>	336,980
Net balance at 31 December 2005	<u>45,596</u>	228,020

**Notes to the Financial Statements (Continued)**

For year ended 31 December 2005

**16 Borrowings**

	2005 Group £	2005 Company £	Proforma 2004 Group £
<b>Amount repayable</b>			
One year or less	<u>296,890</u>	-	317,041
More than one year but under two	<u>24,164</u>	-	46,893
More than two years but under five	<u>-</u>	<u>-</u>	24,163
	<u>321,054</u>	<u>-</u>	<u>388,097</u>

**17 Called Up Share Capital**

	Authorised Number of shares	Allotted, called up and fully paid Number of shares	£
Ordinary Shares of 0.1p each	<u>5,000,000,000</u>	<u>601,827,439</u>	<u>601,827</u>

The Company was incorporated on 4 March 2005, with an authorised share capital of £5,000,000 Ordinary Shares of 1p each of which two were issued.

On 30 June 2005 each of the authorised and issued shares of the Company were sub-divided into 10 Ordinary Shares of 0.1p each.

On 20 July 2005 the Company allotted and issued 115,762,900 Ordinary Shares (including the subscriber shares) to the vendors of all the shares in Angel Biotechnology Limited, at par. It also conditionally allotted in the same day and on 2 August issued 20,000,000 Ordinary Shares at 0.5p per share.

On 4 October 2005 320,806,900 Ordinary Shares of 0.1p were issued at 0.5p.

On 17 November 2005, 136,363,637 Ordinary Shares of 0.1p were issued at 1.1p per share on the AIM float and a further 8,894,002 Ordinary Shares were issued at 1.1p per share.

As part of the AIM float, HB-Corporate holds share options until 2008 on 18,054,823 at an option price of 1.1p per share.

**18 Reserves**

	Merger reserve accounts £	Share premium account £	Profit and loss account £
<b>Group</b>			
Balance brought forward	-	-	(1,430,578)
Loss for the year	-	-	(978,520)
Merger reserve adjustment	3,947,095	-	-
New equity share capital subscribed	-	2,815,804	-
Share issue costs	-	(608,769)	-
<b>Balance carried forward</b>	<u>3,947,095</u>	<u>2,207,035</u>	<u>(2,409,098)</u>
<b>Company</b>			
Loss for the year	-	-	-
New equity share capital subscribed	-	2,815,804	-
Share issue costs	-	(608,769)	-
<b>Balance carried forward</b>	<u>-</u>	<u>2,207,035</u>	<u>-</u>

**Notes to the Financial Statements (Continued)**

For year ended 31 December 2005

**19 Pension Contributions**

The Group makes contributions to its employees' own personal pension schemes. The contributions for the period were £71,831 (2004: £63,902). At the balance sheet date contributions of £Nil (2004: £Nil) were owed and included in creditors.

**20 Deferred Taxation**

	2005 £	Proforma 2004 £
Excess of depreciation on fixed assets over taxation allowances claimed	656,382	547,560
Tax losses	(656,382)	(547,560)
	-	-

**21 Operating Lease Commitments**

	2005 £	Proforma 2004 £
At 31 December 2005 the Group was committed to make the following payments during the next year in respect of non-cancellable operating leases:		
Land and buildings		
After more than five years	60,000	60,000
Fixtures, fittings and computers		
Within one year	-	2,134
Within two to five years	6,810	4,566
Motor vehicles	4,680	-
	71,490	66,700

**22 Capital Commitments**

At 31 December 2005 the Group had capital commitments of £nil (2004: £300,000).

**Notes to the Financial Statements (Continued)**

For year ended 31 December 2005

**23 Reconciliation of Movement in Shareholders Funds**

	2005 £	Proforma 2004 £
<b>Group</b>		
Loss for the period	(978,520)	(819,309)
New equity share capital	486,064	90,846
Premium on new share capital	3,417,445	2,240,013
Non-equity share capital	-	(204,520)
Other reserves	-	(15,295)
Net addition to shareholders equity	2,924,989	1,291,735
Opening shareholders equity fund	1,421,870	130,135
Closing shareholders equity fund	4,346,859	1,421,870

	2005 £
<b>Company</b>	
Profit for the period	-
New equity share capital	601,827
Premium on new share capital	2,207,035
Closing shareholders equity fund	2,808,862

**24 Related Party Transactions****Biomedicon**

During the year the Company paid £17,500 relating to Director fees to the above organisation, a related party by virtue of the Director P B Harper being the proprietor of this business.

**Suan Farma SA**

During the year the Company paid £2,000 Non-Executive Director fees for F J Fernandez to the above company. This company is a related party by virtue of being a major shareholder in the Company.

**25 Directors Transactions**

	Amount outstanding		Maximum liability during year £
	2005 £	2004 £	
Included in other debtors are amounts due from Directors as follows:			
S Duncan	-	3,000	3,000
G T Sherriff	4,167	-	4,167

S Duncan, a Director of the Company, gave personal guarantees to the Group's bankers totalling £250,000.

**Notes to the Financial Statements (Continued)**

For year ended 31 December 2005

<b>26 Cash Flows</b>	<b>2005</b>	Proforma		
	£	2004		
		£		
<b>(a) Reconciliation of operating profit to net cash inflow from operating activities</b>				
Operating loss	<b>(936,220)</b>	(869,770)		
Amortisation of intangible fixed assets	<b>5,000</b>	5,000		
Depreciation of tangible fixed assets	<b>193,404</b>	182,721		
Profit on disposal of fixed assets	-	(1)		
Amortisation of government grants	<b>(182,424)</b>	(182,424)		
Increase in debtors	<b>(407,489)</b>	210,259		
Decrease in creditors	<b>(41,401)</b>	(4,336)		
Net cash outflow from operating activities	<b>(1,369,130)</b>	(658,551)		
<b>(b) Analysis of cash flows for headings netted in the cash flow</b>				
<b>Returns on investment and servicing of finance</b>				
Interest received	<b>2,523</b>	3,466		
Interest paid	<b>(14,839)</b>	(59,818)		
<b>Net cash outflow from returns on investments and servicing of finance</b>	<b>(12,316)</b>	(56,352)		
<b>Taxation</b>				
	<b>91,518</b>	37,835		
<b>Capital expenditure and financial investment</b>				
Payments to acquire tangible fixed assets	<b>(589,313)</b>	(1,614,675)		
Receipts from sale of fixed assets	-	3,000		
<b>Net cash outflow for capital expenditure and financial investment</b>	<b>(589,313)</b>	(1,611,675)		
<b>Financing</b>				
Issue of shares	<b>2,882,823</b>	1,044,115		
(Repayment)/receipt of bank loans	<b>(67,045)</b>	1,125,867		
<b>Net cash inflow from financing</b>	<b>2,815,778</b>	2,169,982		
<b>(c) Analysis of net debt</b>				
	At	Cash	Other	At
	1 Jan 2005	flows	changes	31 Dec 2005
	£	£	£	£
Cash in hand and at bank	88,498	936,537	-	<b>1,025,035</b>
Debt due within 1 year	(1,300,168)	20,153	983,122	<b>(296,893)</b>
Debt due after 1 year	(71,056)	46,892	-	<b>(24,164)</b>
	(1,371,224)	67,045	983,122	<b>(321,057)</b>
<b>Total</b>	<b>(1,282,726)</b>	<b>1,003,582</b>	<b>983,122</b>	<b>703,978</b>

**Notes to the Financial Statements (Continued)**

For year ended 31 December 2005

**27 Share Options**

The Company operates a share option scheme under the Enterprise Management Initiative Scheme (EMI). The following share options have been granted in the year to the Directors of the Company under the EMI scheme:

	Granted	Exercised	At 31 Dec 2005	Exercise Price	Date from which exercisable	Expiry date
S Duncan	270,000	-	270,000	0.5p	20.07.07	20.07.15
G T Sherriff	550,000	-	550,000	0.5p	20.07.07	20.07.15
	<u>820,000</u>	<u>-</u>	<u>820,000</u>			

A further 6,378,000 options were granted to employees exercisable from 20 July 2007 for an exercise price of 0.5p. The total EMI options outstanding as at the year end were 7,198,000.

There are no performance conditions attached to these options.

**28 Financial Instruments**

The Group's financial instruments comprise of bank borrowings and facilities, cash and short term deposits. The Group has various other financial instruments, such as trade debtors and creditors that arise directly from its operations, which have been excluded from the disclosures other than the currency disclosures.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. The policies for managing these are regularly reviewed and agreed by the Board.

It is and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

**Interest Rate Risk**

The Group finances its operations by a mixture of retained profit and bank borrowings. The Group has borrowed at floating rates of interest. The Group's policy on interest rate management is agreed at Board level and is reviewed on an ongoing basis.

Other creditors, accruals and deferred income value does not bear interest.

**Interest Rate Profile**

The Group has non financial assets, excluding short term debtors other than sterling cash deposits of £1,025,035 (2004: £88,498) which are part of the financing arrangements of the Group.

The interest rate profile of the Group's financial liabilities at 31 December 2005 were £250,000 (2004: £250,000) sterling borrowings at a floating rate. The interest rate on the floating financial liabilities is linked to the bank base rate for sterling borrowings.

**Liquidity Risk**

As regards liquidity the Group's policy throughout the year has been to ensure continuity of funding by means of generating funds supported by the Group's bankers and raising capital. The Group expect to be cash positive in its operating activities in the near future and is then expected to be for the foreseeable future.

**Fair Values**

Fair values of financial instruments equate to the best value as disclosed in the financial information. There are no material differences between the fair value of financial instruments and the amount at which they are stated in the financial statements.

**Notice of Annual General Meeting**

Notice is hereby given that the Annual General Meeting (AGM) of Angel Biotechnology Holdings plc (the Company) will be held on 19 June 2006, at 10am at 44 Colbourne Crescent, Cramlington, Northumberland, NE23 1WB for the following purposes:

**Ordinary Business**

To consider and, if thought fit, pass the following ordinary resolutions:

- 1 To receive and adopt the Directors' report and financial statements for the period ended 31 December 2005.
- 2 To receive and adopt the Remuneration Committee report for the period ended 31 December 2005.
- 3 To re-elect the following Directors who retire by rotation under sections 76 and 77 of the Articles of Association and, who being eligible, offer themselves for re-election:
  - a Dr P B Harper
  - b Mr S Duncan
  - c Mr E M Oliver FCA
  - d Mr G T Sherriff
  - e Mr F J Fernandez
  - f Sir Peter Brown
- 4 To confirm the appointment of Baker Tilly as auditors of the Company to hold office until the conclusion of the next AGM at which accounts are laid before the Company and to authorise the Directors to fix their remuneration.

By order of the Board  
Edward Oliver - Company Secretary  
23 May 2006

**Notes**

- 1 Any member entitled to attend and vote at the AGM is entitled to appoint one or more proxies (who need not be a member of the Company) to attend and, on a poll, vote instead of the member. Completion and return of a form of proxy will not preclude a member from attending and voting at the meeting in person, should he subsequently decide to do so.
- 2 In order to be valid, any form of proxy, power of attorney or other authority under which it is signed, or a notarially certified or office copy of such power or authority, must reach the Company's Registrars, Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, not less than 48 hours before the time of the meeting or of any adjournment of the meeting.
- 3 As permitted by Regulation 41 of the Uncertificated Securities Regulations 2001, shareholders who hold shares in uncertificated form must be entered on the Company's share register at 10am on 16 June 2006 in order to be entitled to attend and vote at the AGM. Such shareholders may only cast votes in respect of shares held at such time. Changes to entries on the relevant register after that time shall be disregarded in determining the rights of any person to attend or vote at the meeting.
- 4 Copies of the service contracts of each of the Directors, and the register of Directors' interests in shares of the Company kept pursuant to section 325 of the Act will be available for inspection at the registered office of the Company during usual business hours on any weekday (Saturday and public holidays excluded) from the date of this notice until the date of the AGM and at the place of the AGM from at least 15 minutes prior to and until the conclusion of the AGM.

**Form of Proxy**

I/We (BLOCK CAPITALS) \_\_\_\_\_

Being a member/members of Angel Biotechnology Holdings plc hereby appoint the Chairman of the meeting or

(see note 1) \_\_\_\_\_

as my/our proxy to attend and on a poll to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on 19 June 2006 at 10am and at any adjournment thereof. I/We direct, by inserting a cross or other mark in the appropriate box below, how my/our votes are to be cast on each of the resolutions to be proposed at the meeting as indicated below. If no indication is given, the proxy will exercise his/her discretion as to how he/she votes and as to whether or not he/she abstains from voting. All items are ordinary resolutions. Please complete, sign and date this form where indicated below (see notes below).

Ordinary Resolution	For	Against
1 To receive and adopt the Directors' report and financial statements for the period ended 31 December 2005.		
2 To receive and adopt the Remuneration Committee report for the period ended 31 December 2005.		
3 To re-elect the following Directors who retire by rotation under sections 76 and 77 of the Articles of Association and, who being eligible, offer themselves for re-election: <ol style="list-style-type: none"> <li>a Dr P B Harper</li> <li>b Mr S Duncan</li> <li>c Mr E M Oliver FCA</li> <li>d Mr G T Sherriff</li> <li>e Mr F J Fernandez</li> <li>f Sir Peter Brown</li> </ol>		
4 To confirm the appointment of Baker Tilly as auditors of the Company to hold office until the conclusion of the next AGM at which accounts are laid before the Company and to authorise the Directors to fix their remuneration.		

Signature(s) \_\_\_\_\_ dated \_\_\_\_\_

this \_\_\_\_\_ day \_\_\_\_\_ 2006

**Notes**

- 1 You are entitled to appoint a proxy of your own who need not be a shareholder of the Company. If you wish to appoint a proxy other than the Chairman of the meeting, please delete the words "the chairman of the meeting or" and initial the alteration and PRINT the name and address of the proxy, in the space provided.
- 2 Any alteration to the form of proxy should be initialled.
- 3 The form of proxy should be signed by the appointer or his attorney duly authorised in writing or, if the appointer is a company, either under the seal or under hand of a duly authorised officer or attorney of the company.
- 4 In the case of joint holders the signature of any one holder is sufficient. If more than one joint holder of any share is present at the meeting personally or by proxy, that one present whose name stands first on the register of members in respect of that share is alone entitled to vote in respect of that share.
- 5 To be valid this form of proxy and any power of attorney or other authority under which it is signed or a notarially certified copy of such power of authority must be logged at the offices of the Company's Registrars, Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, not later than 48 hours before the time of the meeting.
- 6 CREST users should note that they can lodge their proxy votes for the Meeting through the CREST Proxy Voting System. For further instructions, users should refer to the CREST User Manual. Any CREST Sponsored Member should contact their CREST Sponsor.



FOLD 2



**Capita Registrars  
Proxy Department  
PO Box 25  
BECKENHAM  
BR3 4BR**

FOLD 3 AND TUCK IN

FOLD 1

