

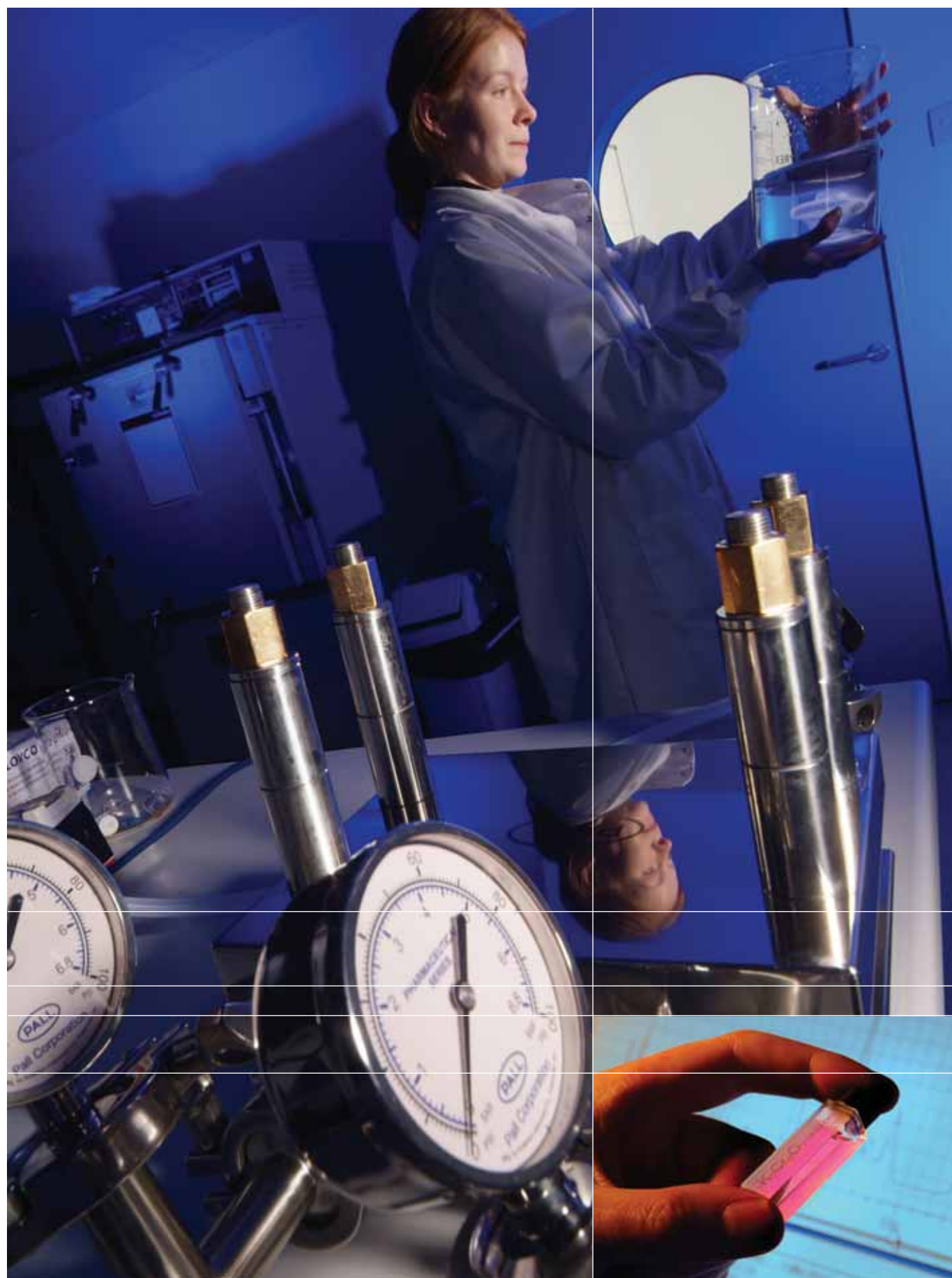


Excellence, Experience, Delivery

Customised Biopharmaceutical Solutions

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Annual Report
& Accounts 2006



Angel Biotechnology Holdings plc
REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2006

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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 was received in August 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.





Officers and Professional Advisers

Secretary

Dr P B Harper

Registered Office

44 Colbourne Crescent
Nelson Park
Cramlington
Northumberland
NE23 1WB

Auditors

Baker Tilly UK Audit LLP
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 61, 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

Non-Executive Director

Stuart Duncan, aged 59, Non-Executive Director, 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 65, 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 resigned from the Board on his retirement in April 2007.



G T Sherriff

Chief Operating Officer and Business Development Director

Gordon Sherriff, aged 47, 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.

Sir Peter Brown

Non-Executive Director

Sir Peter Brown, aged 61, 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
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Fenay Bridge
Huddersfield
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Brokers and Financial Advisers

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Three Bridges
Crawley
West Sussex
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Nominated Advisers

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Corporate Finance
Grant Thornton House
Melton Street
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Solicitors

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Westminster
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Robert Muckle
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Newcastle upon Tyne
NE1 8AS



Chairman's Statement

Results for the Twelve Months Ended 31 December 2006

ANGEL BIOTECHNOLOGY HOLDINGS 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. The Company has this year shown that it has the ability to deliver the technically challenging products customers require, on time, within budget and as profitable business for the Company.

Angel has created the facility required to deliver its vision of providing clients with customised services to support their development requirements. These range from the optimisation of process through supply of material for pre-clinical and clinical research to production of launch quantities, all under one roof. We believe that this remains a unique offering at this scale within the CMO industry.

While Angel has increased sales in 2006 by 67% compared to 2005, it has not been able to secure orders as quickly as anticipated, particularly for the Cramlington facility which was completed during the year. The cost burden associated with that facility has become too large for the Company to support and together with the delay in securing orders has led to a decision to close the Cramlington facility and concentrate production in our Pentlands cGMP facility where there is a pipeline of business. This is discussed further below.

Business Development

Business development activities through 2006 have been dominated by two major activities. The first was the completion, commissioning and GMP licensing of the Cramlington microbial production facility, although as stated above the Company has since taken the decision to concentrate production in its Pentlands facility. The second was the clear position that the Company was establishing for work with tissue cells, in particular stem cells, which rapidly occupied the Pentlands facility seeing that run at close to capacity for much of the year.

The Business Development team was increased by the recruitment of two experienced executives to develop new business and the appointment of a representative in the US to improve our penetration of that market.

Hand over of the Cramlington microbial facility was delayed by several months on the post IPO revised timetable and the Company was obliged to seize the initiative and take responsibility for completion of the work to ensure that the requisite standards could be met and in a timely way. This resulted in use of our cash reserves and internal resources to accelerate the completion process. The facility was inspected in July 2006 and the licence granted in August. The speed with which the licence was granted after the inspection, given that this was the first inspection of a new facility period, reflects well on the in-house team responsible for completing the work.

It was necessary to wait for the licensing process to be successfully completed before the facility could be marketed since it is important for potential clients, with GMP production requirements, to verify and audit the facility before any contract discussions can take place. In addition, in order to maintain a GMP facility in fully operational condition it is necessary to run the services and equipment and to carry out all the monitoring and control activities. This is a cost of operating such a facility, irrespective of how much of the capacity is in use. The overall effect of the delay in being able to market the facility and the cost of completing it and operating it resulted in revenues that whilst double those for 2005 were below forecast whilst our cost base increased to operate and man the facility.

The three year contract with US company Therapeutic Proteins Inc. (TPI) for the development and manufacture of three generic recombinant protein biologics, worth an estimated £7.9 million, progressed more slowly than expected. This was a combination of technical difficulties that took time and additional investment to resolve and a change of focus in TPI's strategy to generate early sales in selected markets. Under the terms of the contract, Angel accrued almost £500,000 and this sum still remains outstanding.

The work to scale-up and validate the manufacturing processes for Phico Therapeutics novel anti-infective product, designed to eliminate nasal carriage of *Staphylococcus aureus*, including MRSA, has progressed well. This programme of works may lead to the GMP manufacture of Phico's first product.

The Pentlands facility has established an enviable reputation for expertise in growing mammalian cells in culture. This is especially so in the field of stem cells which is particularly demanding. This has resulted in a steady flow of both new and repeat business.

Angel signed a significant GMP contract with a USA based company that has continued throughout 2006 and is still on-going. Angel is manufacturing and supplying GMP materials for use in an autologous cell therapy in UK-based Phase I clinical trial. 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. We expect this to develop into a long term relationship.

Angel has established an effective relationship with ReNeuron, working with stem cell lines from their advanced technology platform. This has involved work to improve the manufacturing process and cell banking activities for two of their leading neural programmes.

A major contract was signed in November with the Danish biotechnology company Cell Cure who are working on a cell based treatment for a number of forms of cancer.

Activities Funded by Grant Awards

Angel became the manufacturing partner in a consortium awarded a grant (£2.1m) from the UK Department of Trade and Industry (DTI) for stem cell development therapy, in 2005. Angel's key role within this was to establish the capability to manufacture stem cell banks to GMP standards for clinical trials and for their application as therapeutic products. The programme is led by ReNeuron Ltd, the other consortium members include RegenTec Ltd, The Institute of Psychiatry and King's College London. The therapeutic focus is to address neurodegenerative diseases such as stroke, Huntington's disease and Parkinson's disease. The programme at Angel has made good progress and we believe that we may, for the first time, be seeing the potential for a break-through in larger scale manufacture of these demanding cells.

Angel was also awarded a DTI R&D grant 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.

The Osteocord 7 programme is a European project involving a number of companies and academic groups working on chord blood as source of stem cells for use in organ regeneration.

Financials

Revenues increased by 67% over 2005 although this was below forecast due to much delayed completion and licensing of the Cramlington GMP facility and failure to secure contracts for it. The substantial forecast spend by Therapeutic Proteins Inc (TPI) was reduced over their forecast level, resulting in a reduction in the planned development spend. A further substantial development programme for an EU client was put on hold by the client due to IP related issues and not for technical or financial reasons. The client was satisfied with Angel's performance and it is hoped that the project will re-commence. Cost of sales doubled in the same period reflecting the cost of completing the validation and minor works on the Cramlington facility. The decision to transfer all manufacturing to Pentlands will reduce the cost base by an estimated 75% without any impact on our current and projected revenue generation. We expect the Company to move rapidly towards profitability as a consequence of these changes.

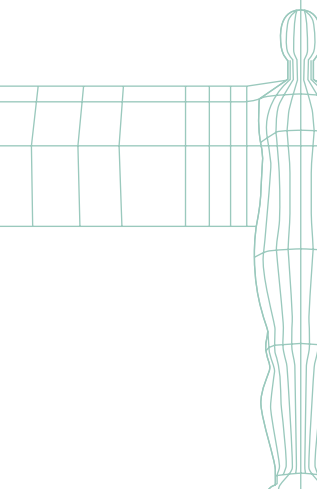
Group Restructuring

It has become clear that the Company has been able to attract profitable business based upon culture of mammalian cells and the Pentlands facility has run close to capacity for much of the year. The issues with the TPI contract demonstrates the difficulty in securing profitable work involving fermentation of bacterial and yeasts. It is now clear that the Company's future lies in developing the Pentlands facility and focusing on the profitable mammalian cell work for which we have built an experienced team and a considerable reputation. We propose to sell the Cramlington facility and to use the proceeds to develop our Pentlands operation. We are already in discussions to acquire more capacity and this will be introduced as the business builds.

Outlook

The Pentlands facility is operating close to capacity with a steady flow of mammalian cell based programmes, many of which are part of long term development programmes supporting clinical trials and beyond. Our task is to enhance the Pentlands facility to allow the Company to build a pipeline of business for that facility. This is expected to move the Company into profitability later this year.

Dr Paul Harper - Chairman, Angel Biotechnology.
28 June 2007



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 clients' 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 e.g. 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 successfully moved a number of contracts into GMP where we have provided the client with a customised solution which meets their needs and accelerates their route to clinic. This part of the business grew in 2006 and we continue to see sustained growth into 2007.

Market

2006 saw the market for our services continuing to expand and diversify. Angel's business strategy allows us to embrace these changes as opportunities to be converted to growth. We continue to 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 2006 which has led to significant US derived contracts, particularly with cell therapy.

Angel's revenues grew 67% over 2005. This fell below our target revenues for the year and was due mainly to the GMP microbial facility being delayed until Q3. This had the effect of delaying planned revenues from current contracts and also securing new business for that facility.

Customers

2006 saw Angel establish repeat business from clients and the reputation for excellence and delivery we strive to achieve. We now have established long term relationships with key clients and actively seek to grow the revenues generated from such relationships. This is an endorsement of the Company's vision to provide clients with a clear path through their development and clinical trials and our ability, through high quality technical expertise and project management, to deliver that strategy.

Operating Costs

2006 saw the rapid growth of the Company in terms of our manufacturing capacity and resource to manage the new GMP facility. Our cost base grew substantially in advance of revenues, a consequence of operating to GMP and the need to recruit and train staff in advance of validation of the facility prior to licensing. This is a temporary situation for Angel as significant revenue can now be generated from the cost base established.

Regulatory Environment

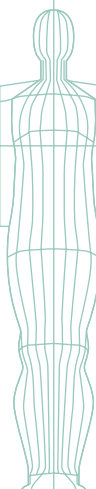
Angel's primary source of income is from services leading to the supply of drugs for clinical evaluation. The EU Clinical Trials Directive enacted in July 2004, requires products for all clinical evaluation to be manufactured under a code of Good Manufacturing Practice. These standards must be met regardless of the subsequent regulatory destination of the products manufactured. Compliance with these standards accounts 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). The new GMP facility in Cramlington was similarly approved in August 2006.

Objectives for the Coming Year

In 2007, we look forward to successfully building on the foundations of our Contract Manufacturing Operations, our primary objective for the year being to grow our contract pipeline. To generate revenues, we will continue to advance our worldwide business development pipeline, particularly in North America. We will also 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 effectively control costs.

Gordon Sherriff - Chief Operating Officer
28 June 2007



Directors' Report

The Directors submit their report and the audited financial statements of Angel Biotechnology Holdings plc for the year ended 31 December 2006.

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

On 23 October 2006 the company allotted and issued 237,959,714 ordinary shares of 0.1p each at 0.35p, a premium of 0.25p.

Review of the Business

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.

The board of Angel Biotechnology Holdings plc routinely monitor a number of key performance indicators to assess the effectiveness of the business and to determine future strategy and planning:

- Capacity utilisation
- Gross margin
- Client audits and feedback
- Conversion rate of pipeline prospects to contracts

Risks and Uncertainties

The Group's financial instruments comprise 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.

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 values do not bear interest.

Interest Rate Profile

The Group has non financial assets, excluding short term debtors other than sterling cash deposits of £248,037 (2005: £1,025,035) which are part of the financing arrangements of the Group.

The interest rate profile of the Group's financial liabilities at 31 December 2006 were £230,580 (2005: £296,890) 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 expects 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.

Statement of Directors' Responsibilities

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

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985. They are responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

They are responsible for ensuring that the Annual Report includes information required by the AIM Rules of the Financial Services Authority.

Directors

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

		31 December 2006 No. Ordinary Shares	1 January 2006 No. Ordinary Shares	Holding % 2006	Holding % 2005
Dr P B Harper	Executive Chairman	20,504,957	13,362,100	2.4	2.2
E M Oliver FCA	Finance Director	Nil	Nil	Nil	Nil
G T Sherriff	Chief Operating Officer and Business Development Director	2,571,428	1,000,000	0.3	0.2
S Duncan	Non-Executive Director	10,945,428	10,000,000	1.3	1.7
F J Fernandez	Non-Executive Director	Nil	Nil	Nil	Nil
Sir Peter Brown	Non-Executive Director	Nil	Nil	Nil	Nil

E M Oliver resigned as Director on 30 April 2007.

S Duncan and G T 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 29).

Substantial Shareholdings

The Company has been informed that on 31 December 2006 the following shareholders held substantial holdings in the issued ordinary shares of the Company.

	Number of Ordinary Shares	Holding %
Pershing Keen Nominees Ltd	122,488,770	14.6
Productive Nominees Ltd	79,262,900	9.4
Pershing Keen Nominees Ltd	48,705,146	5.8
Octopus Asset Management Nominees	31,489,555	3.7
Suan Farma SA	30,037,900	3.6
Capital North East No. 1 Limited Partnership*	25,451,100	3.0

* This company is an investment fund operated and controlled by Northern Enterprise Limited which holds and controls an aggregate of 47,299,100 ordinary shares representing 5.6% 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 94 days purchases, based on the average daily amount invoiced by suppliers to the Group during the year.

Auditors

The Directors having been notified of the cessation of the partnership known as Baker Tilly, resolved that Baker Tilly UK Audit LLP be appointed as successor auditor with effect from 1 April 2007, in accordance with provisions of the Companies Act 1989, s26(5).

Baker Tilly UK Audit LLP has indicated its willingness to continue in office.

Statement as to Disclosure of Information to Auditors

The Directors in office on 28 June 2007 have confirmed that, as far as they are aware, there is no relevant audit information of which the auditors are unaware. Each of the Directors has confirmed that they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditors.

On behalf of the Board

Dr Paul Harper - Chairman
28 June 2007

Corporate Governance Report

Introduction

The Company is committed to high standards of corporate governance. The Board is accountable to the Company's shareholders for good corporate governance. The Company has complied substantially throughout the year with the code of best practice set out in Section 1 of the Combined Code (issue in 2003) appended to the Listing Rules of the Financial Services Authority. 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 two Executive Directors and three independent Non-Executive Directors.

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 and Javier Fernandez. 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 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 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 (as detailed in the accounting policies on page 21) 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.

Dr Paul Harper - Chairman
28 June 2007

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 and a 10-12% pension contribution. The Chief Operating Officer also receives private healthcare benefit, has the use of a company vehicle and is entitled to a performance related bonus. The Deputy Chairman and the Chief Operating Officer hold share options that were issued prior to the Company being listed.

Service Contracts

The 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 10-12% 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 Stuart Duncan 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, Javier Fernandez and Stuart Duncan.

Directors' Remuneration

Details of Directors' annualised remuneration as at 31 December 2006 is set out below:

	Salary £	Benefits £	Emoluments £	Pension £	Total £
Executive Directors					
Dr P Harper	50,000	-	50,000	-	50,000
Mr G Sherriff	94,697	8,353	103,050	9,866	112,916
Mr E Oliver	61,500	-	61,500	7,380	68,880
Non-Executive					
Mr S Duncan	43,267	-	43,267	-	43,267
Sir Peter Brown	12,000	-	12,000	-	12,000
Mr J Fernandez	-	-	-	-	-
Total	261,464	8,353	269,817	17,246	287,063

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

Dr Paul Harper - Chairman
28 June 2007

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

We have audited the financial statements on pages 17 to 33.

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition, we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises 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 Audit Opinion

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

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

Opinion

In our opinion;

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

Emphasis of matter - Going Concern

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosure made in the accounting policies on page 21 of the financial statements concerning the Group's ability to continue as a going concern. The Group incurred a net loss of £2,490,622 during the year ended 31 December 2006 and, at that date, the Group's current liabilities exceeded its current assets by £1,093,819. These conditions, along with the other matters explained in the accounting policies on page 21 of the financial statements, indicate the existence of a material uncertainty which may cast doubt about the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

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

28 June 2007

Consolidated Profit and Loss Account

For year ended 31 December 2006

	Notes	2006 £	2005 £
Turnover	1	1,872,852	1,118,513
Cost of sales		(2,014,410)	(1,027,391)
Gross (Loss)/Profit		(141,558)	91,122
Other income	3	347,548	138,658
Net operating expenses		(2,200,104)	(1,166,000)
Exceptional item	2	(457,608)	-
Operating Loss	3	(2,451,722)	(936,220)
Interest receivable	4	7,394	2,523
Interest payable	5	(46,294)	(52,403)
		(38,900)	(49,880)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(2,490,622)	(986,100)
Tax on ordinary activities	7	-	7,580
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION	20	(2,490,622)	(978,520)
Basic and diluted loss per share	8	(0.004)	(0.004)

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

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

During the period ending 31 December 2005 the company gained a subsidiary company, Angel Biotechnology Limited. The prior year's profit and loss account was prepared using merger accounting principles and was presented as if the Group had been in existence throughout the period. 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 2006

	Notes	£	2006 £	£	2005 £
Fixed Assets					
Intangible Assets	10		-		-
Tangible fixed assets	11		3,964,415		3,581,814
			3,964,415		3,581,814
Current Assets					
Debtors	13	336,762		499,635	
Cash at bank		248,037		1,025,035	
		584,799		1,524,670	
Creditors					
Amounts falling due within one year	14	(1,678,618)		(689,865)	
Net Current (Liabilities)/Assets					
			(1,093,819)		834,805
Total Assets Less Current Liabilities					
			2,870,596		4,416,619
Creditors					
Amounts falling due after more than one year	15		72,500		(24,164)
Government Grants					
	17		(144,000)		(45,596)
Net Assets					
			2,654,096		4,346,859
Capital and Reserves					
Called up share capital	19		839,787		601,827
Share premium account	20		2,766,934		2,207,035
Merger reserve	20		3,947,095		3,947,095
Profit and loss account	20		(4,899,720)		(2,409,098)
Equity Shareholders' Funds					
	25		2,654,096		4,346,859

The financial statements on pages 17 to 33 were approved by the Board of Directors and authorised for issue on 28 June 2007 and are signed on its behalf by:

Dr Paul Harper - Chairman

Balance Sheet

	Note	£	2006 £	£	2005 £
Fixed Assets					
Investment in subsidiary	12		-		115,763
Current Assets					
Debtors - amounts due after more than one year	13	-		2,693,099	
Cash at bank		-		-	
		-		2,693,099	
Net Current Assets					
			-		2,693,099
Net Assets					
			-		2,808,862
Capital and Reserves					
Called up share capital	19		839,787		601,827
Share premium account	20		2,766,934		2,207,035
Profit and loss account	20		(3,606,621)		-
Equity Shareholders' Funds					
	25		-		£2,808,862

The financial statements on pages 17 to 33 were approved by the Board of Directors and authorised for issue on 28 June 2007 and are signed on its behalf by:

Dr Paul Harper - Chairman

Consolidated Cash Flow Statement

For year ended 31 December 2006

	Note	2006 £	2005 £
Net cash outflow from operating activities	28a	(1,380,454)	(1,369,130)
Returns on investments and servicing of finance	28b	(38,900)	(12,316)
Taxation	28b	7,580	91,518
Capital expenditure and financial investment	28b	(332,180)	(589,313)
Cash Outflow Before Financing		(1,743,954)	(1,879,241)
Financing		966,956	2,815,778
(Decrease)/Increase in Cash in the Period		(776,998)	936,537
Reconciliation of Net Cash Flow to Movement in Net Debt			
		2006 £	2005 £
(Decrease)/increase in cash in the period		(776,998)	936,537
Net cash (inflow)/outflow from debt and lease financing		(190,606)	67,045
Other non-cash items		(106,599)	983,122
Movement in Net Debt in the Period		(1,074,203)	1,986,704
Net Debt at 1 January 2006	28c	703,978	(1,282,726)
Net (Debt)/Funds at 31 December 2006	28c	(370,225)	703,978

Accounting Policies

For year ended 31 December 2006

Basis of Accounting

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

Basis of Consolidation

The consolidated financial statements merge the financial statements of those undertakings which are owned by the shareholders of Angel Biotechnology Holdings Plc as if they had always so been owned. Accordingly in those years when mergers take place the whole of the results, assets and liabilities, and shareholders' funds of the merged companies are consolidated, regardless of the actual merger date and corresponding figures for previous years are restated.

Going Concern

The Directors consider that the company is a going concern for the reasons stated below and as a result the financial statements have been prepared on the going concern basis.

The company's 100% subsidiary, Angel Biotechnology Limited is likely to be placed into administration in order to facilitate the sale of the Cramlington facility.

The group has agreements to continue to trade from the Pentlands facility only, which has a significantly lower cost base than the Cramlington facility and as a result, the Directors believe can trade profitably as this facility has the capacity for the contracted and forecast revenue streams.

The Directors have forecast the cashflow requirements for the group to July 2008 on this basis and consider that the revised business model will generate sufficient income to allow the company to trade as a going concern for at least 12 months from the date of approval of these financial statements. This model is dependent on contracted revenue streams being received as planned, in order to cover the cost base of the Pentlands facility.

Research and Development

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

Fixed Assets

All fixed assets are initially recorded at cost.

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 - four years (computers) and ten years (fixtures), straight-line basis

Investments

Participating interests are stated at cost less amounts written off in the Company balance sheet.

Lease Assets and Obligations

Where assets are financed by leasing agreements that give rights approximating to ownership ("finance leases"), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as obligations to the lessor.

Lease payments are treated as consisting of capital and interest elements, and the interest is charged to the profit and loss account in proportion to the remaining balance outstanding.

All other leases are "operating leases" and the annual rentals are charged to profit and loss on a straight line basis over the lease term.

Pension Contributions

The Group makes contributions to its employees' own personal pension schemes. 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.

Accounting Policies

For year ended 31 December 2006

Revenue Recognition

The revenue shown in the profit and loss account relates to amounts received and receivable from the manufacture and supply of biologics.

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.

Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the gains or losses in tax assessments in periods different from those in which they are recognised in the financial statements.

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.

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.

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 estimated useful life of the assets to which they relate.

Government grants of a revenue nature are credited to the profit and loss account in the same period as the related expenditure.

Financial Instruments

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as either financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Share Based Payments

The Group issues equity settled share based payments to certain employees. Equity settled share based payments are measured at fair value at the date of grant. The fair value determined at the grant date of equity settled share based payments is expensed on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effect of non-transferability, exercise restrictions and behavioural considerations.

A liability equal to the portion of the goods or services received is recognised at the current value determined at each balance sheet date for the cash settled share based payments.

Notes to the Financial Statements

For year ended 31 December 2006

1 Turnover and Segmental Reporting

The Group's turnover was derived in the UK from its principal activity. An analysis of turnover by geographical destination is given below:

	2006 %	2005 %
United Kingdom	22	17
Rest of Europe	14	50
USA and Canada	64	33
	100	100

2 Exceptional Item

	2006 £	2005 £
Provision for doubtful debt	457,608	-

The provision for doubtful debt relates to amounts owed by a customer where there is a significant doubt over the ability of the company to honour the debt.

3 Operating Loss

	2006 £	2005 £
Operating loss is stated after charging:		
Amortisation of intangibles	-	5,000
Depreciation charge for the year		
- Owned assets	291,055	180,262
- Leased assets	65,123	13,142
Rentals under operating leases:		
Land and buildings	175,046	139,700
Others	14,378	9,319
Research and Development	-	150,961
Loss/(profit) on currency translation	44,889	(3,085)
and crediting:		
Amortisation of government grants	201,596	182,424
Revenue grants receivable	347,548	138,658
Amounts payable to Baker Tilly in respect of both audit and non-audit services		
Audit services - Statutory audit	20,000	15,000
Tax services - Compliance services	2,500	2,000
	22,500	17,000

Notes to the Financial Statements (Continued)

For year ended 31 December 2006

4 Interest Receivable	2006 £	2005 £
Bank interest receivable	7,394	2,519
Other interest	-	4
	<u>7,394</u>	<u>2,523</u>
5 Interest Payable and Similar Charges	2006 £	2005 £
Interest payable on bank borrowing	6,814	14,839
Interest payable on other loans	13,908	-
Finance lease and hire purchase contracts	19,089	-
Other similar charges payable	6,483	37,564
	<u>46,294</u>	<u>52,403</u>
Other similar charges in the prior year represents amounts payable to investors following amounts received in advance of the issue of shares.		
6 Employees	2006 £	2005 £
Staff costs during the period (including Directors)		
Wages and salaries	1,786,307	1,026,085
Social security costs	189,720	107,846
Pension costs	128,044	71,831
	<u>2,104,071</u>	<u>1,205,762</u>
Average number of employees		
Administration and finance	12	9
Research and development and production	48	29
	<u>60</u>	<u>38</u>
Directors' emoluments	£	£
Directors' emoluments	269,817	211,697
Pension contributions to money purchase schemes	17,246	9,520
	<u>287,063</u>	<u>221,217</u>
Highest paid Director		
Emoluments	103,050	78,903
Pension contributions to money purchase scheme	9,866	3,200
	<u>112,916</u>	<u>82,103</u>
Number of Directors receiving pension benefits		
Directors with money purchase schemes	2	4

Notes to the Financial Statements (Continued)

For year ended 31 December 2006

7 Taxation	2006 £	2005 £
(a) Analysis of charge in the year		
Current tax:		
Research and development tax credit	-	(7,580)
(b) Factors affecting current tax charge		
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	(2,490,622)	(986,100)
Loss on ordinary activities multiplied by the standard rate of corporation tax 19% (2005 - 19%)	(473,218)	(187,359)
Expenses not deductible for tax purposes	7,195	19,335
Capital allowances in excess of depreciation	7,661	(108,821)
Additional relief for R & D expenditure	-	(8,671)
Surrender of tax losses for R & D tax credit refund	-	1,421
Unrelieved tax losses and other deductions arising in the period	458,362	276,515
Total current tax (note 7(a))	-	(7,580)
As at 31 December 2006 tax losses of approximately £7,900,000 (2005: £5,400,000) remained available to carry forward against future taxable trading profits.		
8 Loss Per Share	2006 £	2005 £
The calculations of loss per share are based on the following losses and numbers of shares.		
Loss on ordinary activities after tax	(2,490,622)	(978,520)
	No.	No.
Weighted average no of shares:		
For basic and diluted loss per share	646,811,604	227,766,398
Basic and diluted loss per share	£0.004	£0.004
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 2006

9 Parent Company Loss 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 loss for the year was £3,606,721.

10 Intangible Fixed Assets

	Licence fee £
Group	
Cost	
At 1 January 2006 and 31 December 2006	15,000
Amortisation	
At 1 January 2006 and 31 December 2006	15,000
Net book value	
31 December 2006 and 31 December 2005	-

11 Tangible Fixed Assets

	Leasehold improvements £	Laboratory equipment £	Fixtures and computers £	Total £
Group				
Cost				
At 1 January 2006	2,281,762	1,815,265	62,634	4,159,661
Additions	11,300	726,884	595	738,779
At 31 December 2006	2,293,062	2,542,149	63,229	4,898,440
Depreciation				
At 1 January 2006	113,857	445,255	18,735	577,847
Charge in the period	114,974	232,305	8,899	356,178
At 31 December 2006	228,831	677,560	27,634	934,025
Net book value				
31 December 2006	2,064,231	1,864,589	35,595	3,964,415
31 December 2005	2,167,905	1,370,010	43,899	3,581,814

The net book value of laboratory equipment included £608,334 (2005: £nil) in respect of assets held under finance leases and hire purchase contracts. The depreciation charge in respect of these assets was £65,123 (2005: £nil).

Notes to the Financial Statements (Continued)

For year ended 31 December 2006

12 Fixed Asset Investments

	Subsidiary undertakings £
Company	
Cost	
At 1 January 2006 and 31 December 2006	115,763
Amounts written off	
At 1 January 2006	-
Impaired during the year	115,763
At 31 December 2006	115,763
Net book value	
At 31 December 2006	-
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.

13 Debtors

	2006 Group £	2006 Company £	2005 Group £	2005 Company £
Trade debtors	198,713	-	331,682	-
Amounts owed by subsidiary undertakings	-	-	-	2,693,099
Corporate tax research and development tax credit	-	-	7,580	-
Other debtors	79,930	-	108,711	-
Prepayments and accrued income	58,119	-	51,662	-
	336,762	-	499,635	2,693,099

Amounts owed by subsidiary undertaking to the Company in the prior year were due within more than one year.

Notes to the Financial Statements (Continued)

For year ended 31 December 2006

14 Creditors: Amounts Falling Due Within One Year

	2006 Group £	2006 Company £	2005 Group £	2005 Company £
Bank loan and overdraft	158,080	-	296,890	-
Obligations under finance leases	387,682	-	-	-
Trade creditors	665,960	-	214,612	-
Other taxation and social security	295,395	-	109,346	-
Other creditors	14,925	-	3	-
Accruals and deferred income	156,576	-	69,014	-
	<u>1,678,618</u>	<u>-</u>	<u>689,865</u>	<u>-</u>

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

	2006 £	2005 £
Bank overdraft	-	250,000
Bank loans	158,080	46,890
Obligations under finance leases	387,682	-
	<u>545,762</u>	<u>296,890</u>

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

Bank loans are secured on certain assets of the group. The loans are repayable in monthly instalments of £7,500 falling due between 1 January 2007 and 30 April 2007, £12,500 falling due between 1 May 2007 and 30 May 2008 and £2,500 on 30 June 2008, with interest being charged at a normal commercial rate of 2% above base rate.

Obligations under finance leases and hire purchase contracts are secured on the related assets and bear finance charges at rates ranging from 3.7% to 16.8% per annum.

15 Creditors: Amounts Falling Due After More Than One Year

	2006 Group £	2006 Company £	2005 Group £	2005 Company £
Bank loans	72,500	-	24,164	-

16 Leased Assets and Obligations

	2006 Group £	2006 Company £	2005 Group £	2005 Company £
Analysis of debt maturity				
In one year or less or on demand	387,682	-	-	-
In more than one year but not more than two years	-	-	-	-
In more than two years but not more than five years	-	-	-	-
In five years or more	-	-	-	-
	<u>387,682</u>	<u>-</u>	<u>-</u>	<u>-</u>

17 Government Grants

Group	2006 £	2005 £
Received and receivable:		
At 1 January 2006	565,000	565,000
Grants received during the year	300,000	-
At 31 December 2006	<u>865,000</u>	<u>565,000</u>
Amortisation		
At 1 January 2006	519,404	336,980
Credit to profit and loss account	201,596	182,424
At 31 December 2006	<u>721,000</u>	<u>519,404</u>
Net balance at 31 December 2006	<u>144,000</u>	<u>45,596</u>

Notes to the Financial Statements (Continued)

For year ended 31 December 2006

18 Borrowings

	2006 Group £	2006 Company £	2005 Group £	2005 Company £
Amount repayable				
One year or less	158,085	-	296,890	-
More than one year but under two	72,500	-	24,164	-
	<u>230,580</u>	<u>-</u>	<u>321,054</u>	<u>-</u>

19 Called Up Share Capital

	2006 £	2005 £
Authorised:		
5,000,000,000 ordinary shares of £0.001 each	5,000,000	5,000,000
Allotted, issued and fully paid:		
839,787,148 (2005 : 601,827,439) ordinary shares of £0.001 each	839,787	601,827
Equity shares:		
839,787,148 (2005 : 601,827,439) ordinary shares of £0.001 each	839,787	601,827

On 23 October 2006 the company allotted and issued 237,959,714 ordinary shares of 0.1p each at a premium of 0.35p per share.

20 Reserves

	Merger reserve account £	Share premium account £	Profit and loss account £
Group			
Balance brought forward	3,947,095	2,207,035	(2,409,098)
Loss for the year	-	-	(2,490,622)
New equity share capital subscribed	-	594,899	-
Share issue costs	-	(35,000)	-
Balance carried forward	<u>3,947,095</u>	<u>2,766,934</u>	<u>(4,899,720)</u>
Company			
Balance brought forward	-	2,207,035	-
Loss for the year	-	-	(3,606,721)
New equity share capital subscribed	-	594,899	-
Share issue costs	-	(35,000)	-
Balance carried forward	<u>-</u>	<u>2,766,934</u>	<u>(3,606,721)</u>

Notes to the Financial Statements (Continued)

For year ended 31 December 2006

21 Pension Contributions

The Group makes contributions to its employees' own personal pension schemes. The contributions for the period were £128,044 (2005: £71,831). At the balance sheet date contributions of £14,925 (2005: £Nil) were owed and included in creditors.

22 Deferred Taxation

	2006 £	2005 £
Group		
Accelerated capital allowances	648,721	656,382
Tax losses	(648,721)	(656,382)
	-	-

23 Commitments Under Operating Leases**Group**

At 31 December 2006 the group had annual commitments under non-cancellable operating leases as set out below.

	2006 Land and Buildings £	2006 Plant and Machinery £	2005 Land and Buildings £	2005 Plant and Machinery £
Operating leases which expire:				
Within 1 year	-	756	-	-
Within 2 to 5 years	-	5,444	-	11,490
After more than 5 years	150,400	819	60,000	-
	150,400	7,019	60,000	11,490

24 Capital Commitments

At 31 December 2006 and 31 December 2005 the Group had no capital commitments.

Notes to the Financial Statements (Continued)

For year ended 31 December 2006

25 Reconciliation of Movement in Shareholders' Funds

	2006 £	2005 £
Group		
Loss for the period	(2,490,622)	(978,520)
New equity share capital	237,960	486,064
Premium on new share capital	559,899	3,417,445
Net (reduction)/addition to shareholders' equity	(1,692,763)	2,924,989
Opening shareholders' equity	4,346,859	1,421,870
	2,654,096	4,346,859
Company		
Loss for the period	(3,606,721)	-
New equity share capital	237,960	601,827
Premium on new share capital	559,899	2,207,035
Net (reduction)/addition to shareholders' equity	(2,808,862)	2,808,862
Opening shareholders' equity	2,808,862	-
	-	2,808,862

26 Related Party Transactions**Suan Farma SA**

During the year the Company was charged £16,100 and paid £4,600 Non-Executive Director fees for F J Fernandez to Suan Farma SA, a related party by virtue of being a major shareholder in the Company. A balance of £11,500 was outstanding at the year end.

27 Directors' Transactions

Included in other debtors are amounts due from Directors as follows:

	2006 £	Amount outstanding 2005 £	Maximum liability during year £
G T Sherriff	359	4,167	4,167

The loan is interest free and repayable on demand.

S Duncan, a Director of the Company gave personal guarantees to the Group's bankers totalling £250,000. At the year end the borrowings amounted to £230,580 (2005: £250,000).

Notes to the Financial Statements (Continued)

For year ended 31 December 2006

28 Cash Flows

	2006 £	2005 £		
(a) Reconciliation of operating loss to net cash inflow from operating activities				
Operating loss	(2,451,722)	(936,220)		
Amortisation of intangible fixed assets	-	5,000		
Depreciation of tangible fixed assets	356,178	193,404		
Amortisation of government grants	(201,596)	(182,424)		
Decrease/(increase) in debtors	155,293	(407,489)		
Increase/(decrease) in creditors	761,393	(41,401)		
Net cash outflow from operating activities	(1,380,454)	(1,369,130)		
(b) Analysis of cash flows for headings netted in the cash flow				
Returns on investment and servicing of finance				
Interest received	7,394	2,523		
Interest paid	(46,294)	(14,839)		
Net cash outflow from returns on investments and servicing of finance	(38,900)	(12,316)		
Taxation				
	7,580	91,518		
Capital expenditure and financial investment				
Payments to acquire tangible fixed assets	(632,180)	(589,313)		
Grants received during the year	300,000	-		
Net cash outflow for capital expenditure and financial investment	(332,180)	(589,313)		
Financing				
Issue of shares	776,350	2,882,823		
Repayment of bank loans	(90,477)	(67,045)		
Net receipt from finance leases	281,083	-		
Net cash inflow from financing	966,956	2,815,778		
(c) Analysis of net debt				
	At 1 Jan 2006 £	Cash flows £	Other movement £	At 31 Dec 2006 £
Cash in hand and at bank	1,025,035	(776,998)	-	248,037
Debt due within 1 year	(296,893)	138,813	-	(158,080)
Debt due after 1 year	(24,164)	(48,336)	-	(72,500)
Finance leases	-	(281,083)	(106,599)	(387,682)
	(321,057)	(190,606)	(106,599)	(618,262)
Total	703,978	(967,604)	(106,599)	(370,225)

Notes to the Financial Statements (Continued)

For year ended 31 December 2006

29 Share Options

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

	Granted	Exercised	At 31 Dec 2006	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.

30 Financial Instruments

The Group's financial instruments comprise 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 values do not bear interest.

Interest Rate Profile

The Group has non financial assets, excluding short term debtors other than sterling cash deposits of £248,037 (2005: £1,025,035) which are part of the financing arrangements of the Group.

The interest rate profile of the Group's financial liabilities at 31 December 2006 were £230,580 (2005: £296,890) 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.