Sareum

Specialists in Cancer Drug Discovery

Sareum Holdings plc

Annual Report and Accounts 2009

Who we are

Sareum is a specialist cancer drug discovery company.

Sareum has a highly experienced management team with a track record of delivering quality drug candidates for pharmaceutical and biotechnology companies.

Sareum is developing a robust pipeline of novel small molecule cancer drug candidates for partnering with pharmaceutical companies.

Highlights

Operational highlights/

> Strategic review and re-structuring completed

> Relocation of office premises, resulting in significant cost savings

> On track with the development of cancer research programmes

> Three further patent applications filed

Financial highlights/

> Loss on ordinary activities for period (after taxation): £1.1 million (2008: £1.7 million), includes one-off re-structuring costs of £0.36 million

> Cash in bank at period end: £0.27 million (2008: £0.48 million)

Post year end highlights/

> Placings to raise £815,000 (before expenses)

> Based on current working capital requirements cash resources are sufficient for the foreseeable future

> Progress in Chk1 programme announced at NCRI cancer conference in early October 2009

Chairman and Chief Executive's statement

The Company now focuses all its research resources on its pipeline of anti-cancer programmes.

Summary of the Chairman and Chief Executive's statement/

> Sareum has seven drug discovery programmes and is actively developing three of them at the present time

> Since the year end the cash position has been significantly improved following the share placings, that raised £815,000 before expenses

> The Company has an exciting opportunity to focus solely on its in-house cancer drug discovery programmes, to generate shareholder value

Background
The key value creator for Sareum's shareholders is the development and commercialisation of drug candidates from the Company's in-house drug development pipeline.

Progress within Sareum's in-house research programmes, which focus on treatments for cancer, has been to plan. This includes successful in-vivo efficacy studies resulting from its collaboration with the Institute of Cancer Research and Cancer Research Technology Limited. Additionally, in the period under review three further patent applications have been filed to protect families of promising compounds arising from Sareum's research programmes.

At the start of the period, the Company completed its strategic review, initiated in May 2008, which resulted in the sale of its service business to Galapagos NV in August 2008. In addition, other equipment assets were sold and the Company's laboratories were closed. Alongside this, the Company undertook a major cost and staff reduction programme. Whilst it was a difficult decision to make the positions of our talented and dedicated staff redundant, the Directors believe that a minimal fixed cost base is essential to the success of the re-structured Company.

The Company's strategy, following its re-structuring, is to concentrate primarily on its in-house cancer drug discovery research. This is achieved by outsourcing the chemistry and biology components of each programme. As before, our in-house expertise and experience is used to interpret the relationship between chemical structure and biological activity associated with each of the compounds tested. This leads to the design of new molecules which should be more active and more specifically targeted. Now that we have closed the Company's laboratories the synthesis and testing of new compounds is undertaken in third party laboratories.

As the development programmes progress and additional data is generated, demonstrating the quality of the candidate molecules, a very active campaign continues to draw these results to the attention of companies seeking to licence programmes such as these. In addition, as our research is presented from time-to-time at various conferences and seminars, we also receive some direct approaches from potential licensing partners.

Progress with in-house cancer targets
The Company's principal asset following the sale of the fee-for-service business is its intellectual property derived from its cancer drug discovery programmes. Sareum has seven drug discovery programmes and is actively developing three of them at the present time. The Company is engaged in discussions with a number of potential commercial partners involving several of these programmes. The Company has continued to make positive progress with its in-house cancer drug discovery programmes, resulting in three further patent applications and the publication of three patents from historic filings.

Sareum's pipeline is built on the expertise of its founders in pre-clinical drug discovery, particularly in the field of cancer. Sareum concentrates its research on targeted small molecule therapeutics.

Targeted cancer therapies disrupt specific biochemical processes necessary for tumour growth and survival. Because these processes are specific to cancer cells, targeted therapies may be more effective than other types of treatments, such as chemotherapy and radiotherapy, and less harmful to normal cells. Some targeted therapies, for instance Checkpoint Kinase 1 (Chk1) inhibitors, are designed to boost the efficacy of chemotherapy. Others, such as Aurora Kinase (Aurora), FMS-like Tyrosine Kinase 4 (FLT4, sometimes referred to as Vascular Endothelial Growth Factor Receptor 3 Kinase, VEGFR–3) or FMS-like Tyrosine Kinase 3 (FLT3) inhibitors, have the potential to be effective by themselves or in combination with chemotherapy or other targeted therapies.

Small molecule therapeutics (as opposed to "biological" drugs such as antibodies) are able to penetrate into the interior of a cell and thus can be targeted at the full range of processes in a biochemical pathway. Small molecule anti-cancer therapeutics can be designed to target one or more of a wide range of biochemical processes essential to cancer cells. Small molecule therapeutics also have the potential of being able to be administered orally (e.g. as a pill) rather than by injection.

Our strategy is to focus on developing best in class cancer therapies, where pre-clinical and early clinical data is available to indicate that disrupting the targeted biochemical process will indeed prevent tumour growth and survival without significant side-effects. We can capitalise on these published results to direct our own programmes and to indicate, for instance, whether or not the therapy needs to be administered in combination with additional cancer therapies.

Cancer cells differ from normal cells in many different ways. In particular, cancer cells divide and grow much more rapidly than normal cells. Biochemical processes targeted by Sareum that control cell growth and division include Chk1, Aurora, FLT3, Polo-Like Kinase (PLK) and B-raf.

Once a solid tumour reaches a certain size, it needs to be connected to the body's blood and lymph systems to receive nutrients and remove waste. Sareum's programme targeting FLT4 is importantly involved in the generation of new blood and lymph vessels to a tumour. FLT4 is also involved in the control of metastasis, the spread of cancer, which is the main cause of death in cancer patients.

Chk1

This is Sareum's most advanced in-house programme and is carried out in conjunction with one of the world's leading cancer research organisations, The Institute of Cancer Research and Cancer Research Technologies Limited. Significantly, we have obtained results from in-vivo pre-clinical experiments that demonstrate a two-fold increase in the efficacy of marketed cancer chemotherapeutics when combined with programme compounds.

Aurora and FLT4

These programmes are currently wholly-owned by the Company. In both cases we have developed drug candidates that are suitable for testing in in-vivo efficacy experiments. These studies are ongoing and we aim to report their progress at international cancer conferences during the next period.

Earlier-stage programmes (FLT3, FASN, PLK1, B-raf)

These programmes are currently on hold, pending a collaborative research deal with a pharmaceutical company partner or receipt of a research grant. FLT3, in addition to being a potential target for certain leukaemias, also has the potential to treat auto-immune diseases such as multiple sclerosis and rheumatoid arthritis, which further expands the commercial opportunities for this programme.

Changes to the Board

Dr Alastair Riddell (Non-executive Director), Giorgio Reggiani (Finance Director) and Dr David Williams (VP, Biology & Structural Sciences) resigned from the Board of the Company during the period. We thank them for their valuable contribution to the Company and wish them well for the future.

Financial review

During the period, revenues of £32,000 were recognised arising from fee-for-service collaborations prior to the sale of that part of the business.

The loss after taxation decreased to £1.1 million (2008: £1.7 million). This included one-off re-structuring costs of £360,000 and partially reflects the cost cutting measures resulting from the strategic review. The loss after taxation for the second half of the period was approximately £250,000 and this figure broadly translates to the working capital requirements of the Company for that six month period. The cash position at the period end was £0.27 million (2008: £0.48 million). Since the year end the cash position has been significantly improved following the share placings, announced in September and October 2009, that raised £815,000 before expenses. As a result of these placings, the Directors believe the Company is able to increase its R&D spend to further advance its cancer drug pipeline whilst also providing sufficient working capital for the foreseeable future.

Summary

Despite difficult economic conditions and the sale of its fee-for-service business, the Company has demonstrated that it is able to progress its in-house research by advancing programmes according to plan and by working with our partners to develop candidate drug molecules.

The first half of this period was a difficult one for the Company, but demonstrated the capability of the Board to act decisively in the face of adverse market conditions.

The Directors believe the Company's strategy has been further endorsed by the participation of those investors that have subscribed for new shares in the Placings completed after the period end.

Outlook

The Company has an exciting opportunity to focus solely on its in-house cancer drug discovery programmes, to generate shareholder value. The research work for the ongoing programmes is being provided via third parties, leaving the Company with a much reduced fixed cost base.

The Company will continue to build value from its in-house research and development by seeking to advance its cancer drug discovery programmes. With sufficient cash resources to fund the ongoing business plan for the foreseeable future, the Company looks forward to further development and commercialisation of these cancer drug programmes.

Dr Paul Harper
Chairman

Dr Tim Mitchell
Chief Executive Officer
26 October 2009

Directors

Paul Harper PhD
Non-executive Chairman
Dr Paul Harper, aged 63, has over 30 years' experience in the life sciences industry covering both drug development and medical devices. Paul has served as Chief Executive of Cambridge Antibody Technology Limited and Provensis Limited. He has also served as Corporate Development Director of Unipath Limited, then the medical diagnostics business of Unilever PLC, and as Director of Research and Development for Johnson & Johnson Limited. Formerly Head of Antimicrobial Chemotherapy for Glaxo PLC, Paul has a PhD in Molecular Virology and is the author of over 50 publications.

Tim Mitchell PhD
Founder and Chief Executive Officer
Dr Tim Mitchell, aged 49, has over 20 years' experience in the industry with key management and business expertise gained from his positions at Cambridge Discovery Chemistry and his roles at Millennium as a member of the management team and in forming the integrated Structure-Based Discovery department.

As Director of the Millennium Structure-Based Discovery department, Tim was responsible for global provision of Protein Structure and High Throughput Chemical Synthesis for Millennium as well as for local Computational Chemistry, Informatics and Automation capabilities. Prior to that, he was Director of Computational Chemistry at Cambridge Discovery Chemistry Limited, and a team leader in the Computational and Structural Sciences department at SmithKline Beecham Pharmaceuticals. Tim has a PhD in Computational Chemistry and a BSc in Chemistry.

John Reader PhD
Founder and Chief Scientific Officer
Dr John Reader, aged 42, has 16 years' experience within the industry and was formerly Associate Director, Chemical Technologies at Millennium Pharmaceuticals Research and Development Limited, prior to which he worked with Pharmacopeia Inc. and Cambridge Discovery Chemistry in the provision of high throughput chemistry services to external and internal clients.

John has extensive experience of leading large research teams and in the invention and application of new technologies to the drug-discovery process, with an excellent track record of delivering successful projects to clients, and has authored or co-authored many patents and publications. The majority of patents granted to John cover composition of matter discovered in the multiple projects in which he has worked, with further patents covering technological innovations in the field. John is a member of the EPSRC Peer Review College and has a PhD in Chemistry and a BSc in Applied Chemistry.

Report of the Directors

For the year ended 30 June 2009

The Directors present their report with the financial statements of the Company and the Group for the year ended 30 June 2009.

Principal activities
The principal activities of the Company in the year under review were those of a holding company. The principal activity of the Group is the discovery and development of new therapeutic drugs by a combination of skills in biology, computational chemistry and medicinal chemistry.

Review of business
During the previous year Sareum had commenced a strategic review of the business. The options available were evaluated and this resulted in the Board taking the decision to sell the service business and associated assets on 26 August 2008. The Group decided on 31 July 2008 to make major cost savings largely through staff reductions. This was necessary due to difficult trading conditions arising from the economic climate reflected in Sareum's financial results. Since these events the Group has concentrated solely on the development and licensing of cancer drug candidates from a strong pipeline of established in-house programmes.

Since the year end the Group has raised £815,000, before expenses, by way of three placings of new ordinary shares on AIM, made up of £315,000 on 11 September, £450,000 on 15 October and £50,000 on 19 October. The funds raised will underwrite the ongoing development of the Group's programmes.

A comprehensive review of the year is given in the Chairman's statement together with an outline of future developments.

Dividends
No dividends will be distributed for the year ended 30 June 2009.

Directors
The Directors who served during the period were as follows:

Paul Harper PhD	
Tim Mitchell PhD	
John Reader PhD	
David Williams PhD	(resigned 29 August 2008)
Giorgio Reggiani MBA ACMA	(resigned 11 July 2008)
Alastair Riddell PhD	(resigned 1 July 2008)

Group's policy on payment of creditors
The Group's policy is to pay its suppliers within 30 days of invoice date. At 30 June 2009, the invoices representing the trade creditors of the Group had an average age of 19 days (2008: 44 days).

Key performance indicators
The Directors consider cash and spending on research and development to be the Group's key performance indicators.

Report of the Directors continued

For the year ended 30 June 2009

Statement of Directors' responsibilities

The Directors are responsible for preparing the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted for use in the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

> select suitable accounting policies and then apply them consistently;

> make judgements and estimates that are reasonable and prudent;

> state that the financial statements comply with IFRS; and

> prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company 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 Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are also responsible for the maintenance and integrity of the corporate and financial information included on the Company website.

Statement as to disclosure of information to auditors

So far as the Directors are aware, there is no relevant audit information of which the Group's auditor is unaware, and each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

On behalf of the Board

Tony Bunn FCMA
Company Secretary
26 October 2009

Corporate Governance report

Introduction
Sareum Holdings plc was listed on AIM on 11 October 2004. 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
At the year end, the Board of Directors comprised of two Executive Directors and one independent Non-executive Director – the Chairman.

The Board generally meets monthly and receives reports covering finance, compliance, business development, safety, operations and science 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, staff recruitment, major items of expenditure and acquisitions.

Under the Articles of Association, all Directors must offer themselves for re-election at least once every three years. One third of the 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 with written terms of 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 one independent Non-executive Director. The terms of reference of the Committees are published on the Company's website: **www.sareum.co.uk**.

Audit Committee
The Audit Committee currently comprises Dr Paul Harper, Chairman and Dr Tim Mitchell, Chief Executive Officer. It is scheduled to meet twice a year. It is the Audit Committee's role to provide formal and transparent arrangements covering the financial reporting and internal control requirements of the Code, whilst maintaining an appropriate relationship with the independent auditor of the Group.

Remuneration Committee
The Remuneration Committee currently comprises Dr Paul Harper, Chairman. 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. The Committee also ensures that recommendations made by the Executive Directors on staff remuneration are appropriate and fair from a shareholder's perspective. Further information on the work of the Committee can be found on page 9.

Shareholder relations
The Company meets with its institutional shareholders and analysts as appropriate and uses the Annual General Meeting to encourage communication with shareholders. In addition, the Company issues the Annual Report and Accounts, Interim Statement and press releases as well as using its website, **www.sareum.co.uk**, to provide further information to shareholders.

Corporate Governance report continued

Internal control and risk management
The Board is responsible for the systems of internal control and for reviewing their effectiveness. The internal controls are designed to manage rather than eliminate risk and provide reasonable but not absolute assurance against material misstatement or loss. The Audit Committee reviews the effectiveness of these systems annually. It does this primarily by discussions with the external auditor and by considering the risks potentially affecting the Group.

The Group does not have an internal audit function since the administrative function is very small. Instead there is a detailed Director review and authorisation of transactions. The annual audit by the Group auditor, which tests a sample of transactions, did not highlight any significant system improvements in order to reduce risks.

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

The Group maintains appropriate insurance cover in respect of actions taken against the Executive Directors because of their roles, as well as against material loss or claims against the Group. The insured values and type of cover are comprehensively reviewed on a periodic basis.

Corporate social responsibility
Sareum is a small, motivated team of professional people which operates to high standards. These standards include a commitment to best practice in meeting the Company's social responsibilities.

Health and safety
The Company is proactive in considering the safety of staff, visitors and the public. It had no notifiable safety incidents during the year and no working days were lost due to accidents.

Employees
Sareum 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 were held with staff where issues were discussed in an open manner.

Environment
Sareum disposes of its waste products using reputable agents. The Company's landlord provides these agents to enable it to recycle its waste as appropriate.

Remuneration Committee report

Introduction
The Company recognises the value of the Code on Corporate Governance issued by the London Stock Exchange. It seeks to comply with the Code so far as is 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 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 currently comprises Dr Paul Harper, Non-executive Chairman. It meets at least once a year to review salaries and share option schemes for the Directors. During the year it met to consider the Directors' salaries.

Remuneration policy
Remuneration packages are designed to be competitive and to reward above average performance. At present, Executive Directors receive a salary, death-in-service benefit, critical illness and medical cover and a 6.375% pension contribution. No share option agreements have been introduced for Directors.

Executive Directors' service contracts
The two full-time Executive Directors have executive service agreements with the Company dated 7 July 2004. The service agreements were subject to termination upon six months' notice being given by either party.

For the year from 1 July 2008 a Directors' bonus scheme was in effect to reward the Directors based on performance targets that build shareholder value.

Pensions
The Group does not have a pension scheme but makes contributions to Executive Directors' personal pension schemes of 6.375% of annual salary.

Share option schemes
In setting up share option schemes for staff, the Committee took into account the recommendations of shareholder bodies, such as that of 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 Committee did not initiate a share option scheme for Executive Directors. It approved the following share incentive arrangements for staff:

> an Inland Revenue approved (EMI) share option scheme (approved scheme); and

> an unapproved share option scheme (unapproved scheme), identical to the approved scheme but for part-time staff who do not fulfil the EMI employment criteria.

At the beginning of the period under review there were a total of 13,725,000 options outstanding at an exercise price of 2.00 pence per share. During the year no new options were granted and all 13,725,000 outstanding options lapsed under the rules of the scheme, due to employees leaving the Company. This brings the total share options outstanding, as at 30 June 2009, to zero.

Non-executive Directors
The Non-executive Chairman entered into a letter of engagement dated 19 September 2004. Members may request copies of this letter by sending a stamped addressed envelope to the Company Secretary. The appointment can be terminated by either party giving six months' notice.

Directors' remuneration
In September 2008, the Remuneration Committee proposed, and the Board agreed, that in light of the economic climate and circumstances of the Company, Directors' salaries should be reduced. Details of Directors' annual remuneration as at 30 June 2009 are set out below:

	Salary £	Healthcare £	Emoluments £	Pension £	Total £
Executive Directors					
Dr TJ Mitchell	80,000	1,288	81,288	5,100	86,388
Dr JC Reader	80,000	1,129	81,129	5,100	86,229
Non-executive Directors					
Dr PB Harper	12,000	—	12,000	—	12,000
Total	**172,000**	**2,417**	**174,417**	**10,200**	**184,617**

Independent auditor's report

To the members of Sareum Holdings plc

We have audited the financial statements of Sareum Holdings plc for the year ended 30 June 2009 on pages 11 to 24. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's shareholders, as a body, in accordance with Sections 495 and 496 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's shareholders 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 shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor
As explained more fully in the Statement of Directors' responsibilities set out on page 6, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements
In our opinion:

> the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 30 June 2009; and of the Group's loss for the year then ended;

> the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;

> the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and

> the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion:

> the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

> adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us;

> the parent company financial statements are not in agreement with the accounting records and returns;

> certain disclosures of Directors' remuneration specified by law are not made; or

> we have not received all the information and explanations we require for our audit.

Alastair Mein (Senior Statutory Auditor)
for and on behalf of Shipleys LLP
Chartered Accountants and Statutory Auditor
10 Orange Street
Haymarket
London WC2H 7DQ
26 October 2009

Consolidated income statement

For the year ended 30 June 2009

	Notes	2009 £	2008 £
Revenue	2		
Discontinued operations		**31,600**	1,502,507
Operating expenses			
Continuing operations		**(1,170,007)**	(2,938,480)
Discontinued operations	3	**(14,669)**	(580,307)
		(1,184,676)	(3,518,787)
Operating profit/(loss)			
Continuing operations		**(1,170,007)**	(2,938,480)
Discontinued operations	3	**16,931**	922,200
		(1,153,076)	(2,016,280)
Finance costs	5	**(3,092)**	(36,236)
Finance income	5	**14,436**	32,927
Loss before tax	6	**(1,141,732)**	(2,019,589)
Tax	7	**67,860**	327,232
Loss for the year		**(1,073,872)**	(1,692,357)
Attributable to:			
Equity holders of the parent		**(1,073,872)**	(1,692,357)
Loss per share expressed in pence per share:	9		
Basic		**(0.13)p**	(0.28)p
Diluted		**(0.13)p**	(0.27)p

Consolidated statement of recognised income and expense

For the year ended 30 June 2009

	2009 £	2008 £
Loss for the financial year	**(1,073,872)**	(1,692,357)
Total recognised income and expense for the year	**(1,073,872)**	(1,692,357)
Attributable to:		
Equity holders of the parent	**(1,073,872)**	(1,692,357)

Consolidated balance sheet

30 June 2009

	Notes	2009 £	2008 £
Assets			
Non-current assets			
Intangible assets	10	**1,575**	25,836
Property, plant and equipment	11	**1,170**	723,843
		2,745	749,679
Current assets			
Trade and other receivables	13	**33,619**	283,702
Tax receivable		**67,860**	324,570
Cash and cash equivalents	14	**273,977**	480,851
		375,456	1,089,123
Liabilities			
Current liabilities			
Trade and other payables	15	**51,639**	224,322
Financial liabilities – borrowings:			
Interest bearing loans and borrowings	16	**—**	88,390
		51,639	312,712
Net current assets		**323,817**	776,411
Non-current liabilities			
Financial liabilities – borrowings:			
Interest bearing loans and borrowings	16	**—**	125,656
Net assets		**326,562**	1,400,434
Shareholders' equity			
Called up share capital	18	**204,524**	204,524
Share premium	19	**5,401,631**	5,401,631
Merger reserve	19	**27**	27
Retained earnings	19	**(5,279,620)**	(4,205,748)
Total equity		**326,562**	1,400,434

The financial statements were approved by the Board of Directors on 26 October 2009 and were signed on its behalf by:

Dr Tim Mitchell
Director

Company balance sheet

30 June 2009

	Notes	2009 £	2008 £
Assets			
Non-current assets			
Investments	12	**30,000**	30,000
Trade and other receivables	13	—	5,156,561
Net assets		**30,000**	5,186,561
Shareholders' equity			
Called up share capital	18	**204,524**	204,524
Share premium	19	**5,401,631**	5,401,631
Retained earnings	19	**(5,576,155)**	(419,594)
Total equity		**30,000**	5,186,561

The financial statements were approved by the Board of Directors on 26 October 2009 and were signed on its behalf by:

Dr Tim Mitchell
Director
Registered number: 5147578

Consolidated cash flow statement

For the year ended 30 June 2009

	Notes	2009 £	2008 £
Cash flows from operating activities			
Cash used in operations	25	**(1,035,382)**	(1,847,123)
Interest paid		**(3,092)**	(36,236)
Tax received		**324,570**	198,103
Net cash used in operating activities		**(713,904)**	(1,685,256)
Cash flows from investing activities			
Purchase of intangible fixed assets		**—**	(6,500)
Purchase of tangible fixed assets		**(351)**	(83,065)
Sale of tangible fixed assets		**706,991**	—
Interest received		**14,436**	32,927
Net cash from/(used in) investing activities		**721,076**	(56,638)
Cash flows from financing activities			
Repayment of leasehold improvements loan		**(34,830)**	(26,472)
Capital element of finance leases		**(179,216)**	(138,009)
Share issue		**—**	89,572
Share premium on issue of shares		**—**	1,637,328
Net cash (used in)/from financing activities		**(214,046)**	1,562,419
Decrease in cash and cash equivalents		**(206,874)**	(179,475)
Cash and cash equivalents at beginning of year	26	**480,851**	660,326
Cash and cash equivalents at end of year	26	**273,977**	480,851

Notes to the consolidated financial statements

For the year ended 30 June 2009

1. Accounting policies

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention.

Going concern

Sareum Holdings plc is a research and development based business, with at present no currently marketed products. The Directors, who regularly review forecasts of trading and cash flows and compare these with available funding, consider that the Group has sufficient resources for the foreseeable future and thus they continue to adopt the going concern basis in the preparation of these financial statements. This opinion is underwritten by the funds raised since the year end whereby the Group has raised £815,000, before expenses, by way of three placings of new ordinary shares on AIM.

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:

Intellectual property	–	straight-line over five years

Tangible fixed assets

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life or, if held under a finance lease, over the lease term, whichever is the shorter.

Leasehold improvements	–	the remaining life of the lease
Laboratory equipment	–	straight-line over four years
Fixtures and computers	–	straight-line over three or four years

Taxation

Current taxes are based on the results shown in the financial statements and are calculated according to local tax rules, using tax rates enacted or substantially enacted by the balance sheet date.

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

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 differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on the tax rates and laws enacted or substantively enacted at the balance sheet date.

Research and development

Research and development expenditure is written off in the year in which it is incurred.

Finance leases and hire purchase contracts

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

Notes to the consolidated financial statements continued

For the year ended 30 June 2009

1. Accounting policies continued

Operating lease agreements

Rentals applicable to operating leases where substantially all 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.

Revenue recognition

The revenue shown in the profit and loss account relates to the provision of research and development services and the hire of equipment. The revenue recognised represents the value of work completed within the period.

Employee share scheme

The Company operates share-based incentive schemes. The cost of awards to employees, being the difference between the market price at the date of the award and the amount of consideration due, is recognised over the period of the employee's related performance where there is a reasonable expectation that the performance criteria will be met. The share options granted during the year are calculated to have a zero fair value under IFRS 2 using the Black-Scholes pricing model.

Pension contributions

The Group does not operate a pension scheme for the benefit of its employees, but instead makes contributions to their personal pension policies. The contributions due for the period are charged to the profit and loss account.

2. Turnover

The turnover and loss before taxation are attributable to the principal activities of the Group.

An analysis of turnover by geographical market is given below:

	2009 **£**	2008 £
United Kingdom	**—**	330,552
Rest of Europe	**31,600**	691,153
USA	**—**	480,802
	31,600	1,502,507

3. Discontinued operations

The discontinued operation consists of the service business that was sold on 26 August 2008. The operating expenses of the discontinued operation represent the directly attributable costs of the service business.

4. Employees and Directors

	2009 **£**	2008 £
Directors' emoluments	**190,119**	372,437
Compensation for loss of office	**39,590**	—
Directors' pension contributions to money purchase schemes	**10,715**	18,622

The number of Directors to whom retirement benefits were accruing was as follows:

	2009 **Number**	2008 Number
Money purchase schemes	**3**	4

4. Employees and Directors continued

Information regarding the highest paid Director is as follows:

	2009 £	2008 £
Emoluments, etc.	**82,115**	97,560
Pension contributions to money purchase schemes	**4,941**	5,530

Staff costs	2009 £	2008 £
Wages and salaries	**434,234**	1,415,081
Social security costs	**33,679**	156,831
Other pension costs	**28,192**	82,254
	496,105	1,654,166

The average monthly number of employees during the year was as follows:

	2009 Number	2008 Number
Office and management	**1**	8
Research	**3**	25
	4	33

5. Net finance income/(costs)

	2008 £	2008 £
Finance income:		
Deposit account interest	**14,436**	32,927
Finance costs:		
Loan for leasehold improvements	**734**	5,602
Capital leases	**2,358**	30,634
	3,092	36,236
Net finance income/(costs)	**11,344**	(3,309)

6. Loss before tax

The loss before tax is stated after charging:

	2009 £	2008 £
Other operating leases	**176,148**	144,077
Depreciation – owned assets	**23,738**	263,413
Depreciation – assets on finance leases	**9,355**	110,643
Loss on disposal of fixed assets	**5,706**	—
Intellectual property amortisation	**1,495**	11,345
Auditor's remuneration	**9,000**	9,250
Auditor's remuneration for non-audit work:		
– taxation services	**750**	850
Foreign exchange differences – (gain)/loss	**(2,595)**	7,934
Research and development	**474,660**	2,169,439
Exceptional cost – redundancy	**146,683**	—

Notes to the consolidated financial statements continued

For the year ended 30 June 2009

7. Tax

Analysis of the tax credit

	2009 £	2008 £
Current tax		
Tax	**67,860**	327,232
Total tax credit in income statement	**67,860**	327,232

Factors affecting the tax charge

The tax assessed for the year is higher (2008: higher) than the standard rate of corporation tax in the UK. The difference is explained below:

	2009 £	2008 £
Loss on ordinary activities before tax	**(1,141,732)**	(2,019,589)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 21% (2008: 20.25%)	**(239,764)**	(408,966)
Effects of:		
Expenses not allowable for tax purposes	**11,871**	658
Capital allowances in excess of depreciation	**(41,713)**	(124,814)
Unutilised tax losses	**170,625**	122,339
Losses surrendered for research and development tax credits	**98,981**	410,783
Research and development tax credits claimed	**67,860**	324,569
Prior year under provision	**—**	2,663
Total tax	**67,860**	327,232

Factors that may affect future tax charges

Tax charges in future periods will be affected by unrelieved tax losses of approximately £2,814,474 which remain available to offset against future taxable trading profits.

8. Loss of parent company

As permitted by the Companies Act the profit and loss account of the parent company is not presented as part of these financial statements. The parent company's loss for the financial year was (£5,156,561) (2008: (£109,797)).

The loss represents costs of £99,740 (2008: £109,797) associated with the Company's obligations to maintain its AIM listing as well as a provision of £5,056,821 (2008: £nil) for impairment of amounts owed by Group's undertakings.

9. Earnings per share

Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders by 818.098 million, being the weighted average number of ordinary shares outstanding during the period (2008: 598.110 million).

Diluted loss per share is calculated using the weighted average number of shares adjusted to assume the conversion of all dilutive potential ordinary shares. In Sareum's case these potential shares represent 7 million (2008: 21 million) options at two pence per share. Of these nil (2008: 14 million) are staff options and the remaining 7 million (2008: 7 million) options are exercisable by Ellis Stockbrokers and lapse in October 2009.

10. Intangible assets

Group	Intellectual property £
Cost	
At 1 July 2008	57,264
Disposals	(54,311)
At 30 June 2009	**2,953**
Amortisation	
At 1 July 2008	31,428
Amortisation for year	1,495
Disposals	(31,545)
At 30 June 2009	**1,378**
Net book value	
At 30 June 2009	**1,575**
At 30 June 2008	25,836

11. Property, plant and equipment

Group	Leasehold improvements £	Laboratory equipment £	Fixtures and computers £	Total £
Cost				
At 1 July 2008	416,876	1,272,727	63,946	1,753,549
Additions	—	—	351	351
Disposals	(416,876)	(1,272,727)	(54,537)	(1,744,140)
At 30 June 2009	**—**	**—**	**9,760**	**9,760**
Depreciation				
At 1 July 2008	140,802	846,229	42,675	1,029,706
Charge for year	3,761	26,515	2,817	33,093
Disposals	(144,563)	(872,744)	(36,902)	(1,054,209)
At 30 June 2009	**—**	**—**	**8,590**	**8,590**
Net book value				
At 30 June 2009	**—**	**—**	**1,170**	**1,170**
At 30 June 2008	276,074	426,498	21,271	723,843

The net book value in respect of assets held under finance leases is as follows:

	2009 £	2008 £
Laboratory equipment	—	263,179
Fixtures and computers	—	4,871
	—	268,050

Notes to the consolidated financial statements continued

For the year ended 30 June 2009

12. Investments

Company	Shares in Group undertakings £
Cost	
At 1 July 2008 and 30 June 2009	30,000
Net book value	
At 30 June 2009	**30,000**
At 30 June 2008	30,000

On 5 July 2004, the Company acquired 100% of the issued share capital of Sareum Limited; a company incorporated in England and Wales and operating in the United Kingdom. In consideration, the shareholders in Sareum Limited received ordinary shares in Sareum Holdings plc and a loan to finance its operations. This event was not an acquisition in the normal way but purely a mechanism for floating Sareum Limited on AIM.

13. Trade and other receivables

	Group		Company	
	2009 £	2008 £	**2009 £**	2008 £
Current				
Trade debtors	**862**	157,737	**—**	—
Other debtors	**1,464**	1,982	**—**	—
VAT	**2,888**	754	**—**	—
Prepayments and accrued income	**28,405**	123,229	**—**	—
	33,619	283,702	**—**	—
Non-current				
Amounts owed by Group undertakings	**—**	—	**—**	5,156,561
Aggregate amounts	**33,619**	283,702	**—**	5,156,561

The Directors have confirmed that they will not seek repayment of the inter-company balance owing from Sareum Limited within the next twelve months, and therefore this balance is considered to be repayable in more than a year from the balance sheet date. The Directors have also considered the recoverability of the inter-company balance and have made provision for the full value of the debt.

14. Cash and cash equivalents

	Group	
	2009 £	2008 £
Bank deposit account	**930**	385,000
Bank accounts	**273,047**	95,851
	273,977	480,851

15. Trade and other payables

	Group 2009 £	Group 2008 £
Current		
Trade creditors	**25,898**	126,827
Social security and other taxes	**5,802**	36,689
Other creditors	**2,097**	9,999
Accruals and deferred income	**17,842**	50,807
	51,639	224,322

16. Financial liabilities – borrowings

	Group 2009 £	Group 2008 £
Current		
Loan for leasehold improvements	—	34,830
Finance leases (see note 15)	—	53,560
	—	88,390
Non-current		
Finance leases (see note 15)	—	125,656

17. Leasing agreements

Minimum lease payments under finance leases fall due as follows:

Group	2009 £	2008 £
Net obligations repayable:		
– within one year	—	53,560
– between one and five years	—	125,656
	—	179,216

At 30 June 2009 the Group was committed to making the following payments during the next year in respect of operating leases:

Group	Land and buildings 2009 £	Land and buildings 2008 £
Expiring:		
– within two to five years	**10,600**	—
– after five years	—	144,400

Notes to the consolidated financial statements continued

For the year ended 30 June 2009

18. Called up share capital

Authorised

Number	Class	Nominal value	**2009 £**	2008 £
40,000,000,000	Ordinary shares	0.025p	**10,000,000**	10,000,000

Alloted, issued and fully paid

Number	Class	Nominal value	**2009 £**	2008 £
818,097,713 (2008: 818,097,713)	Ordinary shares	0.025p	**204,524**	204,524

19. Reserves

Group	Retained earnings £	Share premium £	Merger reserve £	Totals £
At 30 June 2008	(4,205,748)	5,401,631	27	1,195,910
Deficit for the year	(1,073,872)	—	—	(1,073,872)
At 30 June 2009	**(5,279,620)**	**5,401,631**	**27**	**122,038**

Company	Retained earnings £	Share premium £	Totals £
At 30 June 2008	(419,594)	5,401,631	4,982,037
Deficit for the year	(5,156,561)	—	(5,156,561)
At 30 June 2009	**(5,576,155)**	**5,401,631**	**(174,524)**

20. Pension commitments

The Group makes contributions to its employees' own personal pension schemes. The contributions for the period of £28,193 (2008: £82,254) are charged to the profit and loss account. At the balance sheet date contributions of £2,097 (2008: £9,999) were owed and are included in creditors.

21. Contingent liabilities

There are no contingent liabilities (2008: £nil).

22. Related party disclosures

During the period no fees (2008: £34,263) were paid to Doppio LLP for consultancy services. Giorgio Reggianni, a partner of Doppio LLP, was a Director of Sareum Holdings plc between 21 September 2007 and 11 July 2008.

23. Reconciliation of movements in shareholders' funds

Group	2009 £	2008 £
Loss for the financial year	**(1,073,872)**	(1,692,357)
New equity share capital	**—**	89,572
Premium on new share capital	**—**	1,637,328
	(1,073,872)	34,543
Net addition to reserves		
Opening shareholders' funds	**1,400,434**	1,365,891
Closing shareholders' funds	**326,562**	1,400,434

Company	2009 £	2008 £
Loss for the financial year	**(5,156,561)**	(109,797)
New equity share capital	**—**	89,572
Premium on new share capital	**—**	1,637,328
Net (reduction)/addition to reserves	**(5,156,561)**	1,617,103
Opening shareholders' funds	**5,186,561**	3,569,458
Closing shareholders' funds	**30,000**	5,186,561

24. Post balance sheet events

On 11 September 2009 the Group raised £315,000, before expenses, by way of a placing of 157,500,000 new ordinary shares of 0.025 pence nominal value in the capital of Sareum Holding plc at a price of 0.2 pence per share.

On 15 October 2009 the Group raised £450,000, before expenses, by way of a placing of 180,000,000 new ordinary shares of 0.025 pence nominal value in the capital of Sareum Holding plc at a price of 0.25 pence per share.

On 19 October 2009 the Group raised £50,000, before expenses, by way of a placing of 20,000,000 new ordinary shares of 0.025 pence nominal value in the capital of Sareum Holding plc at a price of 0.25 pence per share.

25. Reconciliation of loss before tax to cash used in operations

	2009 £	2008 £
Continuing operations		
Loss before tax	**(1,156,168)**	(2,941,789)
Depreciation charges	**34,588**	385,402
Loss on disposal of fixed assets	**5,706**	—
Finance costs	**3,092**	36,236
Finance income	**(14,436)**	(32,927)
	(1,127,218)	(2,553,078)
Discontinued operations	**14,436**	922,200
Decrease in trade and other receivables	**250,083**	358,036
Decrease in trade and other payables	**(172,683)**	(574,281)
Cash used in operations	**(1,035,382)**	(1,847,123)

Notes to the consolidated financial statements continued

For the year ended 30 June 2009

26. Cash and cash equivalents

The amounts disclosed on the cash flow statement in respect of cash and cash equivalents are in respect of these balance sheet amounts:

Year ended 30 June 2009	30 June 2009 £	1 July 2008 £
Cash and cash equivalents	**273,977**	480,851

Year ended 30 June 2008	30 June 2008 £	1 July 2007 £
Cash and cash equivalents	480,851	660,326

27. Deferred tax

No provision has been made in the Group's accounts and the amounts not provided for at the end of the year are as follows:

	2009 £	2008 £
Excess of depreciation on fixed assets over taxation allowance claimed	**(6,784)**	(9,025)
Tax losses available	**(591,040)**	(420,414)
	(597,824)	(429,439)

A potential deferred tax asset of £597,824 has not been recognised, as the Directors do not believe that the Group will make sufficient taxable profits in the foreseeable future to justify a provision. The deferred tax asset would be recognised should sufficient profits be generated in the future against which it may be recovered.

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