Sareum

Specialists in Cancer Drug Discovery and Development

Sareum Holdings plc
Annual Report and Accounts 2013

About us

Building value through drug discovery and licensing

Sareum is a specialist drug discovery and development company.

Based in Cambridge and accessing a worldwide network of collaborators and contract research providers, Sareum produces targeted small molecule therapeutics to treat cancer and autoimmune diseases.

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

Visit us online

www.sareum.co.uk

Our website provides comprehensive information about our business including the latest news on our drug discovery programmes and investor information.

Our year

Our CHK1 and Aurora+FLT3 kinase programmes have produced high quality drug candidates for pre-clinical development and subsequent partnering. New data from our TYK2 programme is generating strong interest from potential license partners.

2012

September / **October**
£4 million Standby Equity Distribution Agreement (SEDA) financing facility arranged with YA Global Master SPV Ltd

November / **December**
Sareum made its first draw down of £200,000 against the £4m SEDA

2013

January / **February**
The US Patent and Trademark Office has issued notification that a patent will be granted for one of Sareum's key drug discovery inventions

March
Sareum made its second draw down of £350,000 against the £4m SEDA

April / **May**
Sareum and SRI International announce agreement to advance development of TYK2 inhibitors

June
Sareum notified of grant award from UK Technology Strategy Board to advance FASN inhibitors

July / **August**
Pre-clinical development candidate selected for Aurora+FLT3 inhibitor programme

September / **October**
Sareum entered into a co-development agreement with the Cancer Research Technology Pioneer Fund and BACIT Ltd to advance the CHK1 inhibitor

Operational highlights

- Collaboration announced with SRI International for continued development of TYK2 programme
- US patent grant for SKIL® platform and compounds
- TSB Biomedical Catalyst grant awarded to support continued development of fatty acid synthase (FASN) programme

Financial highlights

- Loss on ordinary activities (after taxation) £539,000 (2012: £651,000) slightly ahead of market expectations
- £4 million SEDA financing facility arranged with YA Global Master SPV Ltd. Used to draw down £200,000 and £350,000 in December and March respectively
- Cash at bank and in hand of £422,000 (2012: £511,000)

Post period-end highlights

- Agreement with CRT Pioneer Fund and BACIT Ltd to advance CHK1 programme
- Pre-clinical development candidate selected for Aurora+FLT3 programme

Our strategy

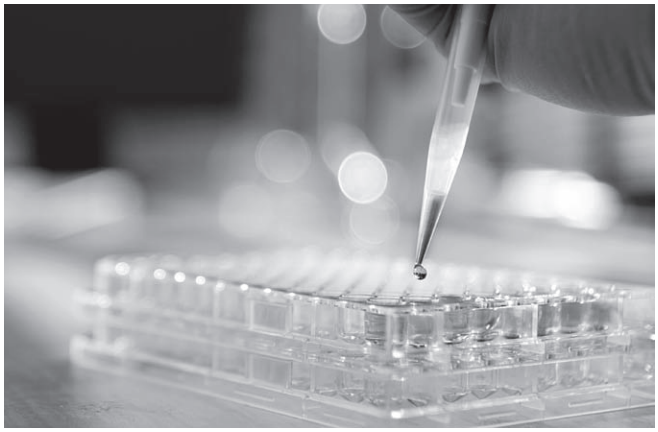
Focused on developing best in class therapies for cancer and autoimmune diseases

Our strategy is to focus on developing best in class therapies for cancer and autoimmune diseases.

We utilise a worldwide network of collaborators and contract research organisations to provide chemistry and biology resources to make and characterise our novel small molecule drug candidates.

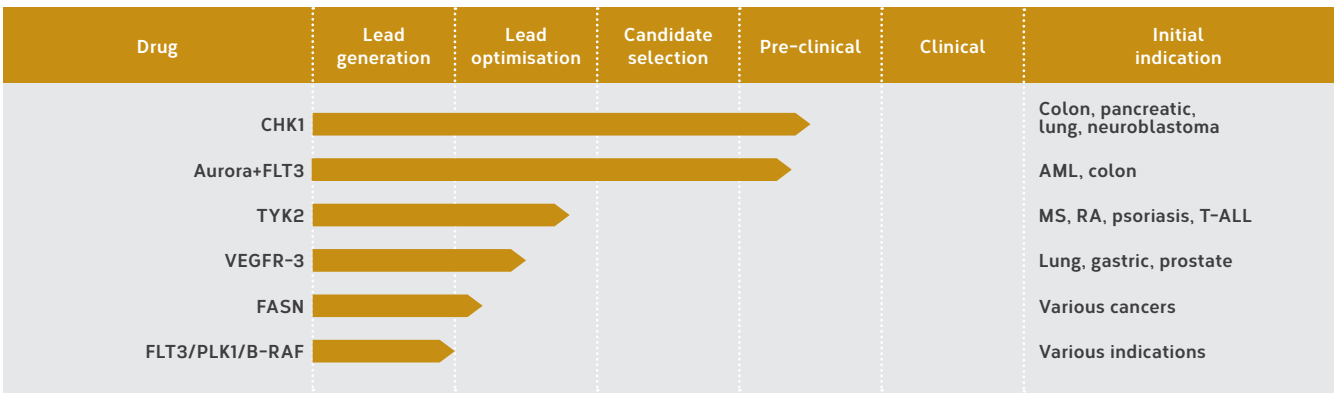
Our business model has developed over the last twelve months to focus more heavily on external collaborations. To read more about the work we are involved in at present, please see our research programmes on » pages 5 and 6.

We aim to license our research programmes to larger pharmaceutical companies at the pre-clinical or early clinical trials stages.



Our Sareum Kinase Inhibitor Library (SKIL®) technology platform comprises the chemistry and expertise to generate quality kinase inhibitors with strong IP protection.

Drug research pipeline



Technology platform

Built on the expertise of its founders in pre-clinical drug discovery

Sareum operates as a "virtual" research organisation, meaning all our research is carried out in the laboratories of collaborators and third-party providers. This enables us to access drug discovery expertise throughout the world with a very flexible cost base.

Our process starts by identifying initial inhibitors of a kinase target we are interested in. Most often these are identified by cross screening SKIL® compounds, generated in existing programmes, against a wide panel of kinase enzymes. Once compounds with suitable inhibitory activity and selectivity are identified, the design-synthesis-test cycles of drug discovery begin.

1 Design

To design new SKIL® molecules with improved potency and selectivity, we use a combination of structure-activity relationship analysis, structure-based design and our own experience with this class of enzyme target. Structure-activity relationship analysis (or SAR, from which the Company name is derived) is the study of how changes to the chemical structure of the inhibitor molecules relate to changes in biological activity. Structure-based design is the study of how the inhibitor molecules fit into the binding site of the enzyme target. As well as considering the potency and selectivity of a new molecule, our experience in medicinal chemistry and drug discovery includes considerations of potential toxicity and reactivity, ease of chemical synthesis and the way a new molecule will be distributed in cells and tissues. This design work is carried out in-house.

2 Synthesis

This is where samples of purified chemical material are generated from our designed chemical structures. This work is carried out by one of our network of research providers, after discussion with us on how the molecule will be synthesised, to what amount and purity and at what price. The samples and analytical data confirming the structure and purity are shipped to us.

3 Test

We use our expertise and drug discovery experience to design a screening cascade that identifies the best of our molecules to be advanced into further, more expensive and time consuming analysis. Typically we would test our molecules on isolated kinase enzymes before advancing into studies on cancer cells. We also test for stability and distribution into cells, before carefully selecting a subset to test for distribution and efficacy in *in vivo* models. Again, these testing activities are carried out by our research provider partners, with the decisions on what molecule to be analysed in which test being taken in-house. The information from each series of tests is used to assist in the design of new molecules which should show improved properties.

4 Candidate molecule

At the start of a programme, we draw out a specification of a candidate molecule: its properties and required test results specification. Once a molecule has reached this specification we can declare it as a candidate for formal pre-clinical development. Ideally, more than one molecule per programme should reach this specification, so that we have a backup in case of any unforeseen problems in later development.

5 Commercialisation

Simultaneously, an active campaign continues to draw these results to the attention of companies seeking to acquire programmes such as these. In particular, the results of our research are presented at important conferences and seminars that focus on cancer and cancer drugs. Commercial deals may take the form of a licence, co-development or sponsored research. A mix of up-front, research, success milestone and royalty payments are key to these deals.

Chairman's and Chief Executive's statement

> The Company has matured considerably over the period, with real progress made in our key programmes.

In summary

- The new investment collaboration for CHK1 kinase inhibitor programme will provide greater financial resources and expertise.
- The co-development partnership to advance Sareum's tyrosine kinase 2 (TYK2) small molecule drug discovery programme gives Sareum access to world-class autoimmune disease biology and drug development expertise.
- Sareum continues to engage in discussions with potential partners for the Aurora+FLT3 kinase inhibitor programme.
- The Company was awarded a grant of £150,000 in support of its fatty acid synthase (FASN) research programme by the Biomedical Catalyst.

This year has seen Sareum broaden its approach of aiming to out-license its drug discovery programmes at pre-clinical or discovery stage to include entering into collaboration and co-development partnerships intended to bring its programmes to a late pre-clinical or early clinical stage before seeking a licensing deal.

As noted in the Company's Half-Yearly Report and Research Update of 18 February 2013, the Directors believe there is a greater appetite amongst pharmaceutical companies for in-licensing at these later development stages. The more lucrative licensing deal terms that can be achieved at these stages are expected to more than compensate for the cost and risk involved, thus providing a greater return to shareholders in the medium to longer term.

Whilst we will assess how we develop and commercialise each programme on a case by case basis, the Board recognises that there are multiple benefits to taking a collaborative approach to later pre-clinical and early clinical development.

In the case of the CHK1 kinase Inhibitor programme announcement at the end of September 2013, the new investment collaboration will provide greater financial resources and expertise for the programme. It will enable Sareum to progress through what would otherwise be a relatively costly pre-clinical and Phase 1 clinical development stage without the need to divert resources from its other research programmes. Finally, this approach also gives Sareum the potential upside of higher asset values associated with programmes developed to a clinical stage.

The main benefit of the co-development partnership, announced in April 2013, to advance Sareum's tyrosine kinase 2 (TYK2) small molecule drug discovery programme in collaboration with the US research and development institute SRI International is that it gives Sareum access to world-class autoimmune disease biology and drug development expertise in a complex area of biology that is outside of Sareum's expertise, and offsets a significant amount of the ongoing research costs.

We continue to engage in discussions with potential partners for the Aurora+FLT3 kinase inhibitor programme. The selection of a pre-clinical development candidate for this programme (announced July 2013) and the grant in the USA of one of the patents that protects the compounds associated with the programme (announced February 2013) enhances the data package that we can present to potential licence and collaboration partners.

We are continuing with our strategy to outsource laboratory research since this allows us to maintain a low operational cost base and maximise our ability to make efficient use of our cash. During the year the Company was awarded a grant of £150,000 in support of its fatty acid synthase (FASN) research programme by the Biomedical Catalyst, which is operated by the Technology Strategy Board. The availability of the £4 million SEDA facility also provides us with a measure of flexibility to support ongoing development work across all our programmes. During the year the Company successfully raised a total of £550,000 (gross) through two draw down calls on this facility. While the SEDA facility will remain an important way of financing ongoing activities, the Directors will also consider all other funding options available to the Company.

Net assets at the year end were £439,000, principally arising from the cash at bank and in hand of £422,000. The loss after taxation was £539,000 (2012: £651,000), slightly ahead of market expectations. This is in part due to the reduced R&D expenditure requirement as a result of the SRI collaboration for the TYK2 programme and the TSB grant for the FASN programme.

Outlook

The Directors believe that the Company has matured considerably over the period, with real progress made in our key programmes. Our broadened approach of entering into collaborations where appropriate, and moving programmes from discovery to pre-clinical status, is a clear endorsement of the team's ability to generate attractive drug development candidates and support these with quality data.

Going forward, the Board will judge each programme on merit and pursue the commercialisation strategy that it believes will generate the best shareholder returns. At the same time, we will be looking outside the Company to identify assets in development, either in oncology or other therapeutic areas, where Sareum's expertise could be used to accelerate development either as a co-development activity or through in-licensing.

In summary, we are expecting a busy period in the year ahead with activities on a number of fronts all aimed at building the value of research assets in the business and reaping some rewards for the research and development completed to date.

Paul Harper PhD
Chairman
9 October 2013

Tim Mitchell PhD
Chief Executive Officer

Research programmes

CHK1 kinase inhibitors

Safety pharmacology studies performed to date on the programme's pre-clinical development candidate support its progression towards the clinic. Oral bioavailability has been demonstrated in three species, strengthening our expectation that the compound will be able to be administered via the oral route in future clinical studies. In addition, several peer reviewed journal articles on the programme's lead compounds have been published, describing their efficacy in pre-clinical models as single agents and in combination with chemo and radiotherapy.

In further studies, in *in vivo* models of acute myeloid leukaemia (AML) and neuroblastoma, compounds from our CHK1 inhibitor programme dosed alone demonstrated significant reductions in tumour growth rates compared to controls receiving no treatment. These compounds were administered via the oral route. We have continued to add more data on the performance and safety of our lead compound to build the dossier used to brief potential future partners and to support potential future clinical trials applications.

The recently announced agreement with CPF and BACIT now allows the completion of the pre-clinical development of the CHK1 candidate. These studies focus on two main areas: demonstrating control of the production of the candidate molecule and an assessment of its safety profile. Successful conclusion of these studies, which are expected to take up to 18 months, will allow the submission of a clinical trials application, which, if approved, would allow the initiation of first-in-human trials in cancer patients. It is envisaged that such trials will assess the safety of the molecule as a single agent and in combination with standard-of-care chemotherapy at one of the world's leading cancer specialist hospitals, The Royal Marsden.

Under the terms of the licence agreement with CPF, Sareum and the originating research partners, CRT and the ICR, are entitled to an up-front fee plus success milestone and royalty payments. As the collaboration progresses, Sareum will provide a proportion, amounting to up to £800,000 in the year to June 2014, of the funding required. Benefits are expected to accrue in terms of shared sub-licence revenues and maintaining an interest in a more valuable asset that has both safety and clinical data.

Aurora+FLT3 kinase inhibitors

Progress on the Company's Aurora kinase inhibitors continued as planned having been evaluated in *in vivo* efficacy models. Aurora kinase is involved in the control of mitosis (cell division), and FLT3 kinase over-activation is the most common mutation in AML (the most common form of adult leukaemia) patients. Aurora+FLT3 kinase inhibitors have the potential to treat various forms of cancer, including AML. We previously announced the successful results of a model study measuring the effect of one of our dual Aurora+FLT3 inhibitors against AML. The study showed that the leukaemia regressed to such an extent that no detectable cancer could be found in any of the ten cases treated with a Sareum compound. The study compared favourably with similar studies published in literature for the Aurora kinase inhibitors that are currently in clinical trials.

We subsequently generated and tested further analogues of this lead compound and in July 2013 announced the selection of a pre-clinical development candidate. The candidate demonstrates the same level of efficacy as the previous lead compound in a model of AML, but has an improved early safety profile and better ADME (absorption, distribution, metabolism, excretion) properties. The candidate was also screened against a range of haematological cancer cell types and showed particular promise against acute lymphoblastic leukaemia (ALL) in addition to AML. We will continue to evaluate the candidate in further disease models, focusing particularly on leukaemias, whilst we initiate the pre-clinical development.

We continue to seek licensing or co-development partners for this programme, which is wholly owned by Sareum, and to optimise a sub-group of programme compounds that can be orally dosed. The recent grant of a US patent (as announced on 7 February 2013) that protects Sareum's intellectual property on this programme should provide any prospective partner with further confidence in the programme's IP and strengthen our negotiating position.

Research programmes
(continued)

TYK2 kinase inhibitors

Our TYK2 kinase inhibitor programme is focused on autoimmune and inflammatory disorders such as multiple sclerosis, psoriasis and inflammatory bowel disease. This is a new area of biology and disease models in this therapeutic area are costly and complex. We were therefore delighted to reach an agreement with SRI International to collaborate in this area with their Center for Immunology and Infectious Diseases, and it is an endorsement of the quality of compound that our SKIL® platform is able to generate. SRI will use its own financial resources to carry out the biological testing whilst Sareum will continue to support the chemical programme as the data generated by SRI helps to develop the structure-activity relationship profile.

Although still in the early stages, the collaboration has made excellent progress to date. SRI has evaluated a set of Sareum compounds through a battery of *in vitro* and cellular assays to select the more promising, orally bioavailable compounds for progression into disease models. These models show a strong blocking of TYK2-dependent signalling and initial demonstrations of efficacy in a psoriasis model.

In the meantime a greater understanding of TYK2 biology has been developed by the scientific community. There is strong evidence to suggest that TYK2 inhibition will not lead to broad immunosuppression, which could leave patients susceptible to infections, and that small-molecule TYK2 inhibitors could be used as promising therapies for psoriasis, inflammatory bowel disease and multiple sclerosis.

Other programmes

VEGFR-3

Through our SKIL® platform, the Company has developed chemical leads that inhibit the activity of VEGFR-3 kinase, which is often over-expressed in many different types of cancer including lung, gastric and prostate. We have a lead series of compounds that demonstrate potent inhibition of lymph cell growth by selectively inhibiting VEGFR-3. Lymph vessels are known to be a major route of metastasis, therefore inhibitors of VEGFR-3 have the potential to reduce, delay or inhibit the spread of cancer throughout the body. However, we have prioritised our research spend on other programmes whilst we investigate grant funding opportunities alongside a partner with the necessary biology expertise to assist us in the progression of this programme. Meanwhile, we await with interest the results of early clinical trials on another company's product with a similar mode of action.

FASN

In April we were pleased to be notified by the Technology Strategy Board of a grant of up to £150,000 from the Biomedical Catalyst to support our FASN inhibitor programme. Over-expression of FASN is common in many cancers and has been linked to poor prognosis and reduced disease-free survival. Sareum has developed a novel chemical series that shows promising efficacy in breast cancer cell models. The funding is enabling the Company to explore further the potential of the chemical series. Initial results have been promising, and we hope to be able to report progress during the next few months.

Directors and Company information

Paul Harper PhD
Non-executive Chairman
Dr Paul Harper, aged 67, has over 30 years' experience in the life sciences industry covering both drug development and medical devices. He is Chairman of Physiomics plc and Director of Reneuron Holdings plc, both AIM quoted companies. In addition, he is Chairman of Oxford Medical Diagnostics Ltd and Monica Healthcare Ltd. Paul has served as Chief Executive of Cambridge Antibody Technology Limited and founded 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 CEO
Dr Tim Mitchell, aged 53, has over 25 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 Ltd 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 CSO
Dr John Reader, aged 46, has 20 years' experience within the industry and was formerly Associate Director, Chemical Technologies at Millennium Pharmaceuticals Research and Development Ltd, 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.

Directors
T Mitchell PhD
J Reader PhD
P Harper PhD

Secretary
T Bunn FCMA

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Auditor
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Chartered Accountants
and Statutory Auditor
10 Orange Street
Haymarket
London WC2H 7DQ

Report of the Directors

for the year ended 30 June 2013

The Directors present their report with the financial statements of the Company and the Group for the year ended 30 June 2013.

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

The loss for the year was £539,131 and at 30 June 2013 cash and cash equivalents amounted to £421,611.

On 10 September 2012 Sareum announced that it had entered into a £4.0 million Standby Equity Distribution Agreement (SEDA) with YA Global Master SPV Ltd, an investment fund managed by Yorkville Advisors LLC (Yorkville).

The SEDA is intended to provide a flexible source of future funding to support ongoing drug research activities as well as reassurance to potential commercial partners that Sareum has access to other funds, in addition to any anticipated licence deal income.

Subject to its terms, the £4.0 million SEDA facility can be used entirely at the discretion of the Company. Under the terms of the SEDA, Sareum may draw down funds over a period of up to three years in exchange for the issue of new Ordinary shares in the Company. The Ordinary shares will be issued at a 5% discount to the lowest volume weighted average price during the pricing period (a period of 20, 15, ten or five trading days as determined under the SEDA) following a draw down request. The Company may also set a minimum price for each draw down, which may reduce the size of the permitted draw down. The maximum advance that may be requested is 400% of the average daily trading volume of Ordinary shares multiplied by the volume weighted average price of such shares for each of the 20 trading days following the draw down request and with an overall advance limit of £500,000 per draw down. The facility may only be drawn upon once every ten trading days. Yorkville is not obliged to allow draw downs to the extent they would result in Yorkville holding in excess of notifiable amounts specified under UK regulation (including the Takeover Code).

During the year the Group raised £550,000, before expenses, by drawing down £200,000 on 11 December 2012 and £350,000 on 2 April 2013 against the SEDA. The funds raised will underwrite the ongoing development of the Group's programmes.

Throughout the period under review the Group continued to develop its drug discovery programmes using outsourced biology and chemistry resources as well as exploring commercial opportunities with potential partners. In the future the Group will continue to build value from its in-house research and development by seeking to advance and commercialise its drug discovery programmes.

This is exemplified by the announcement by the Group on 24 September 2013 that it had entered into a co-development agreement with the Cancer Research Technology Pioneer Fund (CPF) and London Stock Exchange-listed investment company, BACIT Ltd, to advance the Checkpoint Kinase 1 (CHK1) inhibitor candidate through pre-clinical development and Phase 1 clinical trials. On commercialisation of the programme, Sareum will be entitled to a share of revenues proportional to its investment under the agreement. As part of the agreement, Sareum expects to commit up to £800,000 to the programme during the financial year ending 30 June 2014.

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 2013.

Research and development

The Group undertakes research and development on its cancer and autoimmune disease programmes. Further information is provided in the Chairman's and Chief Executive's statement. The costs relating to this which have been written off during the year amounted to £266,899 (2012: £330,974).

Directors

The Directors shown below have held office during the whole of the period from 1 July 2012 to the date of this report:

Tim Mitchell PhD

John Reader PhD

Paul Harper PhD

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 2013, the invoices representing the trade creditors of the Group had an average age of 44 days (2012: 67 days) based on the average daily amount invoiced by suppliers to the Group during the year.

Financial instruments

Details regarding the Group's use of financial instruments and their associated risks are given in note 16 to the consolidated financial statements.

Key performance indicators

The Directors consider cash and spending on research and development to be the Group's key performance indicators. A budget is approved by the Board at the beginning of each financial year and performance is regularly monitored against budget with significant variances investigated.

Principal risks

The principal risks facing the Group are the following:

- the drug discovery programmes undertaken may fail due to fundamental scientific uncertainty;
- the Group may not complete sufficient commercial partnerships to create a sustainable business; and
- it may not be possible to raise sufficient funding to support the Company through to profitability.

The Directors address these uncertainties by reviewing reports on scientific progress, business development and financial status at the monthly Board meetings and implementing alternative plans to reduce the risks if these are considered necessary.

Statement of directors' responsibilities

The Directors are responsible for preparing the Report of the Directors and 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 by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they 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 accounting estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and 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 responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions.

Statement as to disclosure of information to auditor

So far as the Directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) 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:

T Bunn FCMA
Secretary
9 October 2013

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

The Board of Directors comprises 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 AGM 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, Non-executive Chairman, and Dr Tim Mitchell, CEO. 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, Non-executive 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 12.

Shareholder relations

The Company meets with its institutional shareholders and analysts as appropriate and uses the AGM 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.

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. This it does 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 types 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.

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 Combined Code on Corporate Governance issued by the London Stock Exchange. It seeks to comply with the Combined 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 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 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.

Remuneration policy

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

Executive Directors' service contracts

The two full-time Executive Directors have executive service agreements with the Company dated 7 July 2004. The service agreements are subject to termination upon six months' notice being given by either party and are subject to standard terms in the event of termination.

For the year from 1 July 2012 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 amounting to 6.375% of annual salary. In addition, the Executive Directors contribute to their pension schemes via salary sacrifice and the National Insurance savings made by the Group as a result of this arrangement are added to the Group's contributions.

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 and the criteria for vesting. 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.

The interests in the share option schemes of the Directors who served during the year were as follows:

Director	Share scheme	Exercise price pence	As at 1 July 2012 No.	Granted during the year No.	Lapsed during the year	As at 30 June 2013 No.
Dr Tim Mitchell	EMI	0.25	6,400,000	–	–	6,400,000
Dr Tim Mitchell	EMI	0.26	6,153,846	–	–	6,153,846
Dr Tim Mitchell	EMI	1.2	2,566,666	–	–	2,566,666
Dr John Reader	EMI	0.25	6,400,000	–	–	6,400,000
Dr John Reader	EMI	0.26	6,153,846	–	–	6,153,846
Dr John Reader	EMI	1.2	2,566,666	–	–	2,566,666

The market price of the shares at 30 June 2013 was 0.90 pence and the range during the year was 0.625 pence to 2.075 pence.

Non-executive Directors

The Non-executive Chairman entered into a letter of engagement dated 19 September 2004. Members may request copies of the 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

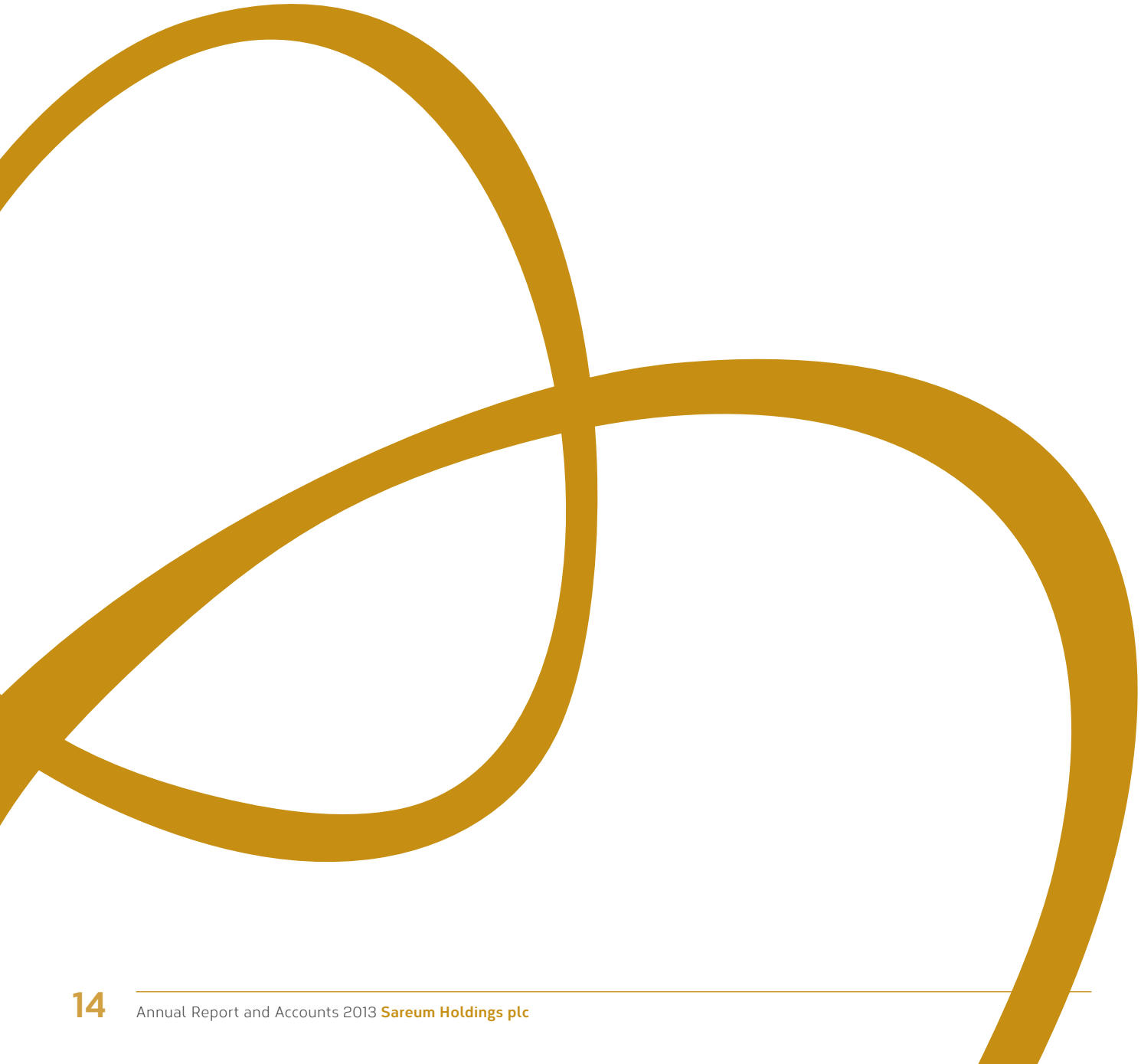
Details of Directors' annual remuneration as at 30 June 2013 are set out below:

	Salary £	Healthcare £	Emoluments £	Pension £	**Total 2013 £**	Total 2012 £
Executive Directors						
Dr TJ Mitchell	88,000	874	88,874	6,749	**95,623**	95,494
Dr JC Reader	88,000	753	88,753	7,310	**96,063**	95,869
Non-executive Directors						
Dr PB Harper	15,000	–	15,000	–	**15,000**	15,000
Total	191,000	1,627	192,627	14,059	**206,686**	206,363

The values reported here are contractual amounts as at the year-end date. Directors' emoluments disclosed in the financial statements are actual payments made during the year and may be different.

Financial statements

FINANCIAL STATEMENTS CONTENTS



Report of the independent auditor

to the members of Sareum Holdings plc

We have audited the financial statements of Sareum Holdings plc for the year ended 30 June 2013 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated and Company Balance Sheet, Consolidated and Company Statement of Changes in Equity, Consolidated and Company Cash Flow Statement and related notes. 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, and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 a Report of the Auditor 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 auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 9, 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 and express an opinion on 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 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. In addition, we read all the financial and non-financial information in the Report of the Directors to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the parent company's affairs as at 30 June 2013 and of the Group's loss for the year then ended;
- 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.

Opinion on other matter 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 matters where the Companies Act 2006 requires us 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; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- 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.

Joseph Kinton (Senior Statutory Auditor)
for and on behalf of Shipleys LLP
Chartered Accountants and Statutory Auditor
10 Orange Street
Haymarket
London WC2H 7DQ
9 October 2013

Consolidated income statement

for the year ended 30 June 2013

	Notes	2013 £	2012 £
CONTINUING OPERATIONS			
Revenue		**–**	–
Administrative expenses		**(606,134)**	(726,660)
OPERATING LOSS		**(606,134)**	(726,660)
Finance income	4	**3,332**	4,821
LOSS BEFORE INCOME TAX	5	**(602,802)**	(721,839)
Income tax	6	**63,671**	71,276
LOSS FOR THE YEAR		**(539,131)**	(650,563)
Loss attributable to:			
Owners of the parent		**(539,131)**	(650,563)
Earnings per share expressed in pence per share:	8		
Basic and diluted		**(0.04)p**	(0.04)p

Consolidated statement of comprehensive income

for the year ended 30 June 2013

	2013 £	2012 £
LOSS FOR THE YEAR	**(539,131)**	(650,563)
OTHER COMPREHENSIVE INCOME	**–**	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**(539,131)**	(650,563)
Total comprehensive income attributable to:		
Owners of the parent	**(539,131)**	(650,563)

Consolidated balance sheet

30 June 2013

	Notes	2013 £	2012 £
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	9	–	–
Property, plant and equipment	10	–	363
Investments	11	–	–
		–	363
CURRENT ASSETS			
Trade and other receivables	12	**41,828**	30,972
Tax receivable		**55,585**	61,362
Cash and cash equivalents	13	**421,611**	510,555
		519,024	602,889
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	14	**79,922**	122,874
NET CURRENT ASSETS		**439,102**	480,015
NET ASSETS		**439,102**	480,378
SHAREHOLDERS' EQUITY			
Called up share capital	17	**380,384**	370,075
Share premium	18	**7,611,588**	7,131,433
Share-based compensation reserve	18	**53,864**	46,473
Merger reserve	18	**27**	27
Retained earnings	18	**(7,606,761)**	(7,067,630)
TOTAL EQUITY		**439,102**	480,378

The financial statements were approved by the Board of Directors on 9 October 2013 and were signed on its behalf by:

T Mitchell PhD
Director

Company balance sheet

30 June 2013

	Notes	2013 £	2012 £
ASSETS			
NON-CURRENT ASSETS			
Investments	11	**30,000**	30,000
Trade and other receivables	12	**–**	–
		30,000	30,000
LIABILITIES			
NET CURRENT LIABILITIES		**–**	–
NET ASSETS		**30,000**	30,000
SHAREHOLDERS' EQUITY			
Called up share capital	17	**380,384**	370,075
Share premium	18	**7,611,588**	7,131,433
Share-based compensation reserve	18	**53,864**	46,473
Retained earnings	18	**(8,015,836)**	(7,517,981)
TOTAL EQUITY		**30,000**	30,000

The financial statements were approved by the Board of Directors on 9 October 2013 and were signed on its behalf by:

T Mitchell PhD
Director

Consolidated statement of changes in equity

for the year ended 30 June 2013

	Called up share capital £	Retained earnings £	Share premium £
Balance at 1 July 2011	362,649	(6,417,067)	6,901,816
Changes in equity			
Issue of share capital	7,426	–	229,617
Total comprehensive income	–	(650,563)	–
Share-based compensation	–	–	–
Balance at 30 June 2012	370,075	(7,067,630)	7,131,433
Changes in equity			
Issue of share capital	10,309	–	480,155
Total comprehensive income	–	(539,131)	–
Share-based compensation	–	–	–
Balance at 30 June 2013	**380,384**	**(7,606,761)**	**7,611,588**

	Share-based compensation reserve £	Merger reserve £	Total equity £
Balance at 1 July 2011	28,338	27	875,763
Changes in equity			
Issue of share capital	–	–	237,043
Total comprehensive income	–	–	(650,563)
Share-based compensation	18,135	–	18,135
Balance at 30 June 2012	46,473	27	480,378
Changes in equity			
Issue of share capital	–	–	490,464
Total comprehensive income	–	–	(539,131)
Share-based compensation	7,391	–	7,391
Balance at 30 June 2013	**53,864**	**27**	**439,102**

Company statement of changes in equity

for the year ended 30 June 2013

	Called up share capital £	Retained earnings £	Share premium £	Share-based compensation reserve £	Total equity £
Balance at 1 July 2011	362,649	(7,262,803)	6,901,816	28,338	30,000
Changes in equity					
Issue of share capital	7,426	–	229,617	–	237,043
Total comprehensive income	–	(255,178)	–	–	(255,178)
Share-based compensation	–	–	–	18,135	18,135
Balance at 30 June 2012	370,075	(7,517,981)	7,131,433	46,473	30,000
Changes in equity					
Issue of share capital	10,309	–	480,155	–	490,464
Total comprehensive income	–	(497,855)	–	–	(497,855)
Share-based compensation	–	–	–	7,391	7,391
Balance at 30 June 2013	**380,384**	**(8,015,836)**	**7,611,588**	**53,864**	**30,000**

Consolidated cash flow statement

for the year ended 30 June 2013

	Notes	2013 £	2012 £
Cash flows from operating activities			
Cash used in operations	24	**(652,188)**	(672,142)
Tax received		**69,448**	70,004
Net cash used in operating activities		**(582,740)**	(602,138)
Cash flows from investing activities			
Interest received		**3,332**	4,821
Net cash from investing activities		**3,332**	4,821
Cash flows from financing activities			
Share issue		**10,309**	7,426
Share premium on share issue		**480,155**	229,617
Net cash from financing activities		**490,464**	237,043
Decrease in cash and cash equivalents		**(88,944)**	(360,274)
Cash and cash equivalents at beginning of year	25	**510,555**	870,829
Cash and cash equivalents at end of year	25	**421,611**	510,555

Company cash flow statement

for the year ended 30 June 2013

	Notes	2013 £	2012 £
Cash flows from operating activities			
Cash used in operations	24	**(490,464)**	(237,043)
Net cash used in operating activities		**(490,464)**	(237,043)
Cash flows from financing activities			
Share issue		**10,309**	7,426
Share premium on share issue		**480,155**	229,617
Net cash from financing activities		**490,464**	237,043
Increase in cash and cash equivalents		**–**	–
Cash and cash equivalents at beginning of year	25	**–**	–
Cash and cash equivalents at end of year	25	**–**	–

Notes to the consolidated financial statements

for the year ended 30 June 2013

1. Adoption of new and revised international financial reporting standards

In the current year, the Group has adopted all of the revised Standards and Interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations.

The Group has adopted the following new and amended IFRS and IFRIC interpretation during the year. Adoption of this revised standard and interpretation did not have any effect on the financial performance or financial position of the Group in the current or prior periods.

- Amendments to IAS 1 'Presentation of Financial Statements' – presentation of items of other comprehensive income

At the date of authorisation of these financial statements, the following standards and interpretations relevant to the Group that have not been applied in these financial statements were in issue but not yet effective or endorsed (unless otherwise stated):

- IAS 19* Amendment to 'Employee Benefits' (applies to periods beginning from 1 January 2013)
- IFRS 10** 'Consolidated Financial Statements' (applies to periods beginning from 1 January 2013)
- IFRS 12** 'Disclosure of Interests in Other Entities' (applies to periods beginning from 1 January 2013)
- IFRS 13* 'Fair Value Measurement' (applies to periods beginning from 1 January 2013)
- IFRS 7* Amendment to 'Financial Instruments: Disclosures' (applies to periods beginning from 1 January 2013)

* Endorsed by the European Union.

** Endorsed by the European Union for periods starting on or after 1 January 2014.

The Directors anticipate that the adoption of these standards and interpretations in future years will have no material impact on the financial statements of the Group.

No Standards or Interpretations adopted in the year had any material impact on the financial statements of the Group.

2. Accounting policies

Basis of preparation

The consolidated financial statements of Sareum Holdings plc and its subsidiaries (the Group) have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted for use in the European Union, with 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.

IFRS comprise standards and interpretations approved by the IASB. IFRS as adopted by the European Union differ in certain respects from IFRS as issued by the IASB. However, consolidated financial statements for the financial years presented would be no different had IFRS as issued by the IASB been applied. References to IFRS hereafter should be construed as references to IFRS as adopted by the European Union.

Going concern

Sareum Holdings plc is a research and development based business with, at present, no currently marketed products. The Directors consider that the cash held by the Group, together with financing from the Standby Equity Distribution Agreement, described in more detail in the Report of the Directors, will be sufficient to support the Group's activities for the foreseeable future and therefore the financial statements have been prepared on a going concern basis.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 30 June each year. Control is achieved where the Company has the power to govern the financial and operating policies of another entity or business, so as to obtain benefits from its activities. The consolidated financial statements present the results of the Company and its subsidiaries (the Group) as if they formed a single entity. Inter-company transactions and balances between group companies are eliminated on consolidation.

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

Property, plant and equipment

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life.

Fixtures and computers	– straight line over three or four years

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.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and demand deposits and other short term highly liquid investments that are readily convertible to a known amount of cash and are subject to insignificant risk of change in value.

Notes to the consolidated financial statements
(continued)

2. Accounting policies (continued)

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
Expenditure on research and development is written off in the year in which it is incurred.

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.

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.

Employee share scheme
The Group has in place a share option scheme for employees, which allows them to acquire shares in the Company. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value of options granted is recognised as an expense spread over the estimated vesting period of the options granted. Fair value is measured using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted.

3. Employees and directors

	2013 £	2012 £
Wages and salaries	**194,000**	184,500
Social security costs	**19,397**	18,546
Other pension costs	**14,215**	13,420
	227,612	216,466

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

	2013	2012
Office and management	**1**	1
Research	**1**	1
	2	2

	2013 £	2012 £
Directors' remuneration	**192,385**	184,092
Directors' pension contributions to money purchase schemes	**14,215**	13,420

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

Money purchase schemes	**2**	2

The Directors comprise the key management personnel of the Group. Further information regarding directors' remuneration is provided in the Remuneration Committee report.

4. Net finance income

	2013 £	2012 £
Finance income:		
Deposit account interest	**3,332**	4,821

5. Loss before income tax

The loss before income tax is stated after charging:

	2013 £	2012 £
Other operating leases	**10,688**	10,686
Depreciation - owned assets	**363**	488
Intellectual property amortisation	**–**	393
Research and development	**266,899**	330,974
Auditor's remuneration - see analysis below	**11,975**	11,750

The analysis of auditor's remuneration is as follows:

	2013 £	2012 £
Fees payable to the Company's auditor for the audit of the annual accounts		
Audit of the Company	**4,100**	4,000
Audit of subsidiaries	**6,600**	6,500
Total audit fees	**10,700**	10,500
Fees payable to the Company's auditor for other services		
Taxation services	**1,275**	1,250
Total fees payable to the Company's auditor	**11,975**	11,750

6. Income tax

	2013 £	2012 £
Current tax:		
UK corporation tax credit on losses of the period	**(55,585)**	(61,362)
Adjustments recognised in the current year in relation to the current tax of prior years	**(8,086)**	(9,914)
Tax credit to the Income Statement	**(63,671)**	(71,276)

The credit for the year can be reconciled to the accounting loss as follows:

	2013 £	2012 £
Loss before tax	**(602,802)**	(721,839)
At standard rate of 20% (2012: 20%)	**(120,560)**	(144,368)
Effects of:		
Expenses not allowable for tax purposes	**–**	11,627
Capital allowances in excess of depreciation	**(546)**	(657)
Unutilised tax losses	**76,189**	91,041
Losses surrendered for research and development tax credits (less uplift)	**44,917**	42,357
Research and development tax credits claimed	**(55,585)**	(61,362)
Prior year adjustments	**(8,086)**	(9,914)
Actual current tax credit in the year	**(63,671)**	(71,276)

The tax rate used above for the 2013 and 2012 reconciliations of 20% and 20% respectively are the small company corporation tax rates applicable in the United Kingdom, on taxable profits under tax law in that jurisdiction.

Notes to the consolidated financial statements
(continued)

7. Loss of parent company

As permitted by Section 408 of the Companies Act 2006, the income statement of the parent company is not presented as part of these financial statements. The parent company's loss for the financial year was £497,855 (2012: £255,178 loss).

The loss represents costs of £102,966 (2012: £134,019) associated with the Company's obligations to maintain its AIM listing, the share-based compensation adjustment of £7,391 (2012: £18,135) and a provision of £387,498 (2012: £103,024) for impairment of amounts owed by group undertakings.

8. Earnings per share

The calculation of loss per share is based on the following data:

	2013	2012
Loss on ordinary activities after tax	**£(539,131)**	£(650,563)
Weighted average number of shares for basic loss per share	**1,494,114,039**	1,452,212,949
Basic and diluted loss per share	**(0.04)p**	(0.04)p

As the Group has generated a loss for the period, there is no dilutive effect in respect of share options.

9. Intangible assets

Group	Intellectual property £
COST	
At 1 July 2012 and **30 June 2013**	2,953
AMORTISATION	
At 1 July 2012 and **30 June 2013**	2,953
NET BOOK VALUE	
At 30 June 2013	–
At 30 June 2012	–

10. Property, plant and equipment

Group	Fixtures and computers £
COST	
At 1 July 2012 and **30 June 2013**	6,083
DEPRECIATION	
At 1 July 2012	5,720
Charge for year	363
At 30 June 2013	6,083
NET BOOK VALUE	
At 30 June 2013	–
At 30 June 2012	363

11. Investments

Company	Shares in group undertakings £
COST	
At 1 July 2012 and **30 June 2013**	30,000
NET BOOK VALUE	
At 30 June 2013	30,000
At 30 June 2012	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. Sareum Limited is included within the consolidated financial statements of Sareum Holdings plc.

12. Trade and other receivables

	Group	
	2013 £	2012 £
Current:		
VAT	**6,273**	5,803
Prepayments and accrued income	**35,555**	25,169
	41,828	30,972

	Company	
	2013 £	2012 £
Non-current:		
Amounts owed by group undertakings	**7,020,896**	6,633,398
Provision for impairment	**(7,020,896)**	(6,633,398)
	–	–

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.

Notes to the consolidated financial statements
(continued)

13. Cash and cash equivalents

	Group	
	2013	2012
	£	£
Bank deposit account	**411,797**	500,115
Bank accounts	**9,814**	10,440
	421,611	510,555

14. Trade and other payables

	Group	
	2013	2012
	£	£
Current:		
Trade creditors	**54,765**	97,033
Social security and other taxes	**5,937**	5,782
Other creditors	**2,891**	2,735
Accrued expenses	**16,329**	17,324
	79,922	122,874

The Company has no creditors outstanding at the year end date.

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit term agreed with suppliers is 30 days and payment is generally made within the agreed terms.

15. Leasing agreements

Group

	Non-cancellable operating leases	
	2013	2012
	£	£
Within one year	**10,600**	10,600
Between one and five years	**5,300**	15,900
	15,900	26,500

The outstanding commitments represent rental payments due under the lease for the Group's office premises which expires in December 2014. The lease does not include any onerous restriction of the Group's activities.

Company

The Company had no lease commitments at 30 June 2013.

16. Financial instruments

The Group's principal financial instruments are trade and other receivables, trade and other payables and cash. The main purpose of these financial instruments is to finance the Group's ongoing operational requirements. The Group does not trade in derivative financial instruments.

The major financial risks faced by the Group, which remained unchanged throughout the year, are interest rate risk, foreign exchange risk and liquidity risk.

Policies for the management of these risks are shown below and have been consistently applied.

16. Financial instruments (continued)

Market risks

INTEREST RATE RISK

The Group is exposed to interest rate risk as cash balances in excess of immediate needs are placed on short term deposit. The Group seeks to optimise the interest rates received by continuously monitoring those available.

FOREIGN EXCHANGE RISK

The Group's activities expose it to fluctuations in the exchange rate for the Euro and the US dollar.

Funds are maintained in Sterling and foreign currency is acquired on the basis of committed expenditure.

The Group's results are not considered to be materially sensitive to the above risks and therefore no sensitivity analysis has been provided.

Non-market risks

LIQUIDITY RISK

The Board has responsibility for reducing exposure to liquidity risk and ensures that adequate funds are available to meet anticipated requirements from existing operations by a process of continual monitoring.

17. Called up share capital

Allotted, issued and fully paid:

Number	Class	Nominal value	2013 £	2012 £
1,521,538,263 (2012: 1,480,303,593)	Ordinary shares	0.025p	**380,384**	370,075

The ordinary shares carry equal rights in respect of voting at a general meeting of shareholder, payment of dividends and return of assets in the event of a winding up.

In December 2012 11,872,254 ordinary shares of 0.025 pence were issued at 1.685 pence per share, and in April 2013 a further 29,362,416 ordinary shares of 0.025 pence were issued at 1.192 pence per share.

Details of share options granted can be found in note 23 to the financial statements, Share-Based Payment Transactions.

18. Reserves

Reserve	Description and purpose.
Share capital	Amount of the contributions made by shareholders in return for the issue of shares.
Share premium	Amount subscribed for share capital in excess of nominal value.
Merger reserve	Premium on shares issue in consideration of the acquisition of subsidiaries.
Retained earnings	Cumulative net gains and losses recognised in the consolidated and the Company Balance Sheet.
Share-based compensation reserve	Cumulative fair value of share option granted and recognised as an expense in the Income Statement.

Details of movements in each reserve are set out in the Consolidated Statement of Changes in Equity on page 19.

19. Pension commitments

The Group makes contributions to its employees' own personal pension schemes. The contributions for the period of £14,215 (2012: £13,420) are charged to the profit and loss account. At the balance sheet date contributions of £2,886 (2012: £2,729) were owed and are included in creditors.

20. Contingent liabilities

There are no contingent liabilities (2012: £nil).

21. Related party disclosures

Disclosure regarding the remuneration of key management personnel is given in note 3, Employees and Directors, and in the Remuneration Committee report.

Transactions between the Company and its subsidiary, Sareum Limited, which is a related party, have been eliminated on consolidation. The ultimate holding company of the Group is Sareum Holdings plc.

During the year, Sareum Holdings plc continued to provide an interest free loan to Sareum Limited, further details of which can be found in note 12 to the financial statements.

Notes to the consolidated financial statements
(continued)

22. Reconciliation of movements in shareholders' funds

Group	2013 £	2012 £
Loss for the financial year	**(539,131)**	(650,563)
Issue of share capital	**490,464**	237,043
Share-based compensation reserve	**7,391**	18,135
Net reduction of shareholders' funds	**(41,276)**	(395,385)
Opening shareholders' funds	**480,378**	875,763
Closing shareholders' funds	**439,102**	480,378

Company	2013 £	2012 £
Loss for the financial year	**(497,855)**	(255,178)
Issue of share capital	**490,464**	237,043
Share-based compensation reserve	**7,391**	18,135
Opening shareholders' funds	**30,000**	30,000
Closing shareholders' funds	**30,000**	30,000

23. Share-based payment transactions

The Group operates a share option scheme under the Enterprise Management Incentive Scheme (EMI) for employees of the Group. If the options remain unexercised after a period of ten years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

Details of the share options outstanding during the year are as follows:

	2013		2012	
	Number of share options	**Weighted average exercise price (in pence)**	Number of share options	Weighted average exercise price (in pence)
Outstanding at beginning of period	**30,241,024**	**0.415**	25,107,692	0.255
Granted during the period	**–**	**–**	5,133,332	1.2
Forfeited during the period	**–**	**–**	–	–
Exercised during the period	**–**	**–**	–	–
Expired during the period	**–**	**–**	–	–
Outstanding at the end of the period	**30,241,024**	**0.415**	30,241,024	0.415
Exercisable at the end of the period	**15,120,512**	**0.415**	15,120,512	0.415

The options outstanding at 30 June 2013 had a weighted average remaining contractual life of seven years and three months (30 June 2012: eight years and three months). The options outstanding but not exercisable at 30 June 2013 and 30 June 2012 vest on the date upon which a significant commercial deal is signed by the Group.

Further information concerning share options granted to directors is provided in the Remuneration Committee report.

23. Share-based payment transactions (continued)

Fair value calculation

Fair value was estimated using the Black-Scholes model. The key data and assumptions used were:

Date of grant	March 2012	December 2010	December 2009
Share price	1.2 pence	0.25 pence	0.25 pence
Exercise price	1.2 pence	0.26 pence	0.25 pence
Volatility	50%	50%	83%
Time until maturity	three years	three years	three years
Risk free rate of interest	1%	1%	1%
Expected dividend yield	nil	nil	nil

Volatility for the options granted in March 2012 and December 2010 is based on share price performance for companies operating in a similar field. Volatility for the options granted in December 2009 is calculated using the Group's historical share price data and is the annual volatility at 30 June 2010.

The weighted average fair value of the share options at 30 June 2013 was 0.202 pence per share (2012: 0.202 pence per share). A fair value charge of £7,391 has been provided in the year (2012: £18,135).

24. Reconciliation of loss before income tax to cash generated from operations

Group

	2013 £	2012 £
Loss before income tax	**(602,802)**	(721,839)
Depreciation charges	**363**	881
Add back: Share-based compensation	**7,391**	18,135
Finance income	**(3,332)**	(4,821)
	(598,380)	(707,644)
(Increase)/decrease in trade and other receivables	**(10,856)**	9,796
(Decrease)/increase in trade and other payables	**(42,952)**	25,706
Cash used in operations	**(652,188)**	(672,142)

Company

	2013 £	2012 £
Loss before income tax	**(497,855)**	(255,178)
Add back: Impairment provision	**387,498**	103,024
Add back: Share-based compensation	**7,391**	18,135
	(102,966)	(134,019)
Increase in trade and other receivables	**(387,498)**	(103,024)
Cash used in operations	**(490,464)**	(237,043)

Notes to the consolidated financial statements
(continued)

25. Cash and cash equivalents
The amounts disclosed in the Cash Flow Statements in respect of cash and cash equivalents are in respect of these balance sheet amounts:

	Group		Company	
	30.6.13	**1.7.12**	**30.6.13**	**1.7.12**
Year ended 30 June 2013	**£**	**£**	**£**	**£**
Cash and cash equivalents	**421,611**	**510,555**	**–**	**–**

	30.6.12	1.7.11	30.6.12	1.7.11
Year ended 30 June 2012	£	£	£	£
Cash and cash equivalents	510,555	870,829	–	–

26. Capital risk management
The Group manages its capital to ensure that the Group and its subsidiary company will be able to continue as going concerns.

The capital structure of the Group consists of equity, comprising issued share capital and reserves as disclosed in notes 17 and 18, and cash and cash equivalents.

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:

	2013	2012
	£	£
Excess of depreciation on fixed assets over taxation allowances claimed	**(2,818)**	(3,364)
Tax losses available	**(846,389)**	(781,450)
	(849,207)	(784,814)

A potential deferred tax asset of £849,207 has not been recognised, as there is significant uncertainty that the Group will make sufficient profits in the foreseeable future to justify recognition. 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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