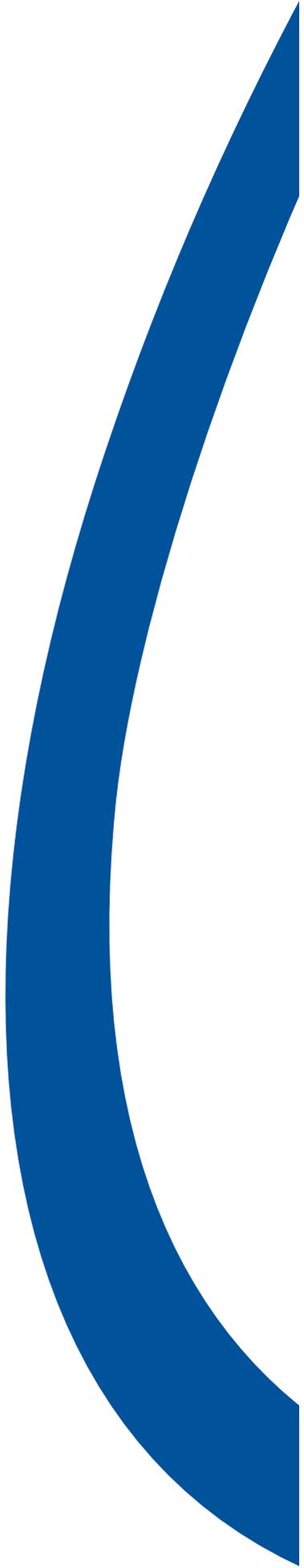




Sareum Holdings plc annual report and accounts 2005

Specialists in structure-based drug discovery



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Corporate statement

Sareum is an experienced and specialist structure-based drug discovery company that generates value by the discovery of new drugs for the treatment of cancer. This in-house drug discovery is in part funded from revenues generated by the supply of specialist drug discovery expertise to client companies. We accelerate and improve the productivity of discovery research using our proprietary technologies.

Sareum has an experienced team with a track record of delivering high quality results for pharmaceutical and biotechnology clients. Sareum's capabilities span the entire drug discovery value chain, from gene through to pre-clinical candidate. We carry out complete structure-based discovery programmes for creating novel pre-clinical drug candidates. Additionally, we undertake specific projects that enable clients to access our technology, manage their resource demands and complement their internal capabilities.

Structure-based drug discovery

Diseases, proteins and drugs

Proteins are large molecules found in all living beings and are indispensable for the life of the cell and the entire organism. Proteins have a wide variety of functions and responsibilities, from those that make up our hair (keratin) to those that defend us against microbes (antibodies).

Many diseases such as cancer, rheumatoid arthritis, asthma, diabetes and cardiovascular disorders are caused by overactive or inappropriate protein function. Many small molecule drugs are designed to block or inhibit the undesired function of disease-causing proteins by locking in to their biochemical machinery, thus lessening the effect of the disease-causing protein.

What we do

Sareum uses a structure-based approach to small molecule drug discovery, enabling our scientists to understand in great detail how potential drugs bind to their protein target. This allows medicinal chemistry to be conducted in a more rational manner, using the structure of the protein to direct the design and synthesis of new drug molecules.

How we do it

Gene to structure

To determine a protein's structure, a number of complex steps are taken which culminate in forming crystals of the protein and analysis using X-rays. In order to make protein that has the best chance of forming crystals, Sareum's scientists manipulate bacteria and/or insect cells to generate versions of the protein suitable for analysis. To form crystals, droplets of protein solution are suspended above a cocktail of drying agents. This slowly removes water from the protein solution and encourages the formation of crystals. Computational treatment of the X-ray analysis of the crystal reveals the atomic detail of the protein's 3-dimensional structure.

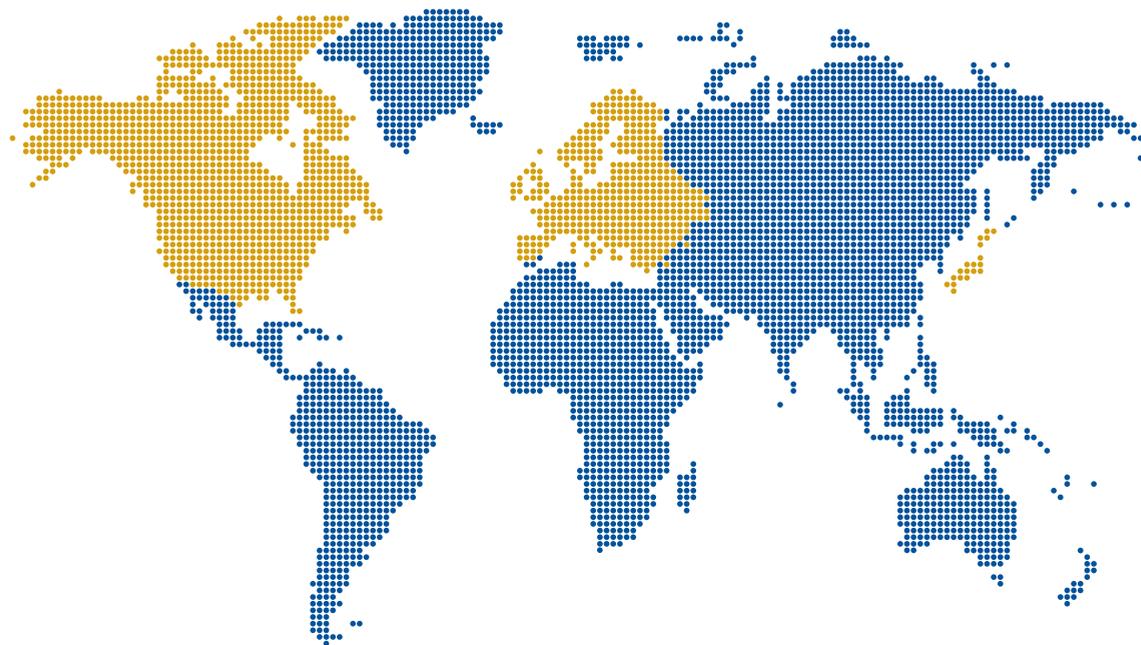
Structure to lead

Knowing the precise structure of a protein is very valuable – but it is still necessary to have chemical starting points, called leads, for development of a small molecule drug. Sareum has perfected a technique called template-based screening to provide leads for drug discovery. We have assembled a collection of diverse small molecules, which we refer to as templates, each of which could serve as a lead for subsequent development into a drug candidate. These templates are tested against the protein to see if they affect its function in a desired way – any that do are then crystallised with the protein and the combined protein-compound structure is determined by X-ray crystallography. This enables our scientists to understand exactly how these templates interact with their protein target; very powerful information when developing a lead into a drug.



A global reputation

Sareum is successfully engaged in collaborations with companies in Europe and the USA, and is actively seeking partners in Japan, a major market for outsourced pharmaceutical research. Our staff have experience both of working in Europe, North America and Japan and of providing research services to companies in these areas. Sareum is therefore well placed to compete in the global pharmaceutical market.



Lead to candidate

Once leads have been selected, these chemical starting points need to be modified to improve their effectiveness. We use our industry-leading, automated chemistry to rapidly generate focused libraries of molecules built around these leads. The ongoing use of 3-dimensional protein structures allows us to understand how our molecules interact with the protein and how to develop them further into drug candidates. This approach permits rapid optimisation of leads to provide candidates for clinical trials.





Sareum has enjoyed a productive and successful year. This good progress and solid performance reflects the dedication of the Board and the entire Sareum team to shareholder value.

Sareum is well equipped with the latest scientific equipment that enables its experienced staff to be highly productive.



Sareum Holdings plc has enjoyed a successful first full financial year of trading. The Company's primary purpose is the discovery of novel drugs for the treatment of cancer and in addition provides a range of specialist drug discovery services to the pharmaceutical industry to generate the revenues required to support our research programmes. The Company listed on the AIM Market of the London Stock Exchange in October 2004 and raised £1.75 million (net of expenses). Sareum has, this year, relocated its business to purpose-fitted state-of-the-art laboratories in Cambridge and has built a team of highly skilled scientists.

Sareum has created a unique approach to drug discovery that is capable of reducing by up to half the time it takes to discover drug candidates for pre-clinical and clinical trials. The Company now has the combination of resources and skills in structural biology, computational chemistry and high-throughput chemical synthesis required to deliver on our business plan.

The Company has made good progress in its in-house drug discovery programme, the number of available therapeutic targets being enhanced through collaboration. In addition, we have signed a number of revenue

generating deals with European and US drug discovery companies.

Our in-house drug discovery capability has flourished during the year. In December 2004 Sareum entered into its first such agreement with EiRx Therapeutics plc, a drug discovery company developing targeted therapies for cancer. This collaboration has made substantial progress to date. In this shared-risk agreement, Sareum is using its structure-based drug discovery expertise to rapidly discover and develop novel cancer therapies effective against gene targets identified by EiRx. Sareum aims to licence out successful candidate drugs to larger pharmaceutical companies once initial proof-of-concept has been demonstrated. Discovering and developing drug molecules that interact with novel therapeutic targets remains the Company's highest priority.

Sareum made good progress in obtaining revenue-generating service collaborations, with the announcement of four agreements. Our first contracts were signed soon after flotation. The first of these, with Inpharmatica Ltd, a privately-held UK drug discovery company, was to express and determine the structures of a series of novel, genomics-derived nuclear hormone receptor targets making full use of our leading

“We consider protein structure determination as an essential element in a modern drug discovery strategy”

Almirall Prodesfarma SA

“Sareum’s protein structure determination technologies and expertise will enhance Infinity’s ability to design better, more robust molecules for the creation of new cancer treatments.”

Infinity Pharmaceuticals Inc

capabilities in high-throughput protein expression.

A contract was signed with Millennium Pharmaceuticals Inc, the parent company from which the Sareum team emanated. This was important since it provided positive validation of Sareum’s capabilities by the company in which much of our technology platform was originally developed.

We also announced a fee-for-service agreement with Cancer Research Technology Ltd in December 2004 which was extended in April 2005 for a further six months.

A fee-for-service agreement was also announced in December 2004 with a quoted UK pharmaceutical company to provide protein structure determination services that will support the client’s research against diseases of the central nervous system. This collaboration represented a significant new deal for Sareum and in June 2005 Sareum received the success milestone payment.

In May 2005 Sareum announced a major improvement in its research capability. We were the first UK company to install a new generation of X-ray equipment for visualising protein structures in 3-D. This instrument significantly improves Sareum’s ability to determine protein structure which is a key part of its unique drug discovery platform. Acquisition of this state-of-the-art technology demonstrates Sareum’s continuing commitment to be on the leading-edge of drug discovery.

Progress to date has matched the strategy and forecast for the year. All the indicators for the next fiscal period point to strong positive

growth in both research activities and the generation of revenues to support the research.

Financials

During this period revenues amounted to £332,335, with approx. 75% of this figure being earned in the second half of the year, reflecting the continuing increase in business development activity throughout the year. Losses for the period were £1,243,758, representing a loss per share of 0.42p. Careful control of spending resulted in a cash position of £441,435 that was approx. £100,000 better than forecast.

On 4 March 2005 the Board of Sareum confirmed that it was in discussions with a party regarding an offer being made for the Company. On 25 April, Sareum announced that these discussions had been terminated and the company’s share price was affected adversely as a consequence. The Board is pleased to report that the share price has since improved and stabilised.

Outlook

Sareum has enjoyed a productive and successful year. This good progress and solid performance reflects the dedication of the Board and the entire Sareum team to shareholder value. The Directors continue to work to develop the Company’s structure-based drug discovery programmes and services business and remain confident about future prospects.

Dr Paul Harper

Chairman Sareum Holdings plc
19 September 2005

Summary

Financial highlights:

- Successful flotation on AIM, raising £1.75m net
- Revenues of £332,335 (2004: £21,050)
- Cash position over £100,000 better than budget

Business highlights:

- First in-house drug discovery collaboration announced
- Four revenue generating collaborations announced
- Worldwide business development established

Post year end highlights:

- Additional in-house drug discovery collaboration signed
- Continued success in generating new business
- “Crystal Bank” protein structure resource launched

Chief executive's review of operations



Our primary objective is to advance our in-house drug discovery pipeline to deliver drug candidates positioned to attract lucrative partnering deals with pharmaceutical companies.

Strategy and Business Model

Sareum's strategy is to support in-house research into novel cancer therapies by generating revenues through the provision of specialist drug discovery services to the pharmaceutical industry.

Our business model comprises two main components:

- Investment in proprietary research into novel cancer therapeutics to generate drug candidates for partnering with pharmaceutical companies at the early clinical or pre-clinical trials stage.

We are collaborating with leading cancer research companies, enabling us to share the risks involved in drug discovery and to access the specialist biology capabilities available from our chosen partners.

We entered our first in-house drug discovery collaboration with EiRx Therapeutics plc in December 2004 and subsequently announced a major collaboration with the Institute of Cancer Research and Cancer Research Technology.

During the next period we will continue to apply our unique and innovative structure-based approaches in these programmes to rapidly optimise the lead compounds currently under investigation. We expect to file drug patent applications during the coming year.

- Generation of revenues through the provision of specialist drug discovery services to pharmaceutical company customers.

Case study: Almirall Prodesfarma SA



"This collaboration with Sareum will allow Almirall to significantly leverage its drug discovery capacity."

In August Sareum released details of a collaborative agreement with Almirall Prodesfarma SA., a leading Spanish multinational pharmaceutical company. Sareum is providing protein structure determination capabilities to accelerate drug discovery research at Almirall.

Sareum will utilise its skills in high throughput protein expression, purification and structure determination with the aim of illustrating the precise nature of how Almirall's potential drug candidates interact with their target proteins. This information will assist Almirall's scientists in their design of new and improved therapeutics against inflammatory diseases.

Commenting on the agreement, Almirall's General Director for Research & Development, Dr José M^a Palacios, said: "We consider protein structure determination as an essential element in a modern drug discovery strategy, and we have high expectations that this collaboration with Sareum will allow Almirall to significantly leverage its Drug Discovery capacity."

Case study: Institute of Cancer Research and Cancer Research Technology



“Sareum’s technologies will add significantly to the rate of progress of the programme”

In July, Sareum announced a major drug discovery collaboration with the Institute of Cancer Research and Cancer Research Technology to develop new cancer treatments. A joint research team is working on cancer treatments which target a wide range of cancers.

Dr Keith Blundy, COO of Cancer Research Technology Limited said: “This partnership further exemplifies CRT’s role in bringing benefit to cancer patients by forming partnerships between cancer researchers and industry to accelerate the development of new therapies. Sareum’s technologies and the expertise of ICR will add significantly to the rate of progress of the programme.”

During this period we signed collaborations with Inpharmatica Ltd, Millennium Pharmaceuticals Inc, Cancer Research Technology Ltd and a quoted UK pharmaceutical company. Subsequently, we entered into a collaboration with Almirall Prodesfarma SA.

We recently announced “Crystal Bank”, a collection of therapeutically relevant proteins that we are using to accelerate the discovery of potential drug candidates. Crystal Bank demonstrates our ability to successfully solve the structures of important target proteins in drug discovery. It is also providing a significant source of new revenues.

We have been successful in signing revenue generating collaborations with companies in Europe and the USA. Our unique technology platforms and experienced scientific staff, combined with our integrated chemistry and biology capabilities have enabled us to meet and often exceed our customers’ expectations. As well as leading to repeat business, this track record provides solid evidence of our capabilities. This in turn has enhanced our ability to sign new collaborations and extend our customer base.

We will continue to build on this promising business development record. In addition to our ongoing activities in Europe and the USA we are now active in Japan, a major market for outsourced pharmaceutical research.

Objectives for the coming year

We look forward to successfully building on the solid foundation created in our first trading year.

Our primary objective is to advance our in-house drug discovery pipeline to deliver drug candidates positioned to attract lucrative partnering deals with pharmaceutical companies. We will continue to advance these programmes, filing drug patent applications during the coming year, and developing drug candidates for pre-clinical studies in 2007/8.

Given the time-frame to achieve pre-clinical status from our current programmes, we intend to obtain an interest in a cancer research program that is significantly nearer to the clinic, either by in-licence, collaboration or acquisition.

To generate the revenues to support our current drug discovery pipeline, we will continue to advance our worldwide business development pipeline. We aim to expand our current customer base, secure repeat business from our existing clients and secure larger collaborations with major pharmaceutical companies. We look forward to announcing successful results from these developing relationships.

Dr Tim Mitchell
CEO Sareum Holdings plc
19 September 2005

Sareum scientists accelerate their research using state-of-the-art techniques and equipment in Mass Spectrometry, Nuclear Magnetic Resonance and X-ray Diffraction, backed up by a powerful computer infrastructure.



Directors and advisers



Paul Harper PhD

Non-Executive Chairman

Dr Paul Harper, aged 59, 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 45, has 18 years' experience in the industry with key management and business expertise gained from his positions at Millennium Pharmaceuticals Ltd and Cambridge Discovery Chemistry Ltd. At Millennium he was a member of the management team and Director of the Structure-based Discovery department. As Director of Computational Chemistry at Cambridge Discovery Chemistry Ltd, Tim was responsible for the management of many drug discovery projects, both in the UK and overseas. He was also a key member of the business development team that secured these collaborations. Prior to that, he was 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.



David Williams PhD

Founder and VP Biological and Structural Sciences

Dr David Williams, aged 42, has 20 years' experience in the Pharmaceutical and Biotechnology sectors, establishing and running teams of drug discovery scientists, as well as managing pre-clinical pipelines. David was Director of Structural Sciences at Millennium Pharmaceuticals, a world-class department that he built in both the UK and US to service the needs of the company's four therapeutic areas. Prior to this role, he was Associate Director of Biomolecular Sciences at Medivir, Section Head of Molecular Immunology at Peptide Therapeutics (Acambis) and a Research Scientist at Roche Discovery Research. David has a PhD in Cell Signalling obtained with the former Imperial Cancer Research Fund, and a BSc in Applied Biology.

John Reader PhD

Founder and VP Chemistry

Dr John Reader, aged 38, has 12 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 Pharmacoepia 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. John is a member of the EPSRC Peer Review College and has a PhD in Chemistry and a BSc in Applied Chemistry.



Edward Oliver FCA

Finance Director

Edward Oliver, aged 63, is a Chartered Accountant with considerable experience both in professional practice and in industry. Formerly a senior partner at the London based firm of Chartered Accountants, AGN Shipleys, Edward Oliver has since 2002 provided consultancy and advisory services to companies through his firm, Olivers.

Alan Lamont PhD

Non-Executive Director

Dr Alan Lamont, aged 44, has over 16 years' experience in the pharmaceuticals sector covering both research and business development. Alan Lamont is currently the Vice President of Business Development at Acambis PLC where he develops and finalises deals and collaborations for both in-licensing and out-licensing. Prior to this role he was Business Development Manager at Catalyst BioMedica Limited (a subsidiary of the Wellcome Trust) and Director of Biology at Peptide Therapeutics PLC with previous senior positions at Roche Products Limited, Cantab Pharmaceuticals PLC and Cytel Corp Inc. Alan has a PhD in Immunology/Physiology.

Auditors

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10 Orange Street
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www.agnshipleys.com

Broker

Seymour Pierce Ellis
Talsiman House
Jubilee Walk
Three Bridges
Crawley
West Sussex RH10 1LQ
www.seymourpierce.com

Solicitors

Bircham Dyson Bell
50 Broadway
Westminster
London SW1H 0BL
www.bdb-law.co.uk

Nominated Adviser

Grant Thornton
Grant Thornton House
Melton Street
Euston Square
London NW1 2EP
www.grant-thornton.co.uk

Registrars

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
www.capitaregistrars.com

Directors' report

The Directors submit their report and the audited financial statements of Sareum Holdings plc (the Company) for the period 7 June 2004 to 30 June 2005.

Principal activities

The principal activity of the Company is that 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. Sareum's drug-discovery research is structure based; the three dimensional shapes of proteins and molecules are determined using X-ray crystallography.

History of share issues

The Company was incorporated on 7 June 2004 as Keepfast plc with an authorised share capital of £1,000,000 divided into 1,000,000 ordinary shares of £1 of which two were issued.

On 22 July 2004, Keepfast plc changed its name to Sareum Holdings plc.

On 5 July 2004, the authorised share capital was increased to £10,000,000 by the creation of 900,000,000 ordinary shares of 1p. On 16 September 2004, each 1p share was subdivided into 40 shares of 0.025p each

On 5 July 2004, the Company issued 3,000,000 ordinary 1p shares at par and 577,498 1p shares at 30p per share. On 16 September 2004, these shares were subdivided into 143,099,920 ordinary shares of 0.025p. On 20 September 2004, 36,892,080 ordinary shares of 0.025p were issued at 0.75p per share. On 20 September 2004, £450,000 loan notes were converted at 0.75p per share into 60,000,000 ordinary shares of 0.025p each.

On 11 October 2004, 100,000,000 ordinary shares of 0.025p were issued at 2p per share when the Company listed on the Alternative Investment Market ("AIM") of the London Stock Market and a further 7,750,000 ordinary shares were issued at 2p per share.

Review of developments

The Board of Directors judge the Group's financial performance during the period by reference to the budget that it established in October 2004. During the year the Board proactively managed its expenditure according to the revenue achieved. As a result the cash burn during the period was over £100,000 less than the budget. A comprehensive review of the year is given in the Chairman's statement. The Chief executive's statement explains the Company's future plans.

Statement of Directors' responsibilities

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

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

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

Directors

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

	Date of appointment	30 June 2005 Ordinary shares	Holding %
Dr PB Harper, Non-executive Chairman	1 September 2004	1,333,333	0.4
Dr AG Lamont, Non-executive Director	8 September 2004	60,000	0.0
Dr TJ Mitchell, Chief Executive Officer	5 July 2004	42,669,360	12.3
EM Oliver, Financial Director	5 July 2004	700,000	0.2
Dr JC Reader, Vice-president of Chemistry	5 July 2004	43,336,000	12.5
Dr DH Williams, Vice-president of Biology and Structural Science	5 July 2004	42,669,360	12.3

The holding of ordinary shares by Dr John Reader includes 3,333,320 ordinary shares registered in the name of his spouse, Valerie Reader.

Substantial shareholdings

The Company has been informed that on 1 September 2005 the following shareholders held substantial holdings in the issued ordinary shares of the Company:

	Number of ordinary shares	Holding %
Zyzygy plc	73,046,445	21.0
Pershing Keen Nominees Limited	14,004,499	4.0

Payment policy

The Group pays its suppliers as it would wish to be paid itself and supports initiatives aimed at ensuring good practice in this area. Its regular payment runs select invoices so that payments will be received into its suppliers' bank accounts within 30 days of the invoice date. During the year the average number of days between the invoice date and its payment into the suppliers' bank accounts was 28 days. There are, of course, occasions when invoices are not received or are in dispute when this norm is not achievable. At 30 June 2005, the invoices representing the trade creditors of the Group had an average age of 21 days.

Auditors

A resolution to appoint AGN Shipleys as auditors will be proposed at the Annual General Meeting ("AGM").

By order of the Board



John Stewart
Company Secretary
15 September 2005

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 four Executive Directors and two independent Non-executive Directors, one of whom is the Chairman. Of the Executive Directors, the Finance Director is part-time and holds prominent positions in other companies, and as such adds to the breadth of vision of the Board.

The Board generally meets monthly and receives reports covering finance, business development, 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, 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 & Administrators as is possible for a board with two independent Non-executive Directors. The terms of reference of the Committees are published on the Company's web site (www.sareum.co.uk).

Audit Committee

The Audit Committee comprises the Chairman, the other Non-executive Director and the Financial Director. It is scheduled to meet twice a year. It is the Audit Committee's role to provide formal and transparent arrangements for considering how to apply the financial reporting and internal control requirements of the Code, whilst maintaining an appropriate relationship with the independent auditors of the Group.

The Committee opened the audit of the 2005 accounts to competitive tender to ensure that shareholders were receiving value for money. Three companies made bids. As a result the Committee recommended the appointment of AGN Shipleys and Grant Thornton resigned as auditors. Grant Thornton remains the Company's nominated adviser.

Remuneration Committee

The Remuneration Committee comprises the Chairman, the other Non-executive Director and the Financial Director. It meets at least once a year. It is the Remuneration Committee's role to establish a formal and transparent policy on Executive remuneration and to set remuneration packages for individual Directors.

Shareholder relations

The Company meets with its institutional shareholders and analysts as appropriate and will use the AGM to encourage communication with private shareholders. In addition, the Company intends to use the annual report and accounts, interim statement and web site (www.sareum.co.uk) to provide further information to shareholders. The Company uses the services of Buchanan Communications to assist in the communication with shareholders. The Financial Director, Edward Oliver, is also the Financial Director of Zyzygy plc, the Company's largest shareholder.

The Board considers Dr Alan Lamont to be the Senior Independent Director. He chairs the Audit Committee and Remuneration Committee.

The Company publishes information for shareholders on its web site, www.sareum.co.uk.

Internal control and risk management

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

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

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

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

Corporate social responsibility

Sareum is a small, motivated team of professional people who operate to high standards. Included within those standards is 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 operates a safety committee and has regular inspections by an independent specialist adviser. It had no notifiable safety incidents during the period.

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 are held with staff where issues are discussed in an open manner.

Environment

Sareum disposes of its waste products through regulated channels using reputable agents. It has changed its agent in order to be able to continue to recycle its appropriate waste.

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 comprises the two Non-executive Directors and the Financial Director. It meets at least once a year to review salaries and share option schemes for staff and Directors. During the period it met to consider the introduction of a share option scheme and the annual cost-of-living award for staff and 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 6% pension contribution. No bonus or share option agreements have yet been introduced for Executive Directors.

Service contracts

The three full-time Executive Directors have executive service agreements with the Company dated 7 July 2004. The Financial Director has an executive service agreement dated 20 September 2004. The service agreements are subject to termination upon six months' notice being given by either party.

Pensions

The Group does not have a pension scheme but makes contributions to Executive Directors' personal pension schemes of 6% of annual salary.

Share option schemes

In setting up share option schemes 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 options scheme for Executive Directors. It approved the following share incentive arrangements for staff:

- an Inland Revenue approved EMI share option scheme ("approved scheme");
- 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.

Share options on 10,170,000 ordinary shares were granted to staff under these schemes on 15 May 2005 at an offer price of 2p at which date the market price was 1.25p. In setting this offer price the Committee was mindful that the offer price to shareholders at the time of the AIM float had been 2p.

Under the schemes options will vest in four equal amounts under the following vesting events:

Vesting events

the date falling one calendar year from the date of the option holder's contract of employment
the date on which the cumulative sales invoices issued by the Group exceeds £1m
the date falling two calendar years from the date of the option holder's contract of employment
the date on which the Group nominates its first pre-clinical candidate

Non-executive Directors

The Non-executive Directors entered into letters of engagement dated 19 September 2004. Members may request copies of these letters by sending an s.a.e. to the Company Secretary. The appointments can be terminated upon six months' notice being given by either party.

Directors' remuneration

Details of Directors' annual remuneration as at 30 June 2005 are set out below:

	Salary £	Healthcare £	Emoluments £	Pension £	Total £
Executive Directors					
Dr TJ Mitchell	70,000	461	70,461	4,200	74,661
Dr JC Reader	70,000	408	70,408	4,200	74,608
Dr DH Williams	70,000	461	70,461	4,200	74,661
EM Oliver	30,000	—	30,000	1,800	31,800
Non-executive Directors					
Dr PB Harper	50,000	—	50,000	—	50,000
Dr AG Lamont	10,000	—	10,000	—	10,000
Total	300,000	1,330	301,330	14,400	315,730

Remuneration review

The Remuneration Committee undertook an annual review of staff salaries. In doing so it considered the demands that had been placed on staff, the Company's achievements and the awards being made within the industry in the Cambridge area. The Committee considered that it was not yet appropriate to make changes to the salaries of Directors.

Independent auditors' report

To the members of Sareum Holdings plc

We have audited the financial statements on pages 17 to 29.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Company is not disclosed.

We read other information contained in the Annual report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's statement, the Chief executive's statement, the Financial review and the Directors' report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company and Group's affairs at 30 June 2005 and of the Group loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



AGN Shipleys

Chartered Accountants and Registered Auditors
10 Orange Street
Haymarket
London WC2H 7DQ
16 September 2005

Consolidated profit and loss account

For the period ended 30 June 2005

	Notes	2005		2004	
		£	£	£	£
Turnover	1		332,335		21,050
Cost of sales			798,599		34,747
Gross loss			(466,264)		(13,697)
Administrative expenses			912,350		104,240
Operating loss	2		(1,378,614)		(117,937)
Interest receivable	3	28,846		36	
Interest payable	4	(13,786)		—	
			15,060		36
Loss on ordinary activities before taxation			(1,363,554)		(117,901)
Tax on loss on ordinary activities	6		(119,796)		—
Loss on ordinary activities after taxation			(1,243,758)		(117,901)
Basic and diluted earnings per share	7		(0.0042)		(0.7378)

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

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

During the period, the Company acquired a subsidiary company, Sareum Limited. The profit and loss account has been prepared using merger accounting principles and is presented as if the Group had been in existence throughout both the current and prior periods. Further information is given in the notes on accounting policies.

As required by the Companies Act 1985 this profit and loss account also covers the first statutory accounting period of Sareum Holdings plc from its date of incorporation on 7 June 2004 to 30 June 2005. This includes the results for the merged Group solely from the date of the merger.

Consolidated balance sheet

As at 30 June 2005

	Notes	2005		2004	
		£	£	£	£
Fixed assets					
Intangible assets	9		23,498		29,497
Tangible fixed assets	10		964,455		458,452
			987,953		487,949
Current assets					
Debtors	12	362,191		92,617	
Cash at bank		441,435		141,628	
		803,626		234,245	
Creditors: amounts falling due within one year	13	378,762		810,068	
Net current assets			424,864		(575,823)
Total assets less current liabilities			1,412,817		(87,874)
Creditors: amounts falling due after more than one year	14		93,154		—
Net assets			1,319,663		(87,874)
Capital and reserves					
Called up share capital	18		86,937		30,000
Share premium account	19		2,594,358		27
Merger reserve	11		27		—
Profit and loss account	19		(1,361,659)		(117,901)
Equity shareholders' funds	24		1,319,663		(87,874)

Approved by the Board on 15 September 2005

Dr TJ Mitchell
Chief Executive Officer

Company balance sheet

As at 30 June 2005

	Notes	2005	
		£	£
Fixed assets			
Investment in subsidiary	11		30,000
Current assets			
Debtor – subsidiary	12	2,549,971	
Cash at bank		—	
Net current assets			2,549,971
Net assets			2,579,971
Capital and reserves			
Called up share capital	18		86,937
Share premium account	19		2,594,358
Profit and loss account	19		(101,324)
Equity shareholders' funds			2,579,971

Approved by the Board on 15 September 2005



Dr TJ Mitchell
Chief Executive Officer

Consolidated cash flow statement

For the period ended 30 June 2005

	Notes	2005 £	2004 £
Net cash (outflow)/inflow from operating activities	26	(1,553,557)	(5,022)
Returns on investment and servicing of finance	26	15,060	36
Capital expenditure	26	(880,983)	(8,416)
Cash flow before financing		(2,419,480)	(13,402)
Financing	26	2,719,287	155,030
Increase in cash	26	299,807	141,628

Accounting policies

Basis of accounting

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

Going concern

Sareum Holdings plc is a research and development based business, with at present no currently marketed products. As of now it is funding such research and development programmes with fee for services contracts. 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 view is supported by a "put and call" option in the sum of £500,000 which is exercisable on or before 28 February 2006.

Basis of preparation

i) Acquisition

Sareum Holdings plc was incorporated on 7 June 2004. On 5 July 2004, the Company acquired the entire share capital of Sareum Limited. In consideration, the Sareum Limited shareholders received ordinary shares in Sareum Holdings plc. In accordance with the requirements of Financial Reporting Standard 6, this acquisition has been dealt with using merger accounting principles. As a consequence, although the combination did not take place until 5 July 2004, the financial information is presented as though the merged business had always been a single group. There had been no significant financial events during the four day period 1 July to 4 July 2004.

ii) Basis of 2004 comparative information

Throughout this document the comparative figures for 2004 relate solely to the Company's subsidiary, Sareum Limited. The 2004 comparative figures for the consolidated profit and loss accounts have been presented as if the merger took place on the first day of each financial period presented and as though the Group, as presently constituted, had been in existence throughout those periods. The figures for the period to 30 June 2004 have been extracted from the audited financial statements of Sareum Limited. The comparative figures for the cash flow and balance sheet have been prepared on a similar basis.

Research and development

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

Fixed assets

All fixed assets are initially recorded at cost.

Depreciation

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

Leasehold improvements	–	the remaining life of the lease
Fixtures and fittings	–	four years, straight-line basis
Laboratory equipment	–	four years, straight-line basis
Computer equipment	–	three years, straight-line basis

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	–	five years, straight-line basis
-----------------------	---	---------------------------------

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 or 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.

Operating lease agreements

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

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.

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.

Deferred taxation

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 tax rates and laws enacted or substantively enacted at the balance sheet date.

Employee share scheme

The Company operates share based incentive schemes as outlined in the Remuneration Committee's report. The cost of awards to employees, being the difference between the market price at the date of 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 zero fair value under IFRS2 using the Black-Scholes pricing model.

Notes on the financial statements

1. Turnover and segmental reporting

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

	2005 %	2004 %
United Kingdom	79	100
Rest of Europe	7	—
USA	14	—
	100	100

2. Operating loss

	2005 £	2004 £
Operating loss is stated after charging:		
Amortisation	5,999	500
Research and development expenditure	703,588	30,033
Depreciation of fixed assets		
Owned	143,625	1,736
Leased	9,583	—
Auditors' remuneration		
Audit	7,000	5,000
Tax	800	1,250
Rentals under operating leases		
Land and buildings	117,360	5,677

3. Interest receivable

	2005 £	2004 £
Bank interest receivable	28,846	36

4. Interest payable

	2005 £	2004 £
Loan for leasehold improvements	13,786	—

5. Employees

	2005 £	2004 £
Staff costs during the period (including Directors)		
Wages and salaries	669,320	26,300
Social security costs	76,547	2,961
Pension costs	36,853	1,661
	782,720	30,922

	2005 Number
Average number of employees	
Office and management	6
Research	10
	16

In the period to 30 June 2004, staff were only employed from June 2004. The average number of employees for that month was eight, of which six were research staff and two administrative.

	2005 £
Directors' emoluments	
Directors' emoluments	289,704
Pension contributions to money purchase schemes	14,303
	304,007

Highest paid Director

Emoluments	69,919
Pension contributions to money purchase schemes	4,168
	74,087

	2005 Number
Number of Directors receiving pension benefits	
Directors with money purchase schemes	4

6. Taxation

(a) Analysis of charge for current year

	2005 £	2004 £
Current tax		
Corporation tax based on the results for the year at 19% (2004: 19%)	(119,796)	—

(b) Factors affecting current tax charge

The tax assessed on the loss on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 19% (2004: 19%).

	2005 £	2004 £
Loss on ordinary activities before taxation	(1,363,554)	(117,901)
Loss on ordinary activities multiplied by rate of tax	(259,075)	(22,401)
Expenses not allowable for tax purposes	904	2,945
Capital allowances for period in excess of depreciation	29,110	330
Unutilised tax losses	134,672	18,811
Other timing differences	—	315
Losses surrendered for research and development tax credits	94,389	—
Research and development tax credits claimed	(119,796)	—
Total current tax	(119,796)	—

Notes on the financial statements (continued)

6. Taxation (continued)

(c) Factors that may affect future tax charges

Tax charges in future periods will be affected by unrelieved tax losses of approximately £793,000, which remain available to offset against future taxable trading profits.

7. Earnings per share

The basic and diluted earnings per share is calculated on the loss after tax of £1,243,758 and a weighted average number of shares of 295,115,883. The calculation of diluted earnings per share takes account of share options which have vested. The 2004 comparative figure is based on the loss per share of 29.51p reported by Sareum Limited in their accounts for the period 12 August 2003 to 30 June 2004. As this was based on 1p shares an adjustment has been made, by dividing by 40, to provide a more meaningful comparison based on notional 0.025p shares.

8. Loss attributable to the parent Company

No separate profit and loss account is presented for the Company as a part of these accounts, as permitted by section 230(4) of the Companies Act 1985. The loss for the period for the Company amounted to £(101,324). The loss represents costs associated with the Company's obligations to maintain its AIM listing.

9. Intangible fixed assets

Group	Intellectual property £
Cost	29,997
Amortisation 30 June 2004	(500)
Net book value 30 June 2004	29,497
Amortisation charge for the period	(5,999)
Net book value 30 June 2005	23,498

10. Tangible fixed assets

Group	Leasehold improvements £	Laboratory equipment £	Fixtures and computers £	Total £
Cost				
30 June 2004	—	448,582	11,606	460,188
Additions	313,646	332,677	12,888	659,211
30 June 2005	313,646	781,259	24,494	1,119,399
Depreciation				
30 June 2004	—	—	1,736	1,736
Charge in the period	25,797	121,439	5,972	153,208
30 June 2005	25,797	121,439	7,708	154,944
Net book value				
30 June 2005	287,849	659,820	16,786	964,455
30 June 2004	—	448,582	9,870	458,452

Finance lease agreements

Included within the net book value of £964,455 is £220,417 (2004: £nil) relating to assets under finance lease agreements. The depreciation charged which related to these assets was £9,583 (2004: £nil).

11. Investments

Company	Group companies £
Cost	
Additions	30,000
At 30 June 2005	30,000
Net book value 30 June 2005	30,000

On 5 July 2004, the Company acquired 100% of the issued share capital of Sareum Limited and in consideration the shareholders in Sareum Limited received ordinary shares in Sareum Holdings plc. This acquisition has been accounted for under the rules of merger accounting as a Group reorganisation.

The following table sets out the book value of the identifiable assets and liabilities at the date of the merger. The Directors consider that no adjustments to fair value are required.

Sareum Limited, balance sheet at acquisition	Book value to Group £
Fixed assets	
Intangible fixed assets	29,497
Tangible fixed assets	458,452
	487,949
Current assets	
Debtors	92,617
Cash at bank	141,628
	234,245
Creditors	
Trade creditors	585,355
Other creditors	177,356
Accruals	47,357
	810,068
Net liabilities	(87,874)
Equity	
Share capital	30,000
Share premium	27
Profit and loss account	(117,901)
	(87,874)

Sareum Limited incurred a loss after taxation of £1,142,434 for the year ended 30 June 2005.

Sareum Limited, profit and loss account for the year ended 30 June 2005	2005 £
Turnover	332,335
Operating expenses	(1,609,625)
Operating loss	(1,277,290)
Interest received	28,846
Interest paid	(13,786)
Loss on ordinary activities before taxation	(1,262,230)
Tax recovery on loss on ordinary activities	119,796
Loss on ordinary activities after taxation	(1,142,434)

Notes on the financial statements (continued)

12. Debtors

	2005 Group £	2005 Company £	2004 Group £
Trade debtors	114,896	—	1,704
Amounts owed by group undertakings	—	2,549,971	—
Corporation tax – research and development tax credit	119,796	—	—
Other debtors	28,119	—	5,956
Prepayments and accrued income	99,380	—	84,957
	362,191	2,549,971	92,617

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.

13. Creditors: amounts falling due within one year

	2005 Group £	2005 Company £	2004 Group £
Loan for leasehold improvements	27,588	—	—
Trade creditors	59,760	—	585,355
Finance leases	177,250	—	—
Other taxation and social security	25,220	—	9,393
Directors' loan accounts	—	—	11,302
Other creditors	5,240	—	156,661
Accruals and deferred income	83,704	—	47,357
	378,762	—	810,068

14. Creditors: amounts falling due after more than one year

	2005 Group £	2005 Company £	2004 Group £
Loan for leasehold improvements	93,154	—	—

The amount included above is repayable by quarterly instalments within the next four years.

15. Creditors – capital instruments

Creditors include finance capital, which is due for repayment as follows:

Amounts repayable	2005 Group £	2005 Company £	2004 Group £
One year or less	204,838	—	—
More than one year but under two	30,452	—	—
More than two years but under five	62,702	—	—
	297,992	—	—

16. Commitments under finance lease agreements

Group	2005 £	2004 £
Amounts payable within one year	177,250	—

17. Contingent liabilities

There are no contingent liabilities (2004: £105,000).

18. Called up share capital

	Authorised Number of shares	Allotted, called up and fully paid Number of shares	£
Ordinary shares of 0.025p each	40,000,000,000	347,750,000	86,937

The Company was incorporated on 7 June 2004 with an authorised share capital of £1,000,000 divided into 1,000,000 ordinary shares of £1 each of which two were issued.

On 5 July 2004, the authorised share capital was increased to £10,000,000 by the creation of 900,000,000 ordinary shares of 1p. On 16 September 2004, each 1p share was subdivided into 40 shares of 0.025p each.

On 5 July 2004, the Company issued 3,000,000 ordinary 1p shares at par and 577,498 1p shares at 30p per share. On 16 September 2004, these shares were subdivided into 143,099,920 ordinary shares of 0.025p. On 20 September 2004, 36,892,080 ordinary shares of 0.025p were issued at 0.75p per share. On 20 September 2004, £450,000 loan notes were converted at 0.75p per share into 60,000,000 ordinary shares of 0.025p each.

On 11 October 2004, 100,000,000 ordinary shares of 0.025p were issued at 2p per share on the AIM float and a further 7,750,000 ordinary shares were issued at 2p per share.

As part of the AIM float, Seymour Pierce Ellis holds share options until 2009 on 6,955,000 shares at an option price of 2p per ordinary share. There is also a put and call option in place with Billam AG until February 2006 for 25,000,000 ordinary shares at 2p per share.

19. Reserves

Group	Merger reserve account £	Share premium account £	Profit and loss account £
Balance brought forward			(117,901)
Loss for the year		—	(1,243,758)
Merger reserve adjustment	27		
New equity share capital subscribed		2,998,004	
Share issue costs		(403,646)	—
Balance carried forward	27	2,594,358	(1,361,659)
Company			
Loss for the year		—	(101,324)
New equity share capital subscribed		2,594,358	—
Balance carried forward		2,594,358	(101,324)

20. Pension commitments

The Group makes contributions to its employees' own personal pension schemes. The contributions for the period of £36,853 (2004: £1,661) are charged to the profit and loss account. At the balance sheet date contributions of £5,240 (2004: £1,661) were owed and are included in creditors.

21. Deferred taxation

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:

	2005 £	2004 £
Excess of depreciation on fixed assets over taxation allowances claimed	27,567	—
Tax losses available	(150,737)	—
	(178,304)	—

A potential deferred tax asset of £178,304 has not been recognised, as the Directors do not believe that the Company will make sufficient taxable profits in the foreseeable future to justify their provision. The deferred tax asset would be recognised should sufficient profits be generated in the future against which it may be recovered.

Notes on the financial statements (continued)

22. Operating lease commitments

At 30 June 2005 the Group was committed to making the following payments during the next year in respect of operating leases:

	2005 £	2004 £
Land and buildings:		
Leases which expire between two and five years	122,740	—

23. Capital commitments

At 30 June 2005 the Group had no capital commitments (2004: £6,814).

24. Reconciliation of movements in shareholders funds

	2005 £	2005 £	2004 £
Loss for the period		(1,243,758)	(117,901)
New equity share capital	56,937		30,000
Premium on new share capital	2,594,358		27
		2,651,295	30,027
Net addition/(reduction) to shareholders' equity		1,407,537	(87,874)
Opening shareholders' equity deficit		(87,874)	—
Closing shareholders' equity funds/(deficit)		1,319,663	(87,874)

25. Related party transactions

During the period, Directors forgave the following amounts owed to them by the Company: Dr Tim Mitchell, loan £4,250, expenses £5,403; Dr John Reader, loan £3,340, expenses £4,485; Dr David Williams, loan £3,712, expenses £4,113. The expenses mainly related to the purchase at auction of assets for the Company; title to the assets remains with the Company.

During the period Zyzygy plc, a major shareholder in the Group and a company in which Edward Oliver is a Director, provided a loan of £450,000 to the Group. No interest was charged on the loan. On 20 September 2004, the loan was converted into 60,000,000 ordinary shares at a rate of 0.75p per share.

26. Notes to the statement of cash flows

(a) Reconciliation of operating loss to net cash (outflow) from operating activities

	2005 £	2004 £
Operating loss	(1,378,614)	(117,937)
Amortisation	5,999	500
Depreciation	153,208	1,736
Increase in debtors	(149,778)	(92,617)
(Decrease)/increase in creditors	(184,372)	203,296
Net cash (outflow)	(1,553,557)	(5,022)

(b) Returns on investments and servicing of finance

	2005 £	2004 £
Interest received	28,846	36
Interest paid	(13,786)	—
Net cash inflow	15,060	36

(c) Capital expenditure

	2005 £	2004 £
Payments to acquire tangible fixed assets	(880,983)	(8,416)
Net cash (outflow)	(880,983)	(8,416)

26. Notes to the statement of cash flows (continued)

(d) Financing

	2005 £	2004 £
Issue of equity share capital	56,937	3
Share premium on issue of equity share capital	2,548,004	27
Share issue costs	(403,646)	—
Convertible loan proceeds	450,000	—
Loan for leasehold improvements	150,000	—
Repayment of loan for leasehold improvements	(29,258)	—
Sums raised for capital expenditure	—	155,000
Capital element of finance leases	(52,750)	—
Net cash inflow	2,719,287	155,030

(e) Reconciliation of net cash flow to movement in net funds

	2005 £	2005 £	2004 £
Increase in cash in the period	299,807		141,628
Net cash (inflow) from loans	(120,742)		—
Cash outflow from finance leases	52,750		—
Change in net funds resulting from cash flows		231,815	141,628
New finance leases		(230,000)	—
Movement in net funds in the period		1,815	141,628
Net funds at 1 July 2004		141,628	—
Net funds at 30 June 2005		143,443	141,628

(f) Analysis of changes in net funds

	At 1 July 2004 £	Cash flows £	Other changes £	At 30 June 2005 £
Net cash				
Cash in hand and at bank	141,628	299,807	—	441,435
Debt				
Due within one year	—	(27,588)	—	(27,588)
Due after one year	—	(93,154)	—	(93,154)
Finance lease agreements	—	52,750	(230,000)	(177,250)
	—	(67,992)	(230,000)	(297,992)
Net funds	141,628	231,815	(230,000)	143,443

(g) Major non-cash transactions

During the year, the Group entered into a finance lease arrangement for the purchase of an item of laboratory equipment. The capital cost of this item was £230,000, against which payments of £52,750 were paid in the year.

On 20 September 2004, £450,000 of convertible loan notes were converted into ordinary shares of 0.025p each, at a rate of 0.75p per share.

27. Statutory consolidated profit and loss account at merger date

A profit and loss account is required by the Companies Act 1985 to cover the first statutory accounting period of Sareum Holdings plc from its date of incorporation on 7 June 2004 to 30 June 2005. This should show the results for the merged Group solely from the date of the merger. The Directors consider that this profit and loss account is not materially different from the main consolidated profit and loss account presented at the start of this report.

Disclosure notes for this period are not presented, as the Directors do not believe they would provide meaningful information to users of the financial statements.

Notice of annual general meeting

Notice is hereby given that the Annual General Meeting ("AGM") of Sareum Holdings plc (the "Company") will be held on 7 November 2005, at 10am at 2 Pampisford Park, Cambridge CB2 4EE for the following purposes:

Ordinary business

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

1. To receive and adopt the Directors' report and financial statements for the period ended 30 June 2005.
2. To receive and adopt the Remuneration Committee report for the period ended 30 June 2005.
3. To re-elect Dr Tim Mitchell and Dr John Reader, who retire by rotation under sections 76 and 77 of the Articles of Association, and who being eligible, offer themselves for re-election as Directors.
4. To confirm the appointment of AGN Shipleys as auditors of the Company to hold office until the conclusion of the next AGM at which accounts are laid before the Company and to authorise the Directors to fix their remuneration.

By order of the Board



John Stewart

Company Secretary
15 September 2005

Notes

1. Any member entitled to attend and vote at the AGM is entitled to appoint one or more proxies (who need not be a member of the Company) to attend and, on a poll, vote instead of the member. Completion and return of a form of proxy will not preclude a member from attending and voting at the meeting in person, should he subsequently decide to do so.
2. In order to be valid, any form of proxy, power of attorney or other authority under which it is signed, or a notarially certified or office copy of such power or authority, must reach the Company's Registrars, Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, not less than 48 hours before the time of the meeting or of any adjournment of the meeting.
3. As permitted by Regulation 41 of the Uncertificated Securities Regulations 2001, shareholders who hold shares in uncertificated form must be entered on the Company's share register at 10am on 5 November 2005 in order to be entitled to attend and vote at the AGM. Such shareholders may only cast votes in respect of shares held at such time. Changes to entries on the relevant register after that time shall be disregarded in determining the rights of any person to attend or vote at the meeting.
4. Copies of the service contracts of each of the Directors, and the register of Directors' interests in shares of the Company kept pursuant to section 325 of the Act will be available for inspection at the registered office of the Company during usual business hours on any weekday (Saturdays and public holidays excluded) from the date of this notice until the date of the AGM and at the place of the AGM from at least 15 minutes prior to and until the conclusion of the AGM.

Form of proxy

I/We (block capital)

Being a member/members of Sareum Holdings plc hereby appoint the chairman of the meeting or (see note 1)

of.....

as my/our proxy to attend and on a poll to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on 7 November 2005 at 10am and at any adjournment thereof. I/We direct, by inserting a cross or other mark in the appropriate box below, how my/our votes are to be cast on each of the resolutions to be proposed at the meeting as indicated below. If no indication is given, the proxy will exercise his/her discretion as to how he/she votes and as to whether or not he/she abstains from voting. All items are ordinary resolutions. Please complete, sign and date this form where indicated below (see notes below).

Ordinary resolution	For	Against
1. To receive and adopt the Directors' report and financial statements for the period ended 30 June 2005.		
2. To receive and adopt the Remuneration Committee report for the period ended 30 June 2005.		
3. To re-elect Dr Tim Mitchell and Dr John Reader, who retire by rotation under sections 76 and 77 of the Articles of Association, and who being eligible, offer themselves for re-election as Directors.		
4. To confirm the appointment of AGN Shipleys as auditors of the Company to hold office until the conclusion of the next AGM at which accounts are laid before the Company and to authorise the Directors to fix their remuneration.		

Signature(s).....dated

this.....day2005

Notes on completion of the proxy form:

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

FOLD 2

BUSINESS REPLY SERVICE
Licence No. MB122



**Capita Registrars
Proxy Department
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU**

FOLD 3 AND TUCK IN

FOLD 1



Sareum Holdings plc

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Registered in England and Wales: 5147578