Specialists in Cancer Drug Discovery

Sareum Holdings plc
Annual Report and Accounts 2010

Sareum

Who we are

Sareum is a specialist cancer drug discovery company.

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

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

Highlights

Operational highlights

- On track and in-line with budget with the development of cancer research programmes. Progress presented at major international partnering events
- Launched "SKIL" drug discovery platform
- Three patent applications published

Financial highlights

- Loss on ordinary activities for period (after taxation): £0.57 million (2009: £1.1 million)
- Cash in bank at period end: £0.52 million (2009: £0.27 million)
- Placings in the period to raise £815,000 (before expenses)

Post year end highlights

- Placing in August 2010 to raise £200,000 (before expenses)
- Cash resources sufficient for the foreseeable future
- Additional patent application filed

Chairman's and Chief Executive's statement

The Company will continue to build value from its in-house research and development by seeking to advance its cancer drug discovery programmes

Summary of Chairman's and Chief Executive's statement

- Sareum is actively developing five drug discovery programmes at the present time
- In May 2010, Sareum launched its SKIL® technology platform
- In April 2010, Dr Bob Jackson was appointed to the Scientific Advisory Board
- The cash position at the period end was £0.52 million (2009: £0.27 million)

Background

The key value creator for Sareum's shareholders continues to be the development and commercialisation of drug candidates from the Company's in-house drug development pipeline. Our research spend this year has been targeted on advancing our Sareum Kinase Inhibitor Library (SKIL) programmes. The research emphasis on Chk1 has focused on studies in models designed to build the portfolio of data provided to potential licencees.

Our plan has been to help deliver successful *in-vivo* efficacy studies through our collaboration with the Institute of Cancer Research and Cancer Research Technology Limited. We have also used third party providers of models to provide corresponding data for our other programmes.

Additionally, in the period under review, three patent applications relating to Sareum programmes were published and a further patent application has been filed post period-end. These patents protect families of promising compounds arising from Sareum's research programmes, and demonstrate the strength of our intellectual property to prospective customers.

The Company's business model is to concentrate primarily on its in-house cancer drug discovery research by outsourcing the chemistry and biology components of each programme. Our in-house expertise and experience is used to interpret the relationship between chemical structure and biological activity associated with each of the new compounds tested. The information from each study is used to assist in the design of new molecules which should show more activity and less toxicity. The synthesis and testing of new compounds is undertaken in a worldwide network of third-party laboratories.

As the development programmes progress, additional data is generated demonstrating the quality of the candidate molecules. Simultaneously, an active campaign continues to draw these results to the attention of companies seeking to licence 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. This serves to provide an excellent shop window for our research as well as an opportunity to engage with decision makers from the major pharmaceutical companies that are seeking to in-licence new cancer drugs.

Progress with drug discovery programmes

The Company's principal asset is the intellectual property derived from its cancer drug discovery programmes. Sareum is actively developing five drug discovery programmes at the present time. The Company has continued to make positive progress with these programmes, resulting in the publication of three patents from historic filings.

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

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

In May 2010, Sareum launched its SKIL® technology platform. SKIL includes a patent-protected molecular core and the intellectual know-how to fine-tune these molecules into inhibitors of a wide range of kinase enzymes. Aberrant kinase activity is associated with many cancer types, as well as other diseases including certain types of auto-immune disease and diabetes. This kinase class of enzymes constitutes Sareum's ongoing research efforts, primarily targeting kinases associated with cancer.

SKIL programme targets include Aurora kinase, VEGFR-3 kinase and FLT3 kinase. Recently, interesting activity has been found against ALK and TYK2 kinases. ALK kinase overactivity is associated with certain types of lung cancer and Anaplastic Large Cell Lymphoma (ALCL), a cancer of the lymphatic cells of the immune system. Inhibition of TYK2 kinase activity can be used to control immune disorders such as rheumatoid arthritis, psoriasis and Crohn's disease.

Sareum's expertise was boosted in April 2010 by the appointment of Dr Bob Jackson to the Scientific Advisory Board. Dr Jackson was formerly chief scientific officer at the cancer drug discovery company, Cyclacel. During his distinguished career he has led teams that have brought many compounds to clinical trials, including the Aurora kinase inhibitor, CYC116. This appointment comes at an important stage in the development of Sareum's Aurora kinase programme and Dr Jackson's expertise will be key to the development of the programme.

Chk1 kinase
This is Sareum's most advanced programme and is carried out in conjunction with one of the world's leading cancer research organisations, The Institute of Cancer Research (ICR) and Cancer Research Technology Limited. Chk1 kinase inhibitors enhance the effects of DNA-damaging chemotherapeutics such as Campto® (irinotecan) and Gemzar® (gemcitabine). During the period, Chk1 kinase inhibitors with the potential to be delivered via the oral route (as opposed to injection) have been developed. This gives our programme advantages over competitor compounds that are in early clinical trials.

In January 2010, scientists from Sareum and the ICR published key data in the peer reviewed journal Molecular Cancer Therapeutics. The article describes how the programme compound SAR-020106 significantly enhances the anti-tumour effects of the cancer chemotherapeutics Campto® (irintotecan) and Gemzar® (gemcitabine) in preclinical disease models.

The time interval between the administration of the doses of DNA-damaging agent and Chk1 kinase inhibitor is an important factor. To better understand this, in March 2010 we entered into a collaboration with Physiomics plc to perform computer simulations of the effects of different scheduling of such drugs in living systems. The results obtained from this collaboration have provided valuable insights into the importance of appropriate scheduling of combination therapies.

Aurora kinase
During the period, we have been concentrating our efforts on developing Aurora kinase inhibitors to treat AML, a type of leukaemia. This is partly in response to the clinical results from competitors' Aurora programmes, which have shown positive responses in AML patients, and partly as a result of our Aurora compounds also displaying potent FLT3 kinase activity. FLT3 kinase is overly active in many AML variants and Sareum's Aurora/FLT3 inhibitors are potent against AML cell lines. Initial results in *in-vivo* studies are also positive. We are now seeking to optimise the properties of these compounds to allow delivery via the oral route whilst maintaining or improving upon the existing efficacy and safety profile.

VEGFR-3 (FLT4) kinase
VEGFR-3 kinase, also known as FLT4 kinase, is believed to be important in the formation of lymph and blood vessels in a growing tumour. These vessels provide nutrients, eliminate waste and provide a route for metastasis (cancer spread). Sareum compounds have been shown to inhibit the growth of lymph endothelial cells by selectively inhibiting VEGFR-3.

Other SKIL programmes (ALK, TYK2)
We continually screen our SKIL compounds, e.g. from our Aurora and VEGFR-3 programmes, against a selection of kinase enzymes, looking for interesting activity against other therapeutically relevant kinases. Recently, we have discovered SKIL compounds with interesting activity against ALK kinase (implicated in certain lymphomas and lung cancers) and TYK2 kinase (implicated in certain auto-immune diseases). Currently, we are developing joint Aurora/ALK kinase inhibitors and approaching potential commercial partners, with expertise in auto-immune disease, with our TYK2 inhibitors.

Earlier-stage programmes (FLT3, FASN, PLK1, B-raf)
These programmes are currently on hold, pending a collaborative research deal with a pharmaceutical company partner or receipt of a research grant. FLT3, in addition to being a potential target for certain leukaemias, also has the potential to treat auto-immune diseases such as multiple sclerosis and rheumatoid arthritis, which further expands the commercial opportunities for this programme.

Financial review
During the period, the loss after taxation decreased to £0.57 million (2009: £1.1 million). The cash position at the period end was £0.52 million (2009: £0.27 million), enhanced by the share placings, announced in September and October 2009 that raised £815,000 before expenses. The Company's cash position was further improved by a share placing to raise £200,000 (before expenses) in August 2010. As a result of these placings, the Directors believe the Company is able to maintain its R&D spend to further advance its cancer drug pipeline whilst also providing sufficient working capital for the foreseeable future.

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

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

Dr Paul Harper
Chairman

Dr Tim Mitchell
Chief Executive Officer
21 October 2010

Directors

Paul Harper PhD
Non-executive Chairman
Dr Paul Harper, aged 64, 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 50, has over 20 years' experience in the industry with key management and business expertise gained from his positions at Cambridge Discovery Chemistry and his roles at Millennium as a member of the management team and in forming the integrated Structure Based Discovery department.

As Director of the Millennium Structure-Based Discovery department, Tim was responsible for global provision of Protein Structure and High Throughput Chemical Synthesis for Millennium as well as for local Computational Chemistry, Informatics and Automation capabilities.

Prior to that, he was Director of Computational Chemistry at Cambridge Discovery Chemistry Limited, and a team leader in the Computational and Structural Sciences department at SmithKline Beecham Pharmaceuticals. Tim has a PhD in Computational Chemistry and a BSc in Chemistry.

John Reader PhD
Founder and Chief Scientific Officer
Dr John Reader, aged 43, has 17 years' experience within the industry and was formerly Associate Director, Chemical Technologies at Millennium Pharmaceuticals Research and Development Limited, prior to which he worked with Pharmacopeia Inc. and Cambridge Discovery Chemistry in the provision of high throughput chemistry services to external and internal clients.

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

Report of the Directors

For the year ended 30 June 2010

The Directors present their report with the financial statements of the Company and the Group for the year ended 30 June 2010.

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.

Business and financial review

The loss for the year was £569,089 and at 30 June 2010 cash and cash equivalents amounted to £516,781.

During the year the Group raised £815,000, before expenses, by way of three placings of new ordinary shares on AIM, made up of £315,000 on 8 September 2009, £450,000 on 12 October 2009 and a further £50,000 on 12 October 2009. Following the year end, on 3 August 2010 the Group raised £200,000, before expenses, by way of a further placing on AIM. 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 cancer drug discovery programmes.

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

Post balance sheet events

As noted above, on 3 August 2010 the Group raised £200,000, before expenses, by way of a further placing on AIM.

Dividends

No dividends will be distributed for the year ended 30 June 2010.

Directors

The Directors who served during the period were as follows:

Paul Harper PhD
Tim Mitchell PhD
John Reader 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 2010, the invoices representing the trade creditors of the Group had an average age of 42 days (2009: 19 days) based on the average daily amount invoiced by suppliers to the Group during the year.

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;

→ it may not be possible to raise sufficient funding to support the Company through to profitability.

Financial instruments

Details regarding the Group's use of financial instruments and their associated risks are given in note 19 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 the budget with significant variances investigated.

Research and development
The Group undertakes research and development on its cancer research programmes. Further information is provided in the Chairman and Chief Executive's statement. The costs relating to this which have been written off during the year amounted to £353,829 (2009: £474,660).

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRS; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are also responsible for the maintenance and integrity of the corporate and financial information included on the Company website.

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

By order of the Board

Tony Bunn FCMA
Company Secretary
21 October 2010

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 reappointment.

Board Committees

The Board has established an Audit Committee and a Remuneration Committee with written terms of delegated responsibilities. The terms of reference are as close to the model terms of the Institute of Chartered Secretaries and Administrators as is possible for a Board with one independent Non-executive Director. The terms of reference of the Committees are published on the Company's website: www.sareum.co.uk.

Audit Committee

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

Remuneration Committee

The Remuneration Committee currently comprises Dr Paul Harper, Chairman. It meets at least once a year. It is the Remuneration Committee's role to establish a formal and transparent policy on executive remuneration and to set remuneration packages for individual Directors. The Committee also ensures that recommendations made by the Executive Directors on staff remuneration are appropriate and fair from a shareholder's perspective. Further information on the work of the Committee can be found on page 9.

Shareholder relations

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

Internal control and risk management continued

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's auditor, which tests a sample of transactions, did not highlight any significant system improvements in order to reduce risks.

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

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

Corporate social responsibility

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

Health and safety

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

Employees

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

Environment

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

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 6.375% 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 were subject to termination upon six months' notice being given by either party.

For the year from 1 July 2009, a Director's 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 the Executive Directors' personal pension schemes of 6.375% of their annual salary.

Share option schemes

In setting up share option schemes for staff, the Committee took into account the recommendations of shareholder bodies, such as that of the insurance companies, on the number of options to issue 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.

At the beginning of the period under review there were zero share options outstanding. On 4 December 2009, share options, under the approved scheme, of 12,800,000 ordinary shares (6,400,000 each) were granted to Dr Tim Mitchell, Chief Executive Officer, and Dr John Reader, Chief Scientific Officer, at an exercise price of 0.25p at which date the market price of the shares was 0.48p. In setting this exercise price, the Committee was mindful that the most recent share placing was issued at 0.25p, on October 12 2009.

Of the Options granted to each Director, 3,200,000 will vest immediately and are exercisable until 4 December 2019. In addition, the remaining 3,200,000 options will vest, subject to the discretion of the Remuneration Committee of the Company, on the date upon which a significant commercial deal is signed by the Company and are thereafter capable of being exercised until 4 December 2019.

This brings the total share options outstanding, as at 30 June 2010, to 12,800,000.

Non-executive Directorships

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

Directors' remuneration

Details of Directors' annual remuneration as at 30 June 2010 are set out below:

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

Directors' remuneration 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.

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 2010 on pages 12 to 28. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

This report is made solely to the Company's shareholders, 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 shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

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

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 30 June 2010 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRS 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.

Emphasis of Matter

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures made in note 3 to the financial statements concerning the Company's ability to continue as a going concern. During the year ended 30 June 2010, the Group incurred losses of £569,089 and at the year end date had cash reserves of £516,781. In making their assessment as to the appropriateness of the application of the going concern basis to the preparation of the Group's financial statements, the Directors have made reference to cash flow projections that suggest that the Company has sufficient cash reserves to support the current level of activities into the third quarter of 2011, beyond which additional equity based financing will be sought. There is a risk that the required level of additional funding will not be received as and when required, or that it will not be forthcoming at all. These conditions indicate the existence of a material uncertainty, which may cast significant doubt about the Group's ability to continue as a going concern. The financial statements do not include any adjustments that would result if the Group was unable to continue as a going concern.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; 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
21 October 2010

Consolidated income statement

For the year ended 30 June 2010

	Notes	2010 £	2009 £
Revenue			
Discontinued operations	4	—	31,600
Operating expenses			
Continuing operations		**(643,742)**	(1,170,007)
Discontinued operations	6	—	(14,669)
		(643,742)	(1,184,676)
Operating profit/(loss)			
Continuing operations		**(643,742)**	(1,170,007)
Discontinued operations	6	—	16,931
		(643,742)	(1,153,076)
Finance costs	8	—	(3,092)
Finance income	8	**3,127**	14,436
Loss before tax	9	**(640,615)**	(1,141,732)
Income tax credit	10	**71,526**	67,860
Loss for the year		**(569,089)**	(1,073,872)
Attributable to:			
Equity holders of the parent		**(569,089)**	(1,073,872)
Basic loss per share expressed in pence per share	12	**(0.05)p**	(0.13)p

The notes form part of these financial statements.

Consolidated statement of comprehensive income

For the year ended 30 June 2010

	2010 £	2009 £
Loss for the year	**(569,089)**	(1,073,872)
Total comprehensive income and expense for the year	**(569,089)**	(1,073,872)
Attributable to:		
Equity holders of the parent	**(569,089)**	(1,073,872)

The notes form part of these financial statements.

Consolidated balance sheet

30 June 2010

	Notes	2010 £	2009 £
Assets			
Non-current assets			
Intangible assets	13	**984**	1,575
Property, plant and equipment	14	**1,230**	1,170
		2,214	2,745
Current assets			
Trade and other receivables	16	**26,627**	33,619
Tax receivable		**74,974**	67,860
Cash and cash equivalents	17	**516,781**	273,977
		618,382	375,456
Liabilities			
Current liabilities			
Trade and other payables	18	**97,558**	51,639
Net current assets		**520,824**	323,817
Net assets		**523,038**	326,562
Equity			
Issued capital	22	**293,899**	204,524
Share premium	23	**6,077,821**	5,401,631
Merger reserve	23	**27**	27
Retained earnings	23	**(5,848,709)**	(5,279,620)
Equity attributable to equity holders of the parent		**523,038**	326,562

The financial statements were approved by the Board of Directors on 21 October 2010 and were signed on its behalf by:

Dr Tim Mitchell
Director

The notes form part of these financial statements.

Consolidated statement of changes in equity

For the year ended 30 June 2010

	Share capital £	Share premium £	Merger reserve £	Retained losses £	Total equity £
Balance at 30 June 2008	204,524	5,401,631	27	(4,205,748)	1,400,434
Loss for the year	—	—	—	(1,073,872)	(1,073,872)
Total comprehensive income for the year	—	—	—	(1,073,872)	(1,073,872)
Balance at 30 June 2009	204,524	5,401,631	27	(5,279,620)	326,562
Loss for the year	—	—	—	(569,089)	(569,089)
Total comprehensive income for the year	—	—	—	(569,089)	(569,089)
Issue of share capital	89,375	676,190	—	—	765,565
Balance at 30 June 2010	**293,899**	**6,077,821**	**27**	**(5,848,709)**	**523,038**

The notes form part of these financial statements.

Company balance sheet

30 June 2010

	Notes	2010 £	2009 £
Assets			
Non-current assets			
Investments	15	**30,000**	30,000
Trade and other receivables	16	**—**	—
Net assets		**30,000**	30,000
Equity			
Issued capital	22	**293,899**	204,524
Share premium	23	**6,077,821**	5,401,631
Retained earnings	23	**(6,341,720)**	(5,576,155)
Total Equity		**30,000**	30,000

The financial statements were approved by the Board of Directors on 21 October 2010 and were signed on its behalf by:

Dr Tim Mitchell
Director

Registered number
5147578

The notes form part of these financial statements.

Company statement of changes in equity

For the year ended 30 June 2010

	Share capital £	Share premium £	Retained losses £	Total equity £
Balance at 30 June 2008	204,524	5,401,631	(419,594)	5,186,561
Loss for the year	—	—	(5,156,561)	(5,156,561)
Total comprehensive income for the year	—	—	(5,156,561)	(5,156,561)
Balance at 30 June 2009	204,524	5,401,631	(5,576,155)	30,000
Loss for the year	—	—	(765,565)	(765,565)
Total comprehensive income for the year	—	—	(765,565)	(765,565)
Issue of share capital	89,375	676,190	—	765,565
Balance at 30 June 2010	**293,899**	**6,077,821**	**(6,341,720)**	**30,000**

The notes form part of these financial statements.

Consolidated statement of cash flows

For the year ended 30 June 2010

	Notes	2010 £	2009 £
Cash flows from operating activities			
Continuing operations:			
Loss before tax		**(640,615)**	(1,158,663)
Depreciation charges		**1,729**	34,588
Loss on disposal of fixed assets		**—**	5,706
Finance costs		**—**	3,092
Finance income		**(3,127)**	(14,436)
Tax received		**64,412**	324,570
		(577,601)	(805,143)
Discontinued operations		**—**	16,931
Decrease in trade and other receivables		**6,992**	250,083
Increase/(decrease) in trade and other payables		**45,919**	(172,683)
Net cash used in operating activities		**(524,690)**	(710,812)
Cash flows from investing activities			
Purchase of tangible fixed assets		**(1,198)**	(351)
Sale of tangible fixed assets		**—**	706,991
Interest received		**3,127**	14,436
Net cash from investing activities		**1,929**	721,076
Cash flows from financing activities			
Repayment of leasehold improvements loan		**—**	(34,830)
Capital element of finance leases		**—**	(179,216)
Share issue		**89,375**	—
Share premium on issue of shares		**676,190**	—
Interest paid		**—**	(3,092)
Net cash from/(used in) financing activities		**765,565**	(217,138)
Increase/(decrease) in cash and cash equivalents		**242,804**	(206,874)
Cash and cash equivalents at beginning of year	17	**273,977**	480,851
Cash and cash equivalents at end of year	17	**516,781**	273,977

The notes form part of these financial statements.

Company statement of cash flows

For the year ended 30 June 2010

	Notes	2010 £	2009 £
Cash flows from operating activities			
Continuing operations:			
Loss before tax	11	**(765,565)**	(5,156,561)
Non cash transaction: provision for impairment of amounts owed by group undertaking	11	**674,570**	5,056,821
		(90,995)	(99,740)
(Increase)/decrease in trade and other receivables before provision for impairments of amounts owed by group undertaking	16	**(674,570)**	99,740
Net cash used in operating activities		**(765,565)**	—
Cash flows from financing activities			
Share issue		**89,375**	—
Share premium on issue of shares		**676,190**	—
Net cash from financing activities		**765,565**	—
Increase/(decrease) in cash and cash equivalents		**—**	—
Cash and cash equivalents at beginning of year		**—**	—
Cash and cash equivalents at end of year		**—**	—

The notes form part of these financial statements.

Notes to the consolidated financial statements

For the year ended 30 June 2010

1. Adoption of new and revised International Financial Reporting Standards (IFRS)
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 interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or financial position of the Group in the current or prior periods. In certain cases they did, however, give rise to additional disclosures.

- IFRS 2 Share-based Payment - Vesting Conditions and Cancellations (amendments)
- IFRS 7 Financial Instruments Disclosures (amended)
- IFRS 8 Operating Segments
- IAS 23 Borrowing Costs (revised)
- IAS 27 Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary Jointly Controlled Entity or Associate (amendments)
- IAS 1 Presentation of Financial Statements (revised)
- IAS 32 Financial Instruments Presentation
  - IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation (amendments)
- IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments
- IFRIC 13 Customer Loyalty
- IFRIC 15 Agreement for Construction of Real Estate
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation
- IFRIC 18 Transfers of Assets from Customers

The principal effects of these changes are as follows:

IAS 1 Presentation of Financial Statements (revised)
This amendment will have no impact on the measurement of the Group's result or net assets.

There are no published standards or interpretations not yet in force that will have any significant impact on the Group.

2. Statement of compliance
The consolidated financial statements of Sareum Holdings plc and all its subsidiaries (the Group) have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted for use in the European Union, which comprise standards and interpretations approved by the International Accounting Standards Board (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.

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

Going concern
The financial statements have been prepared on a going concern basis, which assumes that sufficient funds will be available for the Group to continue in operational existence for the foreseeable future.

Sareum Holdings plc is a research and development based business with, at present, no currently marketed products. The Directors estimate that the cash held by the Group will be sufficient to support the current level of activity into the third quarter of 2011. The Directors also expect to secure equity-based financing sufficient for the future needs of the business beyond the third quarter of 2011. The Directors' confidence in the Group's ability to raise equity-based financing is underwritten by the funds of £815,000 (before expenses) raised by way of placings of new ordinary shares on AIM in September and October 2009, as well as the recent placing of £200,000 (before expenses) in August 2010.

3. Accounting policies continued

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 5 years

Tangible fixed assets

All fixed assets are initially recorded at cost. Cost comprises the aggregate amount paid to acquire the asset and includes expenditure directly related to bring the asset into use.

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

Leasehold improvements – the remaining life of the lease

Laboratory equipment – straight-line over four years

Fixtures and computers – straight-line over three or four years

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 on 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.

Taxation

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

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

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

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

Research and development

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

Finance leases and hire purchase contracts

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

Operating lease agreements

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

Revenue recognition

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

Employee share scheme

The 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.

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.

4. Turnover

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

5. Business and geographical segments

The Group has concluded that it operates only one business segment as defined by IFRS 8. Accordingly, no segmental analysis is recorded.

An analysis of turnover by geographical market is given below:

	2010 **£**	2009 £
United Kingdom	**—**	—
Rest of Europe	**—**	31,600
USA	**—**	—
	—	31,600

6. Discontinued operations

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

7. Employees and Directors

	2010 **£**	2009 £
Directors' emoluments	**173,497**	190,119
Compensation for loss of office	**—**	39,590
Directors' pension contributions to money purchase schemes	**10,200**	10,715

Directors' emoluments include £12,000 in fees that are not paid as wages and salaries.

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

	2010 **Number**	2009 Number
Money purchase schemes	**2**	3

Information regarding the highest paid Director is as follows:

	2010 **£**	2009 £
Emoluments, etc.	**81,129**	82,115
Pension contributions to money purchase schemes	**5,100**	4,941

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

Staff costs	**2010** **£**	2009 £
Wages and salaries	**162,080**	434,234
Social security costs	**18,793**	33,679
Other pension costs	**10,200**	28,192
	191,073	496,105

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

	2010	2009
Office and management	**1**	1
Research	**1**	3
	2	4

8. Net finance income

	[2010] £	2009 £
Finance income:		
Deposit account interest	**3,127**	14,436
Finance costs:		
Loan for leasehold improvements	—	734
Capital leases	—	2,358
	—	3,092
Net finance income	**3,127**	11,344

9. Loss before tax

The loss before tax is stated after charging:

	2010 £	2009 £
Depreciation – owned assets	**1,138**	23,738
Depreciation – assets on finance leases	—	9,355
Loss on disposal of fixed assets	—	5,706
Intellectual property amortisation	**591**	1,495
Audit Services		
Fees payable to the Company's auditor for the audit of the parent company and Group financial statements	**3,500**	3,500
Non-audit Services		
Fees payable to the Company's auditor for other services:		
– The audit of the accounts of the Company's subsidiaries pursuant to legislation	**5,500**	5,500
– Other services relating to taxation	**750**	750
Foreign exchange differences – (gain)/loss	—	(2,595)
Research and development	**353,829**	474,660
Exceptional cost – redundancy	—	146,683

10. Tax

	2010 £	2009 £
Current tax		
UK corporation tax credit on losses of the period	**63,165**	67,860
Adjustments recognised in the current year in relation to the current tax of prior years	**8,361**	—
Tax credit to the income statement	**71,526**	67,860

10. Tax continued

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

	2010 £	2009 £
Loss before tax	**(640,615)**	(1,141,732)
At standard rate of 21% (2009: 21%)	**(134,529)**	(239,764)
Effects of:		
Expenses not allowable for tax purposes	**8,447**	11,871
Capital allowances in excess of depreciation	**(1,419)**	(41,713)
Unutilised tax losses	**73,016**	170,625
Losses surrendered for research and development tax credits (less uplift)	**54,485**	98,981
Research and development tax credits claimed	**63,165**	67,860
Prior year adjustments	**8,361**	—
Actual current tax credit in the year	**71,526**	67,860

The tax rate used above for the 2010 and 2009 reconciliations of 21% is the small company corporation tax rate applicable in the United Kingdom on taxable profits under tax law in that jurisdiction.

11. Loss of parent company

As permitted by Section 408 of the Companies Act 2006, no separate Income Statement is presented for the parent company as part of these financial statements. The parent company's loss for the financial year was £765,565 (2009: loss £5,156,561).

The loss represents costs of £90,995 (2009: £99,740) associated with the Company's obligations to maintain its AIM listing as well as a provision of £674,570 (2009: £5,056,821) for impairment of amounts owed by Group undertakings.

12. Earnings per share

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

	2010 £	2009 £
Loss on ordinary activities after tax	**(569,089)**	(1,073,872)
Weighted average number of shares:		
For basic loss per share	**1,086,227,850**	818,097,713
Basic loss per share	**(0.05)p**	(0.13)p

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

Since the year end the Company has issued 100,000,000 ordinary shares that will affect the calculation of the basic loss per share.

13. Intangible assets

Group	Intellectual property £
Cost	
At 30 June 2009	2,953
At 30 June 2010	**2,953**
Amortisation	
At 30 June 2009	1,378
Amortisation for year	591
At 30 June 2010	**1,969**
Net book value	
At 30 June 2010	**984**
At 30 June 2009	1,575

14. Property, plant and equipment

Group	Fixtures and computers £	Totals £
Cost		
At 30 June 2009	9,760	9,760
Additions	1,198	1,198
At 30 June 2010	**10,958**	**10,958**
Depreciation		
At 30 June 2009	8,590	8,590
Charge for year	1,138	1,138
At 30 June 2010	**9,728**	**9,728**
Net book value		
At 30 June 2010	**1,230**	**1,230**
At 30 June 2009	1,170	1,170

There were no assets held under finance leases.

15. Investments

Company	Shares in group undertakings £
Cost	
At 1 July 2009 and 30 June 2010	30,000
Net book value	
At 30 June 2010	**30,000**
At 30 June 2009	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.

16. Trade and other receivables

	Group		Company	
	2010 £	2009 £	**2010 £**	2009 £
Current				
Trade receivables	**—**	862	**—**	—
Other receivables	**907**	1,464	**—**	—
VAT	**2,713**	2,888	**—**	—
Prepayments and accrued income	**23,007**	28,405	**—**	—
	26,627	33,619	**—**	—
Non-current				
Amounts owed by group undertakings	**—**	—	**5,731,391**	5,056,821
Provision for impairment	**—**	—	**(5,731,391)**	(5,056,821)
Aggregate amounts	**26,627**	33,619	**—**	—

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.

17. Cash and cash equivalents

Group	**2010 £**	2009 £
Bank deposit account	**506,637**	930
Bank accounts	**10,144**	273,047
	516,781	273,977

18. Trade and other payables

Group	**2010 £**	2009 £
Current		
Trade payables	**56,208**	25,898
Social security and other taxes	**5,810**	5,802
Other payables	**2,097**	2,097
Accruals	**33,443**	17,842
	97,558	51,639

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.

19. 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.

19. 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 continually 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 ensuring that adequate funds are available to meet anticipated requirements from existing operations by a process of continual monitoring.

20. 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 22 and 23, and cash and cash equivalents.

Since the year end, £200,000 (before expenses) has been raised from a placing of shares.

21. Leasing agreements

There were no obligations under finance leases at 30 June 2010 or 30 June 2009.

Group	2010 £	2009 £
Payments under operating leases recognised as an expense in the year	**10,600**	176,148

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2010 £	2009 £
Within one year	**10,600**	10,600
In the second to fifth years inclusive	**15,900**	26,500

The outstanding commitments represent rental payments due under the lease for the Group's office premises which expires in December 2011. The lease does not include any onerous restriction of the Group's activities.

22. Issued capital

Authorised

Number	Class	Nominal value	2010 £	2009 £
40,000,000,000	Ordinary shares	0.025p	**10,000,000**	10,000,000

Allotted, issued and fully paid

Number	Class	Nominal value	2010 £	2009 £
1,175,597,713 (2009: 818,097,713)	Ordinary shares	0.025p	**293,899**	204,524

In September 2009, 157,500,000 ordinary shares of 0.025 pence were issued at 0.2 pence per share. In October 2009, 200,000,000 ordinary shares of 0.025 pence were issued at 0.25 pence per share.

Details of share options granted can be found in note 24 to the financial statements, Share-based Payment Transactions.

23. Reserves

Group	Retained earnings £	Share premium £	Merger reserve £	Totals £
At 30 June 2009	(5,279,620)	5,401,631	27	122,038
Deficit for the year	(569,089)	—	—	(569,089)
Cash share issue	—	676,190	—	676,190
At 30 June 2010	**(5,848,709)**	**6,077,821**	**27**	**229,139**

Company	Retained earnings £	Share premium £	Totals £
At 30 June 2009	(5,576,155)	5,401,631	(174,524)
Deficit for the year	(765,565)	—	(765,565)
Cash share issue	—	676,190	676,190
At 30 June 2010	**(6,341,720)**	**6,077,821**	**(263,899)**

24. 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:

	2010		2009	
	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	—	—	13,725,000	2.0
Granted during the period	**12,800,000**	**0.25**	—	—
Forfeited during the period	—	—	13,725,000	2.0
Exercised during the period	—	—	—	—
Expired during the period	—	—	—	
Outstanding at the end of the period	**12,800,000**	**0.25**	—	—
Exercisable at the end of the period	**6,400,000**	**0.25**	—	—

The options outstanding at 30 June 2010 had a weighted average remaining contractual life of nine years and five months. The options outstanding but not exercisable at 30 June 2010 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.

Fair value calculation

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

Share price	0.25p
Exercise price	0.25p
Volatility	83%
Time until maturity	3 years
Risk free rate of interest	1%
Expected dividend yield	0%

Volatility 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 2010 was 0.134p per share. Based on the number of options granted in the year and taking account of the fair value calculated per share, no expense has been provided for in the year, on the basis that the Directors do not consider the amount to be material.

25. Pension commitments

The Group makes contributions to its employees' own personal pension schemes. The contributions for the period of £10,200 (2009: £28,192) are charged to the profit and loss account. At the balance sheet date contributions of £2,097 (2009: £2,097) were owed and are included in creditors.

26. Contingent liabilities

There are no contingent liabilities (2009: £nil).

27. Related party disclosures

During the year Sareum entered into an agreement whereby Physiomics plc provides support to Sareum's cancer drug joint research program with The Institute of Cancer Research and Cancer Research Technology Limited. The work will be funded from the proceeds of commercialising the research programme. Paul Harper, a Director of Sareum plc, is also a director of Physiomics plc.

Disclosure regarding the remuneration of key management personnel is given in note 7, Employees and Directors, and in the Remuneration Committee report.

28. 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:

	2010 £	2009 £
Excess of depreciation on fixed assets over taxation allowances claimed	**(5,366)**	(6,784)
Tax losses available	**(657,297)**	(591,040)
	(662,663)	(597,824)

A potential deferred tax asset of £662,663 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.

29. Post balance sheet events

On 3 August 2010, the Group raised £200,000, before expenses, by way of a placing on AIM of 100,000,000 new ordinary shares of 0.025 pence nominal value in the capital of Sareum Holdings plc at a price of 0.2 pence per share.

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