Sareum

Specialists in Cancer Drug Discovery and Development

Sareum Holdings plc
Annual Report and Accounts 2014

Building value through drug development and licensing

Sareum is a specialist drug discovery and development company.

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

Sareum has a highly experienced management team with a track record of delivering quality drug candidates to pharmaceutical and biotechnology companies at the preclinical or early clinical trial stages.

Our year

2013

September
Sareum entered into a co-development agreement with the Cancer Research Technology Pioneer fund and BACIT Ltd to advance the CHK1 inhibitor programme

November
Sareum announced an oversubscribed placing to raise £1.67 million before expenses

December
Sareum entered into a co-development agreement with Hebei Medical University Biomedical Engineering Center to advance the Aurora+FLT3 inhibitor programme

2014

January
The U.S. Patent and Trademark Office issued a notification that a patent for one of the inventions associated with the CHK1 inhibitor programme will be granted

June
Sareum announced a conditional funding of £550,000 via a Placing and Equity Swap Agreement with YA Global Master SPV Ltd

TYK2 co-development partners SRI International presented preclinical proof of concept data in psoriasis models at FOCIS 2014

July
The Japan Patent Office gave notification that a patent has been granted for a key invention that forms the basis of Sareum's SKIL drug discovery platform

September
The European Patent Office issued notification that a patent has been granted for one of the inventions associated with the CHK1 inhibitor programme

October
Scientists at Sareum and SRI International publish their latest findings, including a novel molecule that significantly decreases psoriasis disease model pathology in the peer-reviewed Journal of Immunology

Operational highlights

- Co-development agreement to advance CHK1 programme signed in September 2013 – making good progress as it moves through preclinical development and towards Phase 1 clinical trials
- Co-development agreement to advance Aurora+FLT3 signed in December 2013 – successfully synthesised in multi-gram quantities and optimising process for larger scale production
- Currently selecting molecules from TYK2 programme for progression into disease models of psoriasis and other autoimmune disorders

Financial highlights

- Cash at bank at period end was £701,000 (2013: £422,000)
- Loss on ordinary activities (after tax credit) of £763,000 (2013: loss of £539,000) in line with expectations and reflecting commitments to co-development agreements
- Oversubscribed placing in November 2013 to raise £1.67 million (before expenses) to satisfy commitment to CHK1 co-development payments and to provide additional working capital
- Further funds raised via a Placing and Equity Swap agreement in June 2014

visit us online:
www.sareum.co.uk
Our website provides comprehensive information about our business including the latest news on our drug development programmes and investor information.

Chairman's and Chief Executive's statement

With multiple research programmes in progress, we are giving ourselves every chance of success in commercialising and/or conducting human clinical trials in at least one of them

In summary

- Co-development collaborations, with CPF and BACIT for CHK1 and HMUBEC for Aurora+FLT3 provide programme funding and cancer drug development expertise
- Patents are granted in the USA, Europe and Japan that protect key inventions associated with the drug development programmes
- TYK2 inhibitors research and proriasis model data is presented at an international conference and published in a peer-reviewed journal

Our strategy, as outlined in February 2013, is to advance our drug discovery pipeline programmes so that they can be commercialised at stages that realise their optimum value. This is being borne out through the securing of co-development agreements for our three lead programmes. These co-development agreements are providing programme funding, expertise and geographical spread whilst reducing the risk to the Company of a programme failure by enabling us to pursue multiple programmes.

The first co-development agreement for our autoimmune and inflammatory disorders programme, TYK2, was signed in April 2013 with SRI International (SRI). This was followed, in September 2013, by a second co-development agreement to advance our Checkpoint Kinase 1 (CHK1) inhibitor candidate with Cancer Research Technology Pioneer Fund (CPF) and London Stock Exchange-listed investment company, BACIT Ltd (BACIT). A third co-development agreement was concluded with central China-based Hebei Medical University Biomedical Engineering Center (HMUBEC) in December 2013 for our Aurora+FLT3 programme, targeting blood cancers such as acute myeloid leukaemia (AML).

The Company ended the year with net assets of £1.72 million (2013: £439,000) of which £701,000 (2013: £422,000) comprised cash at bank. As well as the higher cash balance, the increase in net assets reflects investment in the CHK1 co-development partnership and the cash that is expected to be received from the Equity Swap agreement announced in June 2014.

The loss after taxation for the year was £763,000 (2013: loss of £539,000). The year-on-year increase arises from associated professional fees resulting from the co-development agreements that were signed in 2013 and additional research funding required by our programmes as they reach more advanced stages of development.

In November 2013, the Company raised £1.67 million, before expenses, in an oversubscribed placing. The funds were, in part, raised in order to satisfy Sareum's commitment to the co-development partnership for the CHK1 kinase programme. This amounted to £797,500 and was paid in February 2014. The funds have also provided additional working capital and facilitated the development of other drug discovery and development programmes.

In June 2014, the Company raised further funds via a Placing and Equity Swap agreement. The Company expects to receive up to £550,000 but this is subject to adjustment, depending on the performance of the Company's shares. These funds provide additional working capital and research funding, particularly for our TYK2 autoimmune disease programme.

Outlook

Sareum has reached a critical stage in its development where late preclinical research is relatively expensive but the funding required can be challenging to source. We have addressed this by increasing research capacity whilst reducing costs through co-development agreements. This is in line with our strategic view of pursuing multiple programmes rather than focusing our resources on a single one. This approach, we believe, increases the likelihood of commercialising one or more programmes successfully.

Higher value licensing and funding agreements are typically available at later stages of development, once much of the initial development risk has been removed. A licence deal with one or more of our research programmes would, in the Board's opinion, transform the Company and would allow it to deliver on its goal of delivering clinical-stage research programmes.

In the meantime, we continue to seek further development opportunities either from our SKIL platform or from outside the Company.

Dr Paul Harper
Chairman
13 October 2014

Dr Tim Mitchell
Chief Executive Officer

Development programmes

Checkpoint Kinase 1 (CHK1)

Our co-development agreement to advance the Checkpoint Kinase 1 (CHK1) inhibitor programme with CPF and BACIT is making good progress as it moves through preclinical development and towards Phase 1 clinical trials.

Since finalising the co-development agreement in September 2013, research has focused on addressing the key issues of chemistry and toxicology. The development candidate has to be synthesised on a large enough scale to allow for the toxicology evaluation and to progress to human Phase 1 trials. This synthetic process needs to be reliable, reproducible and cost effective, and to consistently generate high-purity compound with a known and acceptable contaminant profile.

It is necessary to develop the most appropriate formulation for our drug candidate. These studies seek to determine the optimal salt form and polymorph (crystal form) of the molecule, and how it can best be blended with inactive ingredients to create a tablet or capsule with the best overall range of properties, including consistent oral bioavailability and stability (shelf life).

A crucial component of preclinical development is the evaluation of the toxicological effects of the drug candidate. These studies seek to predict whether we can expect to be able to deliver a therapeutically useful quantity of our development candidate to patients, with an acceptable side-effects profile. Most importantly, the studies allow us to determine the starting dose for our first in human trials.

Additionally, the project partnership is funding research to develop a robust biomarker strategy for the programme. Several biomarkers are being sought which will enable the determination that the molecule is interacting with the CHK1 target and is having the expected biological effects, at both cellular and molecular levels, upon any administration to patients in clinical trials.

As research progresses, further preclinical studies are underway to explore which cancer types may be more responsive to our candidate drug, either in combination with current chemotherapeutics, or when used as a single agent. To date, lead series CHK1 inhibitors have shown potent efficacy in disease models of colon cancer and lung cancer in combination with other chemotherapies, in head and neck cancers in combination with radiotherapy, as well as neuroblastoma, AML and lymphoma when administered as a single agent.

The Company's financial commitment for the programme for the year ended 30 June 2015 is a potential further £797,500, depending on the progress made towards initiating first in human Phase 1 trials.

Providing all research milestones are achieved within the current planned timetable, it is hoped that a clinical trials application will be filed within the next twelve months. The primary aim of the co-development partnership is to secure a licence deal when clinical data are available. However, as the programme progresses, commercialisation opportunities will be explored and an opportunity to licence at an earlier stage may be accepted if the terms are considered favourable. These licence deals typically take the form of a substantial up-front payment followed by success milestone and sales royalty payments.

Aurora+FLT3

This is our second programme to formally enter preclinical development. We are generating the data required for clinical trials applications, which we expect to be substantially completed during 2015.

In December 2013, we signed a co-development agreement with HMUBEC. The agreement provides Sareum with access to manufacturing capabilities and well-established sales distribution channels in Greater China (being the People's Republic of China, the special administrative regions of Hong Kong, Macau and the Republic of China (Taiwan)). HMUBEC is funding the preclinical studies and has the right to carry out clinical studies and sales and marketing within Greater China. In return, Sareum will exclusively receive any data generated by HMUBEC in order to facilitate its own development and commercialisation activities throughout the rest of the world.

As with our CHK1 programme, Sareum and HMUBEC are working on this project with contract research organisations possessing the most appropriate blend of skills and expertise to deliver the required chemistry, formulation, toxicology and regulatory work packages required to file Clinical Trial Applications in China and other territories, e.g. UK, USA and Europe.

Our development candidate has been synthesised in gram-scale quantities and we are now gearing up to optimise the process suitable for the larger scale production necessary for Phase 1 clinical studies.

Whilst we envisage delivering our development candidate initially via the intravenous (IV) route, we have begun formulation studies to deliver the same molecule via the oral route.

Alongside these preclinical development activities, we have been conducting further basic research. We have begun investigating different dosing schedules and levels for our development candidate, and investigating its potential in combination with existing standard of care chemotherapeutics in leukaemia models. Results from these experiments will feed into development of our clinical strategy.

As research progresses, we continue to explore potential commercial opportunities outside Greater China.

Development programmes continued

TYK2

Our autoimmune and inflammatory disorders programme, with co-development partners SRI International, has focused on developing a series of orally bioavailable inhibitors of TYK2, a member of the Janus kinase (JAK) family of kinases. SRI and Sareum have been working to complete the lead optimisation phase of discovery prior to moving into formal preclinical studies.

During the course of the lead optimisation research we have discovered a novel molecule, SAR-20347, which potently inhibits TYK2 and, additionally, the related kinase JAK1. This particular combination of activities leads to a striking decrease in disease symptoms in one of the standard preclinical disease models for psoriasis. Our colleagues at SRI demonstrated how the molecule, dosed via the oral route, reduced the levels of proinflammatory cytokines (signalling molecules) in the skin, believed to be responsible for psoriasis disease pathology. This research was the subject of a presentation at the Federation of Clinical Immunology Societies conference in June 2014 and was published in the peer-reviewed Journal of Immunology in October.

Seeking to build on the insights gained from this research, we are synthesising new molecules related to SAR-20347 with improved potency and other properties. We continue to use a "rapid efficacy model" measuring the extent by which compounds reduce levels of the key cytokine, IFNg, to select molecules for progression into the more resource intensive psoriasis disease model. We intend to progress active compounds into other disease models including inflammatory bowel disease, multiple sclerosis and rheumatoid arthritis.

While these activities take place we have also been seeking a commercial partner to sponsor the ongoing research with a view to licensing the programme at a later stage of development.

Other programmes

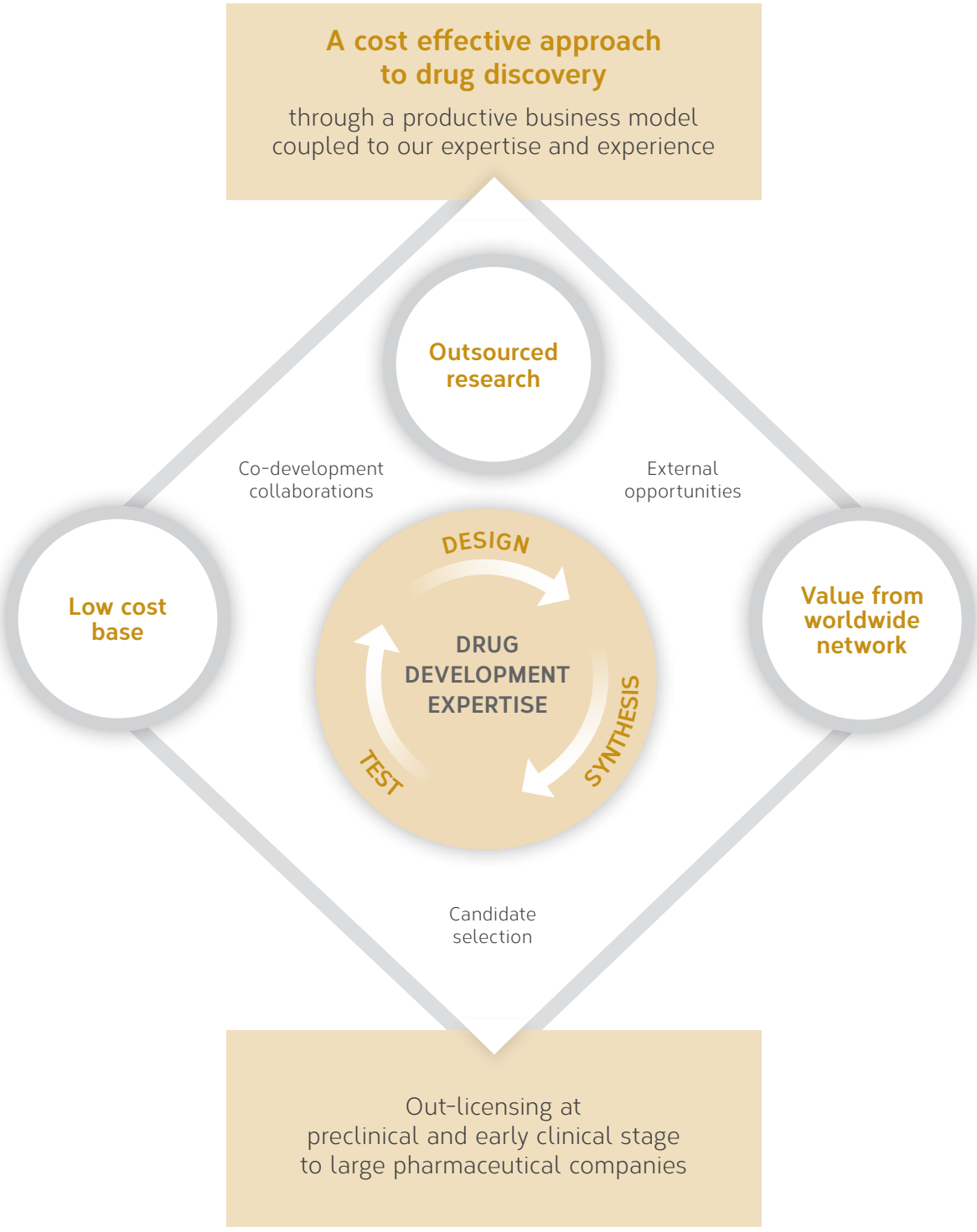
The exploration into our fatty acid synthase (FASN) research programme, which received a £150,000 grant from the Technology Strategy Board to match Sareum's £50,000, is not currently being pursued. Although programme compounds have demonstrated promising efficacy in models of breast and colon cancer, significant hurdles to further development need to be overcome. We believe investment in our more advanced programmes is more important at this time.

For our VEGFR-3 kinase programme, we are currently seeking grant funding or a development partner. VEGFR-3 kinase is often over-expressed in many different types of cancer including lung, gastric and prostate. We have a lead series of compounds that demonstrate potent inhibition of lymph cell growth by selectively inhibiting VEGFR-3. Lymph vessels are known to be a major route of metastasis, therefore inhibitors of VEGFR-3 have the potential to reduce, delay or inhibit the spread of cancer throughout the body.

We continue to use our Sareum Kinase Inhibitor Library (SKIL) platform to derive compounds for new research programmes alongside looking to in-license assets, either in oncology or other therapeutic areas, where our expertise could be used to accelerate development.

Business model

We generate and develop attractive drug candidates supported by quality data.



Business model continued

Expert approach
Sareum ensures its research spend yields the most productive return. This is accomplished by undertaking its laboratory-based research and development activities through co-development collaborations and third party research providers. From this Sareum builds a dossier of data on the performance and safety of candidate drug compounds, coupled with patent filings to protect the intellectual property. This forms the basis of the information package provided to potential licensees. A small in-house team ensures the management and advisory board are able to make effective and efficient decisions to progress programmes as quickly as possible.

Drug development expertise
Sareum generates value by developing a strong pipeline of candidate drugs. To date this has been done through its drug discovery platform, SKIL® (Sareum Kinase Inhibitor Library), where new compounds targeting cancer and autoimmune diseases are identified. The Company is also looking to access potential drug candidates from external sources, particularly where its skill and expertise can add substantial value to the development programme.

Co-development collaborations
Sareum's co-development collaborations with world-class research institutes provide access to expertise and the ability to progress a number of programmes simultaneously by reducing research costs. Our co-development collaborations in China and the USA also give us valuable presence in these markets. Each collaboration agreement is different. Typically, however, Sareum offsets a share of future licence income and ongoing royalties in exchange for research funding, use of facilities and access to expertise.

Outsourced research
Sareum operates an outsourced research model. Its laboratory-based research is undertaken via a worldwide network of collaborators and research providers. This reduces the high capital cost of running in-house laboratories and provides access to best-in-class expertise for its programmes.

Low cost base
The Company maintains a low cost base by having a small in-house team, outsourcing as many functions as possible and entering into collaboration agreements with third parties. These collaborations ensure Sareum benefits from the potential upside of future licensing deals without carrying the full cost required to progress its development programmes to later stages.

Value from worldwide network
As a consequence of its virtual research model Sareum is able to access a worldwide network of experts. It selects the best-in-class research providers and individuals to progress its programmes. The Company works with laboratories and individuals based across Europe, the USA and China, which also provides access to these markets for potential licensing deals.

Our strategy

Sareum's strategy is to develop programmes to late preclinical or early clinical stages to take advantage of the higher asset values associated with licensing programmes at these stages.

Pursue multiple programmes

- Increase potential success rate
- Mitigate development risk

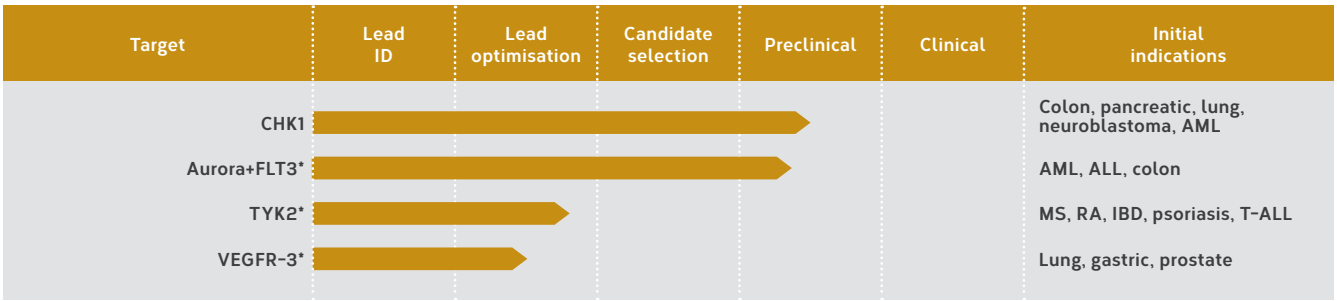
Seek collaboration partners

- Spread financial cost and risk
- Access specialist research expertise

Develop programmes to preclinical/early clinical development

- Minimise ongoing development risk
- Move up value chain
- Potential for higher deal values

Drug development pipeline



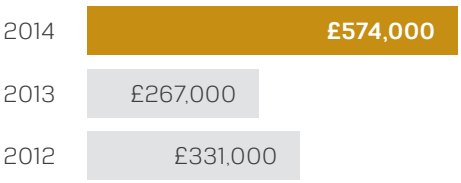
*SKIL programmes

Key performance indicators

The Directors use the following KPIs as a measure of the Group's performance:

R&D

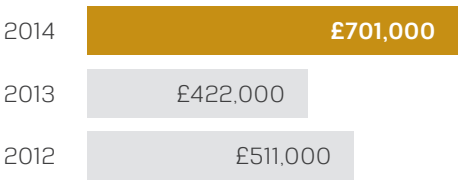
£574,000



Sareum undertakes research and development on its cancer and autoimmune disease programmes. The investment in R&D increased in 2014 due to the higher costs associated with advancing later stage programmes. This is in line with management expectations.

Cash at Bank

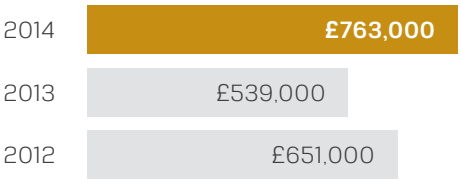
£701,000



Sareum requires cash for working capital purposes and to advance its development programmes. The Company's low cost base ensures that funds are used in the most efficient way possible. Cash at bank increased as a result of the two fund raisings that took place during the year.

Loss on ordinary activities

£763,000



The Company management aims to minimise the loss to the Group through a low cost base and a lean operating model. The loss has risen this year as a result of increased investment in R&D, which includes financial commitments to the co-development agreements.

Risks and risk management

Risk	Description	Mitigation
Financial	The principal financial risks are the ability to raise sufficient funds to support the Company through to profitability and failure to secure licensing agreements.	The Company's low cost base ensures that funds are used in the most efficient way possible. Sareum has historically raised the majority of its funds from investors via licensed brokers and this always remains an option. A structured finance facility is also in place until September 2015, which can provide up to a further £3.45 million in return for equity, providing the share price and volume traded remain at a suitable level.
Research and development	There are a number of risks in developing drug candidates due to a long and complex development process. Any programme must undergo extensive research to get to preclinical or clinical stage. This process takes several years and is very costly. Preclinical development focuses on safety and can fail at any point.	We undertake extensive early research and create a dossier of information that enables us and our advisers to evaluate the potential of a candidate before we seek to progress to preclinical or clinical phases. We also seek collaboration partners whose own due diligence reaffirms our assessment of a candidate's potential.
Intellectual property	Our ability to stop others exploiting our intellectual property, without first obtaining a licence, is critical to our long term success. Therefore we file patent applications in the patent offices of the major commercial territories. To obtain patent protection, our inventions must be considered novel, inventive and useful. However some, or all, of the patent offices may reject or seek to modify our patent applications.	Intellectual property protection is fundamental to our strategy of developing novel drug candidates and underpins our R&D programmes and we invest appropriately in this area. We are exploiting our SKIL platform, which already has a strong patent position through a number of granted and pending applications. Our CHK1 project is likewise supported by several granted and pending applications. IP considerations form a crucial part of due diligence when we are assessing in-licensing opportunities.
Collaboration and outsourcing	Working with third parties carries a risk of loss of control on progress and can lead to research delays. This can increase Sareum's own financial commitment as a result of continued spend on fixed costs during a delay and potential additional financial contributions required in order to progress a programme.	We work closely with our partners to anticipate and plan around any likely delays. Collaboration contracts clearly outline responsibilities, key milestones as well as cost, licensing and revenue sharing.
Competition	There always remains the possibility that a similar drug is being developed by a competitor that demonstrates greater efficacy or a better safety profile. Alternatively a similar drug in development may conclude a licensing deal or reach a later stage of development before we are able to, thus reducing the likelihood of Sareum securing a licensing agreement.	The management and advisory boards gather as much information as possible on competitive products and programmes. Progress and key milestones are monitored to understand how these may affect our own programmes. Sareum also pursues more than one development programme in order to mitigate the overall risk to the Company.

Directors and company information

Paul Harper PhD
Non-executive Chairman
Dr Paul Harper, aged 68, has over 35 years' experience in the life sciences industry covering both drug development and medical devices. He is Chairman of Physiomics plc and Director of Reneuron Holdings plc, both AIM quoted companies. In addition, he is Chairman of Oval Medical Technologies Ltd. Paul has served as Chief Executive of Cambridge Antibody Technology Limited and founded Provensis Limited. He has also served as Corporate Development Director of Unipath Limited, then the medical diagnostics business of Unilever PLC, and as Director of Research and Development for Johnson & Johnson Limited. Formerly head of antimicrobial chemotherapy for Glaxo PLC, Paul has a PhD in molecular virology and is the author of over 50 publications.

Tim Mitchell PhD
Founder and CEO
Dr Tim Mitchell, aged 54, has over 25 years' experience in the industry with key management and business expertise gained from his positions at Cambridge Discovery Chemistry and his roles at Millennium as a member of the management team and in forming the integrated Structure-Based Discovery department. As Director of the Millennium Structure-Based Discovery department, Tim was responsible for global provision of protein structure and high throughput chemical synthesis for Millennium as well as for local computational chemistry, informatics and automation capabilities. Prior to that, he was Director of computational chemistry at Cambridge Discovery Chemistry Ltd and a team leader in the Computational and Structural Sciences department at SmithKline Beecham Pharmaceuticals. Tim has a PhD in computational chemistry and a BSc in chemistry.

John Reader PhD
Founder and CSO
Dr John Reader, aged 47, has 20 years' experience within the industry and was formerly Associate Director, Chemical Technologies at Millennium Pharmaceuticals Research and Development Ltd, prior to which he worked with Pharmacopeia Inc. and Cambridge Discovery Chemistry in the provision of high throughput chemistry services to external and internal clients. John has extensive experience of leading large research teams and in the invention and application of new technologies to the drug discovery process, with an excellent track record of delivering successful projects to clients and has authored or co-authored many patents and publications. The majority of patents granted to John cover composition of matter discovered in the multiple projects in which he has worked, with further patents covering technological innovations in the field. John is a member of the EPSRC Peer Review College and has a PhD in chemistry and a BSc in applied chemistry.

Directors
T Mitchell PhD
J Reader PhD
P Harper PhD

Secretary
T Bunn FCMA

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Registered number
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Auditor
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Chartered Accountants
and Registered Auditor
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Group strategic report
for the year ended 30 June 2014

The Directors present their strategic report of the Company and the Group for the year ended 30 June 2014.

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

Review of business
The loss for the year was £762,873 and at 30 June 2014 cash and cash equivalents amounted to £700,618.

In September 2013 the Group announced that it had entered into a co-development agreement with the Cancer Research Technology Pioneer Fund (CPF) and London Stock Exchange-listed investment company, BACIT Ltd, to advance the Checkpoint Kinase 1 (CHK1) inhibitor candidate through preclinical development and Phase 1 clinical trials. On commercialisation of the programme, Sareum will be entitled to a share of revenues proportional to its investment under the agreement.

In December 2013 the Group announced that it had signed a co-development agreement with Hebei Medical University Biomedical Engineering Center to advance its Aurora+FLT3 cancer programme.

During the year the co-development with SRI International to advance Sareum's Tyrosine Kinase 2 (TYK2) programme continued. The Group's fatty acid synthase programme, supported by grant funding from the Technology Strategy Board, reached the conclusion that no further investment was warranted at this time.

The Group raised a total of £2.22 million, before expenses, by way of a placing of £1.67 million in November 2013 and a further placing amounting to £550,000 in June 2014. The funds raised are being used to fund the Group's investment in the CHK1 co-development described above and to underwrite the ongoing development of the Company's other programmes.

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

Principal risks and uncertainties
The principal risks facing the Group are the following:

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

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

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

Future outlook
The Group will continue to develop its oncology programmes and, in particular, the CHK1 and Aurora+FLT3 projects will be advanced through preclinical development, with the intention of progressing into clinical trials, leveraging the collaborations signed during the year. Commercially, significant licensing deals will be sought to realise the high value inherent in the Group's technology.

On behalf of the Board

T Bunn FCMA
Secretary
13 October 2014

Report of the Directors
for the year ended 30 June 2014

The Directors present their report with the financial statements of the Company and the Group for the year ended 30 June 2014.

Directors
The Directors shown below have held office during the whole of the period from 1 July 2013 to the date of this report.

T Mitchell PhD

J Reader PhD

P Harper PhD

Dividends
No dividends will be distributed for the year ended 30 June 2014.

Research and development
The Group undertakes research and development on its cancer research programmes. The costs relating to this, which have been written off during the year, amounted to £574,093 (2013: £266,899).

Financial instruments
Details regarding the Group's use of financial instruments and their associated risks are given in note 17 to the consolidated financial statements.

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

Company law requires the Directors to prepare Group and Company financial statements for each financial year. Under that law the Directors have elected to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions.

Statement as to disclosure of information to auditor
So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Group's auditor is unaware, and each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

On behalf of the Board

T Bunn FCMA
Secretary
13 October 2014

Corporate governance report

Introduction
Sareum Holdings plc was listed on AIM on 11 October 2004. Although the rules of AIM do not require the Company to comply with the Combined Code on Corporate Governance (the Code), the Company fully supports the principles set out in the Code and will attempt to comply wherever possible, given the resources available to the Company. Details are provided below of how the Company applies the Code.

The Board
The Board of Directors comprises two Executive Directors and one independent Non-executive Director, the Chairman.

The Board generally meets monthly and receives reports covering finance, compliance, business development, safety, operations and science together with any other material deemed necessary for the Board to discharge its duties. It is the Board's responsibility to review and approve the Group's strategy, budgets, staff recruitment, major items of expenditure and acquisitions.

Under the Articles of Association, all Directors must offer themselves for re-election at least once every three years. One third of the Directors retire by rotation at every AGM and are eligible for re-appointment.

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

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

Remuneration Committee
The Remuneration Committee currently comprises Dr Paul Harper, Non-executive Chairman. It meets at least once a year. It is the Remuneration Committee's role to establish a formal and transparent policy on executive remuneration and to set remuneration packages for individual Directors. The Committee also ensures that recommendations made by the Executive Directors on staff remuneration are appropriate and fair from a shareholder's perspective. Further information on the work of the Committee can be found on page 14.

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

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

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

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

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

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

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

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

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

Remuneration committee report

Introduction

The Company recognises the value of the Combined Code on Corporate Governance issued by the London Stock Exchange. It seeks to comply with the Combined Code so far as is practicable and appropriate for a public company of its size and nature. The Company also seeks to follow the Guidance for Smaller Quoted Companies on the Combined Code issued by the Quoted Companies Alliance in August 2004. Companies trading on AIM are not required to provide a formal remuneration report. However, in line with current best practice, this report provides information to enable a greater level of understanding as to how remuneration is determined by the Board.

The Remuneration Committee of the Board is responsible for considering staff and Directors' remuneration packages and makes its recommendations to the Board. The Committee currently comprises Dr Paul Harper, Non-executive Chairman. It meets at least once a year to review salaries and share option schemes for the Directors.

Remuneration policy

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

Executive Directors' service contracts

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

For the year from 1 July 2013 a Directors' bonus scheme was in effect to reward the Directors based on performance targets that build shareholder value.

Pensions

The Group does not have a pension scheme but makes contributions to Executive Directors' personal pension schemes amounting to 6.375% of annual salary. In addition, the Executive Directors contribute to their pension schemes via salary sacrifice and the National Insurance savings made by the Group as a result of this arrangement are added to the Group's contributions.

Share option schemes

In setting up share option schemes for staff, the Committee took into account the recommendations of shareholder bodies, such as that of the insurance companies, on the number of options to issue and the criteria for vesting. It approved the following share incentive arrangements for staff:

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

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

Director	Share scheme	Exercise price pence	As at 1 July 2013 No.	Granted during the year No.	Lapsed during the year	**As at 30 June 2014 No.**
Dr Tim Mitchell	EMI	0.25	6,400,000	–	–	**6,400,000**
Dr Tim Mitchell	EMI	0.26	6,153,846	–	–	**6,153,846**
Dr Tim Mitchell	EMI	1.2	2,566,666	–	–	**2,566,666**
Dr Tim Mitchell	EMI	0.6	–	4,752,000	–	**4,752,000**
Dr John Reader	EMI	0.25	6,400,000	–	–	**6,400,000**
Dr John Reader	EMI	0.26	6,153,846	–	–	**6,153,846**
Dr John Reader	EMI	1.2	2,566,666	–	–	**2,566,666**
Dr John Reader	EMI	0.6	–	4,752,000	–	**4,752,000**
Dr Paul Harper	Unapproved	0.6	–	810,000	–	**810,000**

The market price of the shares at 30 June 2014 was 0.525 pence and the range during the year was 0.425 pence to 1.075 pence.

Non-executive Directors

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

Directors' remuneration

Details of Directors' remuneration for the year to 30 June 2013 are set out below:

	Salary £	Bonus £	Healthcare £	Emoluments £	Pension £	**Total 2014 £**	Total 2013 £
Executive Directors							
Dr TJ Mitchell	93,867	23,760	818	118,445	7,649	**126,094**	95,682
Dr JC Reader	93,867	23,760	694	118,321	8,349	**126,670**	95,917
Non-executive Directors							
Dr PB Harper	16,000	–	–	16,000	–	**16,000**	15,000
Total	203,734	47,520	1,512	252,766	15,998	**268,764**	206,599

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 2014 which comprise the consolidated statement of comprehensive income, consolidated and Company balance sheet, consolidated and Company statement of changes in equity, consolidated and Company cash flow statement and related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in a Report of the auditors 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
As explained more fully in the Statement of Directors' responsibilities set out on page 12, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Group Strategic report and the Report of the Directors to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent company's affairs as at 30 June 2014 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006
- In our opinion the information given in the Group Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Joseph Kinton (Senior Statutory Auditor)
for and on behalf of Shipleys LLP
Chartered Accountants and Statutory Auditors
10 Orange Street
Haymarket
London
WC2H 7DQ
13 October 2014

Consolidated statement of comprehensive income
for the year ended 30 June 2014

	Notes	2014 £	2013 £
Continuing operations			
Revenue		**–**	–
Other operating income		**149,960**	–
Administrative expenses		**(928,396)**	(606,134)
Share of loss of associates		**(63,204)**	–
Operating loss		**(841,640)**	(606,134)
Finance income	4	**4,515**	3,332
Loss before income tax	5	**(837,125)**	(602,802)
Income tax	6	**74,252**	63,671
Loss for the year		**(762,873)**	(539,131)
Other comprehensive income		**–**	–
Total comprehensive expense for the year		**(762,873)**	(539,131)
Loss attributable to:			
Owners of the parent		**(762,873)**	(539,131)
Total comprehensive income attributable to:			
Owners of the parent		**(762,873)**	(539,131)
Loss per share expressed in pence per share:	8		
Basic and diluted loss from continuing operations		**(0.05)p**	(0.04)p

Consolidated balance sheet
30 June 2014

	Notes	2014 £	2013 £
Assets			
Non-current assets			
Intangible assets	9	**–**	–
Property, plant and equipment	10	**4,852**	–
Investments in associates	11	**706,796**	–
		711,648	–
Current assets			
Trade and other receivables	12	**99,783**	41,828
Tax receivable		**76,234**	55,585
Investments	13	**200,000**	–
Cash and cash equivalents	14	**700,618**	421,611
		1,076,635	519,024
Liabilities			
Current Liabilities			
Trade and other payables	15	**65,810**	79,922
Net current assets		**1,010,825**	439,102
Net assets		**1,722,473**	439,102
Shareholders' equity			
Called up share capital	18	**477,509**	380,384
Share premium	19	**9,549,595**	7,611,588
Share-based compensation reserve	19	**64,976**	53,864
Merger reserve	19	**27**	27
Retained earnings	19	**(8,369,634)**	(7,606,761)
Total equity		**1,722,473**	439,102

The financial statements were approved by the Board of Directors on 13 October 2014 and were signed on its behalf by:

T Mitchell PhD
Director
13 October 2014

Company balance sheet
30 June 2014

	Notes	2014 £	2013 £
Assets			
Non-current assets			
Investments	11	**30,000**	30,000
Trade and other receivables	12	**–**	–
		30,000	30,000
Current assets			
Investments	13	**200,000**	–
Liabilities			
Current liabilities		**–**	**–**
Net current assets		**200,000**	**–**
Net assets		**230,000**	30,000
Shareholders' equity			
Called up share capital	18	**477,509**	380,384
Share premium	19	**9,549,595**	7,611,588
Share-based compensation reserve	19	**64,976**	53,864
Retained earnings	19	**(9,862,080)**	(8,015,836)
Total equity		**230,000**	30,000

The financial statements were approved by the Board of Directors on 13 October 2014 and were signed on its behalf by:

T Mitchell PhD
Director
13 October 2014

Consolidated statement of changes in equity
for the year ended 30 June 2014

	Called up share capital £	Retained earnings £	Share premium £
Balance at 1 July 2012	370,075	(7,067,630)	7,131,433
Changes in equity			
Issue of share capital	10,309	–	480,155
Total comprehensive expense	–	(539,131)	–
Share-based compensation	–	–	–
Balance at 30 June 2013	380,384	(7,606,761)	7,611,588
Changes in equity			
Issue of share capital	97,125	–	1,938,007
Total comprehensive expense	–	(762,873)	–
Share-based compensation	–	–	–
Balance at 30 June 2014	**477,509**	**(8,369,634)**	**9,549,595**

	Share-based compensation reserve £	Merger reserve £	Total equity £
Balance at 1 July 2012	46,473	27	480,378
Changes in equity			
Issue of share capital	–	–	490,464
Total comprehensive expense	–	–	(539,131)
Share-based compensation	7,391	–	7,391
Balance at 30 June 2013	53,864	27	439,102
Changes in equity			
Issue of share capital	–	–	2,035,132
Total comprehensive expense	–	–	(762,873)
Share-based compensation	11,112	–	11,112
Balance at 30 June 2014	**64,976**	**27**	**1,722,473**

Company statement of changes in equity
for the year ended 30 June 2014

	Called up share capital £	Retained earnings £	Share premium £	Share-based compensation reserve £	Total equity £
Balance at 1 July 2012	370,075	(7,517,981)	7,131,433	46,473	30,000
Changes in equity					
Issue of share capital	10,309	–	480,155	–	490,464
Total comprehensive expense	–	(497,855)	–	–	(497,855)
Share-based compensation	–	–	–	7,391	7,391
Balance at 30 June 2013	380,384	(8,015,836)	7,611,588	53,864	30,000
Changes in equity					
Issue of share capital	97,125	–	1,938,007	–	2,035,132
Total comprehensive expense	–	(1,846,244)	–	–	(1,846,244)
Share-based compensation	–	–	–	11,112	11,112
Balance at 30 June 2014	**477,509**	**(9,862,080)**	**9,549,595**	**64,976**	**230,000**

Consolidated cash flow statement
for the year ended 30 June 2014

	Notes	2014 £	2013 £
Cash flows from operating activities			
Cash generated from operations	25	**(838,947)**	(652,188)
Tax received		**53,603**	69,448
Net cash outflow from operating activities		**(785,344)**	(582,740)
Cash flows from investing activities			
Purchase of tangible fixed assets		**(5,296)**	–
Purchase of fixed asset investments		**(770,000)**	–
Equity swap arrangement		**(200,000)**	–
Interest received		**4,515**	3,332
Net cash (outflow)/inflow from investing activities		**(970,781)**	3,332
Cash flows from financing activities			
Share issue		**97,125**	10,309
Share premium on share issue		**1,938,007**	480,155
Net cash inflow from financing activities		**2,035,132**	490,464
Increase/(decrease) in cash and cash equivalents		**279,007**	(88,944)
Cash and cash equivalents at beginning of year	26	**421,611**	510,555
Cash and cash equivalents at end of year	26	**700,618**	421,611

Company cash flow statement
for the year ended 30 June 2014

	Notes	2014 £	2013 £
Cash flows from operating activities			
Cash generated from operations	25	**(1,835,132)**	(490,464)
Net cash outflow from operating activities		**(1,835,132)**	(490,464)
Cash flows from investing activities			
Equity swap arrangement		**(200,000)**	–
Net cash outflow from investing activities		**(200,000)**	–
Cash flows from financing activities			
Share issue		**97,125**	10,309
Share premium on share issue		**1,938,007**	480,155
Net cash inflow from financing activities		**2,035,132**	490,464
Increase in cash and cash equivalents		**–**	–
Cash and cash equivalents at beginning of year	26	**–**	–
Cash and cash equivalents at end of year	26	**–**	–

Notes to the consolidated financial statements
for the year ended 30 June 2014

1. Basis of preparation
The consolidated financial statements of Sareum Holdings plc and its subsidiaries (the Group) have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted for use in the European Union, with IFRIC interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention.

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

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

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

2. Accounting policies
The principal accounting policies applied are set out below.

Amortisation of intangibles
Amortisation is calculated so as to write off the cost of an asset over the useful economic life of that asset as follows:

Intellectual property – straight line over five years

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

Fixtures and computers – straight line over three or four years

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

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

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.

2. Accounting policies continued

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

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

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

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

Revenue recognition
Revenue is measured as the fair value of the consideration received or receivable in the normal course of business, net of discounts, VAT and other sales related taxes and is recognised to the extent that it is probable that the economic benefits associated with the transaction will flow to the Company. Grant income is recognised as earned based on contractual conditions, generally as expenses are incurred.

Investment in associates
An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Critical accounting estimates and areas of judgement
Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and assumptions that have the most significant effects on the carrying amounts of the assets and liabilities in the financial information are considered to be research and development costs and equity-settled share-based payments.

Accounting standards and interpretations not applied
At the date of authorisation of these financial statements, the following standards and interpretations relevant to the Group that have not been applied in these financial statements were in issue but not yet effective:

International Financial Reporting Standards		Effective for accounting periods starting on or after
IFRS 10	Consolidated Financial Statements	1 January 2014
IFRS 11	Joint Arrangements	1 January 2014
IFRS 12	Disclosure of Interest in Other Entities	1 January 2014
IFRS 10, 11 and 12	Amendments in Transition Guidance	1 January 2014
IAS 27	Separate Financial Statements (revised 2011)	1 January 2014
IAS 28	Associates and Joint Ventures (revised 2011)	1 January 2014
IAS 32	Amendment to Financial Instruments: Presentation	1 January 2014
IAS 36	Recoverable Amount Disclosures	1 January 2014

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

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

Notes to the consolidated financial statements continued
for the year ended 30 June 2014

3. Employees and Directors

	2014 £	2013 £
Wages and salaries	**254,628**	194,000
Social security costs	**26,466**	19,397
Other pension costs	**15,998**	14,215
	297,092	227,612

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

	2014	2013
Office and management	**1**	1
Research	**1**	1
	2	2

	2014 £	2013 £
Directors' remuneration	**251,253**	192,385
Directors' pension contributions to money purchase schemes	**15,998**	14,215

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

Money purchase schemes	**2**	2

Information regarding the highest paid Director for the year ended 30 June 2014 is as follows:

	2014 £
Emoluments, etc.	**117,627**
Pension contributions to money purchase schemes	**8,349**

The Directors comprise the key management personnel of the Group.

4. Net finance income

	2014 £	2013 £
Finance income:		
Deposit account interest	**4,515**	3,332

5. Loss before income tax

The loss before income tax is stated after charging:

	2014 £	2013 £
Other operating leases	**10,683**	10,688
Depreciation - owned assets	**444**	363
Research and development	**574,093**	266,899
Auditor's remuneration – see analysis overleaf	**13,800**	11,975

5. Loss before income tax continued

The analysis of auditor's remuneration is as follows:

	2014 £	2013 £
Fees payable to the Company's auditor for the audit of the annual accounts		
Audit of the Company	**4,200**	4,100
Audit of subsidiaries	**6,800**	6,600
Total audit fees	**11,000**	10,700
Fees payable to the Company's auditor for other services		
Taxation services	**1,300**	1,275
Other assurance services	**1,500**	–
Total fees payable to the Company's auditor	**13,800**	11,975

6. Income tax

	2014 £	2013 £
Current tax:		
UK corporation tax credit on losses of the period	**(74,252)**	(55,585)
Adjustments recognised in the current year in relation to the current tax of prior years	**–**	(8,086)
Tax credit to the income statement	**(74,252)**	(63,671)

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

	2014 £	2013 £
Loss before tax	**(837,125)**	(602,802)
At standard rate of 20% (2013: 20%)	**(167,425)**	(120,560)
Effects of:		
Capital allowances in excess of depreciation	**(1,478)**	(546)
Unutilised tax losses	**114,496**	76,189
Losses surrendered for research and development tax credits (less uplift)	**54,407**	44,917
Research and development tax credits claimed	**(74,252)**	(55,585)
Prior year adjustments	**–**	(8,086)
Actual current tax credit in the year	**(74,252)**	(63,671)

The tax rate of 20% used above for the 2014 and 2013 reconciliations is the small company corporation tax rate applicable in the United Kingdom.

7. Loss of parent company

As permitted by Section 408 of the Companies Act 2006, the income statement of the parent company is not presented as part of these financial statements. The parent company's loss for the financial year was £1,846,244 (2013: £497,855 loss).

The loss represents costs of £103,531 (2013: £102,966) associated with the Company's obligations to maintain its AIM listing, the share-based compensation adjustment of £11,112 (2013: £7,391) and a provision of £1,731,601 (2013: £387,498) for impairment of amounts owed by Group undertakings.

Notes to the consolidated financial statements continued
for the year ended 30 June 2014

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

	2014	2013
Loss on ordinary activities after tax	**£(762,873)**	£(539,131)
Weighted average number of shares for basic loss per share	**1,693,479,365**	1,494,114,039
Basic and diluted loss per share	**(0.05)p**	(0.04)p

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

9. Intangible assets

Group	Intellectual property £
Cost	
At 1 July 2013 and **30 June 2014**	2,953
Amortisation	
At 1 July 2013 and **30 June 2014**	2,953
Net book value	
At 30 June 2014	**–**
At 30 June 2013	–

10. Property, plant and equipment

Group	Fixtures and computers £
Cost	
At 1 July 2013	6,083
Additions	5,296
Disposals	(1,485)
At 30 June 2014	**9,894**
Depreciation	
At 1 July 2013	6,083
Charge for year	444
Eliminated on disposal	(1,485)
At 30 June 2014	**5,042**
Net book value	
At 30 June 2014	**4,852**
At 30 June 2013	–

11. Investments in associates

Group	Interest in associates £
Cost	
Additions	770,000
At 30 June 2014	**770,000**
Impairments	
Share of loss of associate	(63,204)
At 30 June 2014	**(63,204)**
Net book value	
At 30 June 2014	**706,796**

Interest in associates

The investment in associates represents the investment by the Group in the partnership with the Cancer Research Technology Pioneer Fund and BACIT to advance the CHK1 programme. The associate has been accounted for using the equity method in the consolidated financial statements. Sareum's interest in the associate partnership is 27.5% and it has a seat on the joint research committee. As at 30 June 2014 the partnership had net assets of £2,570,169 and had incurred losses of £329,831.

Investments

Company	Shares in group undertakings £
Cost	
At 1 July 2013 and **30 June 2014**	30,000
Net book value	
At 30 June 2014	**30,000**
At 30 June 2013	30,000

At the balance sheet date the Company owned 100% of the issued ordinary share capital of Sareum Ltd ("subsidiary"). Sareum Limited is included within the consolidated financial statements of Sareum Holdings plc.

12. Trade and other receivables

	Group	
	2014 £	2013 £
Current:		
VAT	**5,939**	6,273
Prepayments and accrued income	**93,844**	35,555
	99,783	41,828

	Company	
	2014 £	2013 £
Non-current:		
Amounts owed by Group undertakings	**7,020,896**	6,633,398
Provision for impairment	**(7,020,896)**	(6,633,398)
	–	–

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

13. Investments

	Group		Company	
	2014 £	2013 £	**2014 £**	2013 £
Other	**200,000**	–	**200,000**	–

The Investment arises from the Equity Swap Agreement entered into with YA Global Master SPV, Ltd (YAGM) in June 2014, whereby the Group paid £200,000 to YAGM who will make a payment each month to the Group over a twelve month period. The expected monthly payment is £16,667 but will be adjusted up or down depending upon whether the average of the lowest ten day Volume Weighted Average Price (VWAP) of the Group's shares during the relevant one month period is greater or less than 0.55 pence. The investment has been included at fair value at the balance sheet date on the basis that the share price on 30 June 2014 was not significantly different to 0.55 pence and it is considered to be a current asset because most of the payments will have been received within a twelve month period.

14. Cash and cash equivalents

	Group	
	2014 £	2013 £
Bank deposit account	**688,405**	411,797
Bank accounts	**12,213**	9,814
	700,618	421,611

15. Trade and other payables

	Group	
	2014 £	2013 £
Current:		
Trade creditors	**38,184**	54,765
Social security and other taxes	**6,499**	5,937
Other creditors	**3,122**	2,891
Accrued expenses	**18,005**	16,329
	65,810	79,922

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.

16. Leasing agreements

Group

	Non-cancellable operating leases	
	2014 £	2013 £
Within one year	**5,300**	10,600
Between one and five years	**–**	5,300
	5,300	15,900

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

Company

The Company had no lease commitments at 30 June 2014.

17. 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.

Market risks

INTEREST RATE RISK

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

FOREIGN EXCHANGE RISK

The Group's activities expose it to fluctuations in the exchange rate for the Euro and the US dollar. Funds are maintained in Sterling and foreign currency is acquired on the basis of committed expenditure. The Group's results are not considered to be materially sensitive to the above risks and therefore no sensitivity analysis has been provided.

Non-market risks

LIQUIDITY RISK

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

18. Called up share capital

Allotted, issued and fully paid:

Number:	Class	Nominal value	**2014 £**	2013 £
1,910,038,273 (2013: 1,521,538,263)	Ordinary shares	0.025p	**477,509**	380,384

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

In November 2013 278,500,010 ordinary shares of 0.025 pence were issued at 0.6 pence per share and in June 2014 a further 110,000,000 ordinary shares of 0.025 pence were issued at 0.5 pence per share.

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

19. Reserves

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

Details of movements in each reserve are set out in the consolidated statement of changes in equity.

20. Pension commitments

The Group makes contributions to its employees' own personal pension schemes. The contributions for the period of £15,998 (2013: £14,215) are charged to the profit and loss account. At the balance sheet date contributions of £3,117 (2013: £2,886) were owed and are included in creditors.

21. Contingent liabilities

There are no contingent liabilities (2013: £nil).

Notes to the consolidated financial statements continued
for the year ended 30 June 2014

22. Related party disclosures
Disclosure regarding the remuneration of key management personnel is given in note 3, Employees and Directors.

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

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

23. Reconciliation of movements in shareholders' funds

	Group	
	2014 £	2013 £
Loss for the financial year	**(762,873)**	(539,131)
Issue of share capital	**2,035,132**	490,464
Share-based compensation reserve	**11,112**	7,391
Net addition/(reduction) to shareholders' funds	**1,283,371**	(41,276)
Opening shareholders' funds	**439,102**	480,378
Closing shareholders' funds	**1,722,473**	439,102

	Company	
	2014 £	2013 £
Loss for the financial year	**(1,846,244)**	(497,855)
Issue of share capital	**2,035,132**	490,464
Share-based compensation reserve	**11,112**	7,391
Net addition to shareholders' funds	**200,000**	–
Opening shareholders' funds	**30,000**	30,000
Closing shareholders' funds	**230,000**	30,000

24. Share-based payment transactions
The Group operates a share option scheme under the Enterprise Management Incentive Scheme (EMI) for employees of the Group and it also operates an unapproved share option scheme. If the options under either scheme 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:

	2014		2013	
	Number of share options	**Weighted average exercise price (in pence)**	Number of share options	Weighted average exercise price (in pence)
Outstanding at beginning of the period	**30,241,024**	**0.415**	30,241,024	0.415
Granted during the period	**10,314,000**	**0.600**	–	–
Forfeited during the period	**–**	**–**	–	–
Exercised during the period	**–**	**–**	–	–
Expired during the period	**–**	**–**	–	–
Outstanding at the end of the period	**40,555,024**	**0.462**	30,241,024	0.415
Exercisable at the end of the period	**33,747,784**	**0.435**	15,120,512	0.415

The options outstanding at 30 June 2014 had a weighted average remaining contractual life of seven years and one month (30 June 2013: seven years and three months). The options outstanding but not exercisable at 30 June 2014 and 30 June 2013 vest subject to pre-determined performance criteria.

24. Share-based payment transactions continued

Fair value calculation

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

Date of grant	December 2013	March 2012	December 2010	December 2009
Share price	0.5p	1.2p	0.25p	0.25p
Exercise price	0.6p	1.2 p	0.26p	0.25p
Volatility	50%	50%	50%	83%
Time until maturity	three years	three years	three years	three years
Risk free rate of interest	1%	1%	1%	1%
Expected dividend yield	nil	nil	nil	nil

Volatility for the options granted in December 2013, March 2012 and December 2010 is based on share price performance for companies operating in a similar field. Volatility for the options granted in December 2009 is calculated using the Group's historical share price data and is the annual volatility at 30 June 2010.

The weighted average fair value of the share options at 30 June 2014 was 0.187 pence per share (2013: 0.202 pence per share). A fair value charge of £11,112 has been provided in the year (2013: £7,391).

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

	Group	
	2014 £	2013 £
Loss before income tax	**(837,125)**	(602,802)
Depreciation charges	**444**	363
Share-based compensation	**11,112**	7,391
Share of loss of associate	**63,204**	–
Finance income	**(4,515)**	(3,332)
	(766,880)	(598,380)
Increase in trade and other receivables	**(57,955)**	(10,856)
Decrease in trade and other payables	**(14,112)**	(42,952)
Cash used in operations	**(838,947)**	(652,188)

	Company	
	2014 £	2013 £
Loss before income tax	**(1,846,244)**	(497,855)
Impairment provision	**1,731,601**	387,498
Share-based compensation	**11,112**	7,391
	(103,531)	(102,966)
Increase in trade and other receivables	**(1,731,601)**	(387,498)
Cash used in operations	**(1,835,132)**	(490,464)

26. Cash and cash equivalents

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

	Group		Company	
Year ended 30 June 2014	**30 June 2014 £**	1 July 2013 £	**30 June 2014 £**	1 July 2013 £
Cash and cash equivalents	**700,618**	421,611	**–**	–

Year ended 30 June 2013	30 June 2013 £	1 July 2012 £	30 July 2013 £	1 July 2012 £
Cash and cash equivalents	421,611	510,555	–	–

27. 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 18 and 19, and cash and cash equivalents.

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:

	2014 £	2013 £
Excess of depreciation on fixed assets over taxation allowances claimed	**(1,340)**	(2,818)
Tax losses available	**(964,162)**	(846,389)
	(965,502)	(849,207)

A potential deferred tax asset of £965,502 has not been recognised, as there is significant uncertainty that the Group will make sufficient profits in the foreseeable future to justify recognition. The deferred tax asset would be recognised should sufficient profits be generated in the future against which it may be recovered.

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consultancy, design and production by
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Design Portfolio plants ten trees for each of its corporate report projects, in association with Trees for Cities.

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