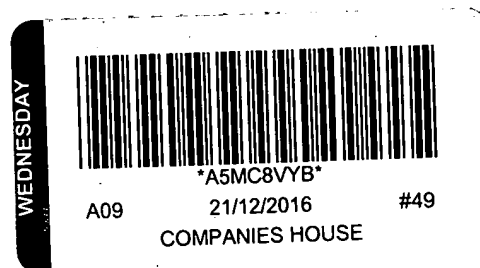


Strategic Report, Report of the Directors and
Financial Statements for the Year Ended 30 June 2016
for
Sareum Limited



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for the Year Ended 30 June 2016

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Sareum Limited

Company Information
for the Year Ended 30 June 2016

DIRECTORS:

T Mitchell PhD
J Reader PhD
S Parker DPhil

SECRETARY:

T Bunn FCMA

REGISTERED OFFICE:

Unit 2a, Langford Arch
London Road
Pampisford
Cambridge
Cambridgeshire
CB22 3FX

REGISTERED NUMBER:

04863659 (England and Wales)

AUDITOR:

Shipleys LLP
Chartered Accountants and Registered Auditors
10 Orange Street
Haymarket
London
WC2H 7DQ

Strategic Report
for the Year Ended 30 June 2016

The Directors present their strategic report for the year ended 30 June 2016.

PRINCIPAL ACTIVITY

The principal activity of the Company in the year under review was that of the discovery and development of new therapeutic drugs by a combination of skills in biology, computational chemistry and medicinal chemistry.

REVIEW OF BUSINESS

The results for the year and financial position of the Company are as shown in the annexed financial statements.

Throughout the period under review the Company continued to develop its drug discovery programmes using outsourced biology and chemistry resources as well as exploring commercial opportunities with potential partners.

Sareum Holdings plc, the Company's parent, raised a total of £1.1m, before expenses, by way of a placing in April 2016. The funds will be used to progress the Company's drug development programmes as well as for working capital purposes.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks facing the Company are the following:

- The drug discovery programmes undertaken may fail due to fundamental scientific uncertainty.
- The Company may not complete sufficient commercial partnerships to create a sustainable business.
- It may not be possible for Sareum Holdings plc, the Company's parent, 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

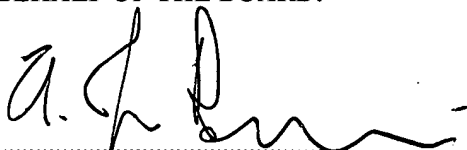
The Directors consider cash and spending on research and development to be the Company's key performance indicators. A budget is approved by the Board at the beginning of each financial year and performance is regularly monitored against budget with significant variances investigated.

FUTURE OUTLOOK

On 27 September 2016 the Company's parent announced that its co-investment partner, the CRT Pioneer Fund, had licensed the rights to the CHK1 project to ProNAi Therapeutics, Inc. Under the terms of the agreement an immediate upfront payment of US\$7.0 million is due to the co-investment partners and an additional fee of up to US\$2.0 million will be payable upon the successful transfer of the two ongoing Phase 1 clinical trials to ProNAi. Additional payments of up to US\$319.5 million may become payable upon achievement of certain milestones and ProNAi will pay royalties on the net sales of any product successfully developed. Sareum is entitled to receive 27.5% of these payments and will also receive a refund amounting to an estimated £300,000 in unspent investment funds.

The Company will continue to develop its oncology programmes and, in particular, the Aurora+FLT3 project will be advanced through pre-clinical development into Phase 1 clinical trials. The TYK2 inhibitor, targeting autoimmune diseases will also be progressed in conjunction with SRI International. The potential use of the Company's TYK2 inhibitors as cancer therapeutics will continue to be investigated. Commercially, significant licensing deals will be sought to realise the high value inherent in the Company's technology.

ON BEHALF OF THE BOARD:



T Bunn FCMA - Secretary

Date: 1 November 2016

Report of the Directors
for the Year Ended 30 June 2016

The Directors present their report with the financial statements of the Company for the year ended 30 June 2016.

DIRECTORS

The directors shown below have held office during the whole of the period from 1 July 2015 to the date of this report.

T Mitchell PhD
J Reader PhD

Other changes in directors holding office are as follows:

P Harper PhD - resigned 11 May 2016
S Parker DPhil - appointed 17 May 2016

DIVIDENDS

No dividends will be distributed for the year ended 30 June 2016.

RESEARCH AND DEVELOPMENT

The principal activity of the Company is innovative research and development. It does this in its own right and in collaboration with other organisations.

FINANCIAL INSTRUMENTS

Details regarding the Company's use of financial instruments and their associated risks are given in note 14 to the 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 financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

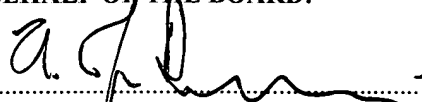
- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the EU; and
- prepare the financial statements on the going concern basis unless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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 Company'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 Company's auditor is aware of that information.

ON BEHALF OF THE BOARD:


.....
T Bunn FCMA Secretary

Date: 1 November 2016

Report of the Independent Auditor to the Members of
Sareum Limited

We have audited the financial statements of Sareum Limited for the year ended 30 June 2016 which comprise the Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity, 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.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in a Report of the Auditor and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page three, 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 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 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 Company's affairs as at 30 June 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- 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 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, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.



Stewart Jell (Senior Statutory Auditor)
for and on behalf of Shipleys LLP
Chartered Accountants and Statutory Auditors
10 Orange Street
Haymarket
London
WC2H 7DQ

Date: 1 November 2016

Statement of Comprehensive Income
for the Year Ended 30 June 2016

	Notes	2016 £	2015 £
CONTINUING OPERATIONS			
Revenue		-	-
Other operating income		122,599	-
Administrative expenses		(862,331)	(653,296)
Share of loss of associates		<u>(331,871)</u>	<u>(496,989)</u>
OPERATING LOSS		(1,071,603)	(1,150,285)
Finance income	4	<u>4,359</u>	<u>2,997</u>
LOSS BEFORE INCOME TAX	5	(1,067,244)	(1,147,288)
Income tax	6	<u>152,565</u>	<u>185,850</u>
LOSS FOR THE YEAR		<u>(914,679)</u>	<u>(961,438)</u>
TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR		<u>(914,679)</u>	<u>(961,438)</u>

Balance Sheet

30 June 2016

	Notes	2016 £	2015 £
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	7	-	-
Property, plant and equipment	8	1,322	3,087
Investments in associates	9	<u>475,038</u>	<u>209,808</u>
		<u>476,360</u>	<u>212,895</u>
CURRENT ASSETS			
Trade and other receivables	10	79,288	51,366
Tax receivable		154,840	186,297
Cash and cash equivalents	11	<u>1,252,595</u>	<u>1,480,044</u>
		<u>1,486,723</u>	<u>1,717,707</u>
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	12	<u>11,069,224</u>	<u>10,122,064</u>
NET CURRENT LIABILITIES		<u>(9,582,501)</u>	<u>(8,404,357)</u>
NET LIABILITIES		<u>(9,106,141)</u>	<u>(8,191,462)</u>
SHAREHOLDERS' EQUITY			
Called up share capital	15	30,000	30,000
Share premium	16	27	27
Retained earnings	16	<u>(9,136,168)</u>	<u>(8,221,489)</u>
TOTAL EQUITY		<u>(9,106,141)</u>	<u>(8,191,462)</u>

The financial statements were approved by the Board of Directors on 1 November 2016 and were signed on its behalf by:



T. Mitchell PhD - Director

Statement of Changes in Equity
for the Year Ended 30 June 2016

	Called up share capital £	Retained earnings £	Share premium £	Total equity £
Balance at 1 July 2014	30,000	(7,260,051)	27	(7,230,024)
Changes in equity				
Total comprehensive expense	-	(961,438)	-	(961,438)
Balance at 30 June 2015	30,000	(8,221,489)	27	(8,191,462)
Changes in equity				
Total comprehensive expense	-	(914,679)	-	(914,679)
Balance at 30 June 2016	30,000	(9,136,168)	27	(9,106,141)

Cash Flow Statement
for the Year Ended 30 June 2016

	Notes	2016 £	2015 £
Cash flows from operating activities			
Cash generated from operations	20	181,271	700,642
Tax received		<u>184,022</u>	<u>75,787</u>
Net cash inflow from operating activities		<u>365,293</u>	<u>776,429</u>
Cash flows from investing activities			
Purchase of fixed asset investments		(597,101)	-
Interest received		<u>4,359</u>	<u>2,997</u>
Net cash (outflow)/inflow from investing activities		<u>(592,742)</u>	<u>2,997</u>
(Decrease)/increase in cash and cash equivalents		<u>(227,449)</u>	<u>779,426</u>
Cash and cash equivalents at beginning of year	21	<u>1,480,044</u>	<u>700,618</u>
Cash and cash equivalents at end of year	21	<u><u>1,252,595</u></u>	<u><u>1,480,044</u></u>

Notes to the Financial Statements
for the Year Ended 30 June 2016

1. BASIS OF PREPARATION

The financial statements of Sareum Limited 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 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.

Going concern

The Directors estimate that the cash held by the Company, together with payments to be received as a result of the licensing agreement with ProNAi Therapeutics, Inc. described in the strategic report, will be sufficient to support the current level of activities for the foreseeable future. Therefore the financial statements have been prepared on a going concern basis.

In addition, the Directors of Sareum Holdings plc have confirmed that they will not seek repayment of the inter-company balance until sufficient funds are available.

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, less its estimated residual value, over the useful economic life of the asset as follows:-

Intellectual property - straight line over five years

Property, plant and equipment

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

Fixtures and computers - straight line over three or four years

Financial instruments

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

Cash and cash equivalents

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

Notes to the Financial Statements - continued
for the Year Ended 30 June 2016

2. **ACCOUNTING POLICIES - continued**

Taxation

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

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

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

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

Research and development

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

Operating lease agreements

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

Pension contributions

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

Revenue recognition

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.

The amendment to IAS27, Separate financial statements (revised 2014), allowing investments in associates to be accounted for under the equity method in separate financial statements, has been adopted early.

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.

Notes to the Financial Statements - continued
for the Year Ended 30 June 2016

2. **ACCOUNTING POLICIES - continued**

Accounting standards and interpretations not applied

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

Standard	Effective for accounting periods starting on or after
IFRS 11 Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11	1 January 2016
IAS 1 Presentation of Financial Statements Amendments to IAS 1	1 January 2016
IAS 16 and 38 Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38	1 January 2016
IAS 27 Equity Method in Separate Financial Statements - Amendments to IAS 27	1 January 2016
Annual Improvements to IFRS - 2012-2014 Cycle	1 January 2016

The amendment to IAS27, Separate financial statements (revised 2014), allowing investments in associates to be accounted for under the equity method in separate financial statements, has been adopted early.

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 Company.

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

3. **EMPLOYEES AND DIRECTORS**

	2016 £	2015 £
Wages and salaries	240,835	217,334
Social security costs	20,556	17,925
Other pension costs	<u>16,625</u>	<u>15,781</u>
	<u>278,016</u>	<u>251,040</u>

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

	2016	2015
Office and management	1	1
Research	<u>1</u>	<u>1</u>
	<u>2</u>	<u>2</u>

	2016 £	2015 £
Directors' remuneration	230,231	215,504
Directors' pension contributions to money purchase schemes	16,625	15,781
Compensation to director for loss of office	<u>8,952</u>	<u>-</u>

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

	<u>2</u>	<u>2</u>
Money purchase schemes		

Notes to the Financial Statements - continued
for the Year Ended 30 June 2016

3. **EMPLOYEES AND DIRECTORS - continued**

Information regarding the highest paid Director is as follows:

	2016	2015
	£	£
Emoluments etc	104,591	99,425
Pension contributions to money purchase schemes	<u>8,027</u>	<u>7,598</u>

The Directors comprise the key management personnel of the Company.

4. **NET FINANCE INCOME**

	2016	2015
	£	£
Finance income:		
Deposit account interest	<u>4,359</u>	<u>2,997</u>

5. **LOSS BEFORE INCOME TAX**

The loss before income tax is stated after charging:

	2016	2015
	£	£
Other operating leases	11,185	10,936
Depreciation - owned assets	1,765	1,765
Auditor's remuneration	6,800	6,800
Auditor's remuneration for non-audit work - taxation services	900	900
Auditor's remuneration for non-audit work - other assurance services	2,000	-
Research and development	<u>927,644</u>	<u>891,156</u>

Notes to the Financial Statements - continued
for the Year Ended 30 June 2016

6. INCOME TAX

	2016 £	2015 £
Current tax:		
UK corporation tax credit on losses of the period	(151,526)	(185,850)
Adjustments recognised in the current year in relation to the current tax of prior years	<u>(1,039)</u>	<u>-</u>
Tax credit to the income statement	<u><u>(152,565)</u></u>	<u><u>(185,850)</u></u>

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

	2016 £	2015 £
Loss before tax	<u><u>(1,067,244)</u></u>	<u><u>(1,147,288)</u></u>
At standard rate of 20% (2015 - 20%)	(213,449)	(229,457)
Effects of:		
Capital allowances in excess of depreciation	12	(63)
Unutilised tax losses	122,567	115,589
Losses surrendered for research and development tax credits (less uplift)	90,870	113,931
Research and development tax credits claimed	(151,526)	(185,850)
Prior year adjustments	<u>(1,039)</u>	<u>-</u>
Actual current tax credit in the year	<u><u>(152,565)</u></u>	<u><u>(185,850)</u></u>

7. INTANGIBLE ASSETS

	Intellectual property £
COST	
At 1 July 2015	
and 30 June 2016	<u>2,953</u>
AMORTISATION	
At 1 July 2015	
and 30 June 2016	<u>2,953</u>
NET BOOK VALUE	
At 30 June 2016	<u><u>-</u></u>
At 30 June 2015	<u><u>-</u></u>

Notes to the Financial Statements - continued
for the Year Ended 30 June 2016

8. PROPERTY, PLANT AND EQUIPMENT

	Fixtures and computers £
COST	
At 1 July 2015	
and 30 June 2016	<u>9,894</u>
DEPRECIATION	
At 1 July 2015	6,807
Charge for year	<u>1,765</u>
At 30 June 2016	<u>8,572</u>
NET BOOK VALUE	
At 30 June 2016	<u>1,322</u>
At 30 June 2015	<u>3,087</u>

9. INVESTMENTS IN ASSOCIATES

	Interest in Associates £
COST	
At 1 July 2015	770,000
Additions	<u>597,101</u>
At 30 June 2016	<u>1,367,101</u>
IMPAIRMENT	
At 1 July 2015	560,192
Impairment for year	<u>331,871</u>
At 30 June 2016	<u>892,063</u>
NET BOOK VALUE	
At 30 June 2016	<u>475,038</u>
At 30 June 2015	<u>209,808</u>

The Investment in Associates represents the investment by the Company in the partnership with the CRT Pioneer Fund 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 they have a seat on the joint research committee. As at 30 June 2016 the partnership had net assets of £1,731,051 (2015: £762,937) and had incurred cumulative losses of £4,068,949 (2015: £2,137,063). The additional investment of £597,101 is made up of £797,500 paid into the partnership, less a milestone payment amounting to £200,399 received from Cancer Research Technology Ltd.

10. TRADE AND OTHER RECEIVABLES

	2016 £	2015 £
Current:		
VAT	15,159	10,639
Prepayments and accrued income	<u>64,129</u>	<u>40,727</u>
	<u>79,288</u>	<u>51,366</u>

Notes to the Financial Statements - continued
for the Year Ended 30 June 2016

11. CASH AND CASH EQUIVALENTS

	2016	2015
	£	£
Bank deposit account	1,245,707	1,469,023
Bank accounts	<u>6,888</u>	<u>11,021</u>
	<u>1,252,595</u>	<u>1,480,044</u>

12. TRADE AND OTHER PAYABLES

	2016	2015
	£	£
Current:		
Trade creditors	72,180	35,523
Social security and other taxes	8,519	6,976
Other creditors	3,512	3,410
Accrued expenses	15,340	21,534
Amounts owed to group undertakings	<u>10,969,673</u>	<u>10,054,621</u>
	<u>11,069,224</u>	<u>10,122,064</u>

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.

13. LEASING AGREEMENTS

Minimum lease payments under non-cancellable operating leases fall due as follows:

	2016	2015
	£	£
Within one year	11,100	11,100
Between one and five years	<u>5,550</u>	<u>16,650</u>
	<u>16,650</u>	<u>27,750</u>

The outstanding commitments represent rental payments due under the lease for the Company's office premises which expires in December 2017. The lease does not include any onerous restriction of the Company's activities.

Notes to the Financial Statements - continued
for the Year Ended 30 June 2016

14. FINANCIAL INSTRUMENTS

The Company'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 Company's ongoing operational requirements. The Company does not trade in derivative financial instruments.

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

FOREIGN EXCHANGE RISK

The Company'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 Company'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.

15. CALLED UP SHARE CAPITAL

Allotted, issued and fully paid:

Number:	Class:	Nominal value:	2015 £	2014 £
3,000,000	Ordinary Shares	£0.01	<u>30,000</u>	<u>30,000</u>

The Ordinary Shares carry equal rights in respect of voting at a general meeting of shareholders, payment of dividends and return of assets in the event of a winding up.

16. 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.
Retained earnings	Cumulative net gains and losses recognised in the balance sheet.

Details of movements in each reserve are set out in the Statement of Changes in Equity on page 7.

17. PENSION COMMITMENTS

The Company makes contributions to its employees' own personal pension schemes. The contributions for the period of £16,625 (2015: £15,781) are charged to the profit and loss account. At the balance sheet date contributions of £3,507 (2015: £3,404) were owed and are included in creditors.

Notes to the Financial Statements - continued
for the Year Ended 30 June 2016

18. RELATED PARTY DISCLOSURES

The Company is a wholly owned subsidiary of Sareum Holdings plc and during the year the Company had the following related party transactions with its parent undertaking:-

The Company increased its borrowing from its parent undertaking by £915,052 (2015: increased by £1,302,124) and at the balance sheet date £10,969,673 was owed (2015: £10,054,621). The liability to the parent company is considered repayable within one year as it attracts no interest and is repayable on demand.

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

19. ULTIMATE CONTROLLING PARTY

The Directors consider the ultimate parent undertaking to be Sareum Holdings plc. The consolidated accounts of the parent undertaking are publicly available and can be obtained from Companies House, Crown Way, Cardiff, CF14 3UZ.

20. RECONCILIATION OF LOSS BEFORE INCOME TAX TO CASH GENERATED FROM OPERATIONS

	2016 £	2015 £
Loss before income tax	(1,067,244)	(1,147,288)
Depreciation charges	1,765	1,765
Share of loss of associate	331,871	496,988
Finance income	(4,359)	(2,997)
	(737,967)	(651,532)
(Increase)/decrease in trade and other receivables	(27,922)	48,417
Increase in trade and other payables	947,160	1,303,757
Cash generated from operations	181,271	700,642

21. CASH AND CASH EQUIVALENTS

The amounts disclosed on the Cash Flow Statement in respect of cash and cash equivalents are in respect of these Balance Sheet amounts:

Year ended 30 June 2016

	30.6.16 £	1.7.15 £
Cash and cash equivalents	1,252,595	1,480,044

Year ended 30 June 2015

	30.6.15 £	1.7.14 £
Cash and cash equivalents	1,480,044	700,618

22. CAPITAL RISK MANAGEMENT

Sareum Holdings plc, the Company's parent, manages its capital to ensure that the Group and Sareum Limited will be able to continue as going concerns. The capital structure of Sareum Holdings plc consists of equity, comprising issued share capital and reserves as disclosed in the Sareum Holdings plc financial statements, and cash and cash equivalents.

Notes to the Financial Statements - continued
for the Year Ended 30 June 2016

23. **DEFERRED TAX**

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

	2016	2015
	£	£
Excess of depreciation on fixed assets over taxation allowances claimed	(1,289)	(1,277)
Tax losses available	<u>(995,877)</u>	<u>(873,211)</u>
	<u>(997,166)</u>	<u>(874,488)</u>

A potential deferred tax asset of £997,166 has not been recognised, as there is significant uncertainty that the Company 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.