

Report of the Directors and  
Audited Consolidated Financial Statements for the Year Ended 30 June 2012  
for  
Sareum Holdings plc

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for the year ended 30 June 2012

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Sareum Holdings plc

Company Information  
for the year ended 30 June 2012

**DIRECTORS:**

T Mitchell PhD  
J Reader PhD  
P Harper PhD

**SECRETARY:**

T Bunn FCMA

**REGISTERED OFFICE:**

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

**REGISTERED NUMBER:**

05147578 (England and Wales)

**AUDITOR:**

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

Report of the Directors  
for the year ended 30 June 2012

The Directors present their report with the financial statements of the Company and the Group for the year ended 30 June 2012

**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 £650,563 and at 30 June 2012 cash and cash equivalents amounted to £510,555.

During the year the Group raised £252,500, before expenses, by way of two placings of new ordinary shares on AIM, made up of £227,500 on 6 June 2012 and £25,000 on 7 June 2012. The funds raised will underwrite the ongoing development of the Group's programmes.

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

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

**POST BALANCE SHEET EVENTS**

**Financing**

On 10 September 2012 Sareum announced that it had entered into a £40 million Standby Equity Distribution Agreement (SEDA) with YA Global Master SPV Ltd, an investment fund managed by Yorkville Advisors LLC (Yorkville).

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

Subject to its terms, the £40 million SEDA facility can be used entirely at the discretion of the Company. Under the terms of the SEDA, Sareum may draw down funds over a period of up to three years in exchange for the issue of new Ordinary shares in the Company. The Ordinary shares will be issued at a 5% discount to the lowest volume weighted average price during the pricing period (a period of 20, 15, ten or five trading days as determined under the SEDA) following a draw down request. The Company may also set a minimum price for each draw down, which may reduce the size of the permitted draw down. The maximum advance that may be requested is 400% of the average daily trading volume of Ordinary Shares multiplied by the volume weighted average price of such shares for each of the 20 trading days following the draw down request and with an overall advance limit of £500,000 per draw down. The facility may only be drawn upon once every ten trading days. Yorkville is not obliged to allow draw downs to the extent they would result in Yorkville holding in excess of notifiable amounts specified under UK regulation (including, the Takeover Code).

**DIVIDENDS**

No dividends will be distributed for the year ended 30 June 2012.

**RESEARCH AND DEVELOPMENT**

The Group undertakes research and development on its cancer research programmes. Further information is provided in the Chairman and Chief Executive's statement. The costs relating to this which have been written off during the year amounted to £330,974 (2011: £282,733).

Report of the Directors  
for the year ended 30 June 2012

**DIRECTORS**

The Directors shown below have held office during the whole of the period from 1 July 2011 to the date of this report

Tim Mitchell PhD  
John Reader PhD  
Paul Harper PhD

**GROUP'S POLICY ON PAYMENT OF CREDITORS**

The Group's policy is to pay its suppliers within 30 days of invoice date. At 30 June 2012, the invoices representing the trade creditors of the Group had an average age of 67 days (2011: 54 days) based on the average daily amount invoiced by suppliers to the Group during the year.

**FINANCIAL INSTRUMENTS**

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

**KEY PERFORMANCE INDICATORS**

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

**PRINCIPAL RISKS**

The principal risks facing the Group are the following:

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

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

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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

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

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

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

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

Report of the Directors  
for the year ended 30 June 2012

**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

Date 2/10/12

**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 2012 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated and Company Balance Sheet, Consolidated and Company Statement of Changes in Equity, Consolidated and Company Cash Flow Statement and related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union, and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

**Respective responsibilities of directors and auditor**

As explained more fully in the Statement of Directors' Responsibilities set out on page 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 Group's and the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report of the Directors to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Opinion on financial statements**

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent company's affairs as at 30 June 2012 and of the Group's loss for the year then ended,
- the Group's financial statements have been properly prepared in accordance with IFRS as adopted by the European Union,
- the parent company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

**Opinion on other matter prescribed by the Companies Act 2006**

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

Report of the Independent Auditor to the Members of  
Sareum Holdings plc

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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



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

Date 2 October 2012



Consolidated Income Statement  
for the year ended 30 June 2012

	Notes	2012 £	2011 £
<b>CONTINUING OPERATIONS</b>			
Revenue		-	-
Administrative expenses		(726,660)	(637,859)
<b>OPERATING LOSS</b>		(726,660)	(637,859)
Finance income	4	<u>4,821</u>	<u>9,611</u>
<b>LOSS BEFORE INCOME TAX</b>	5	(721,839)	(628,248)
Income tax	6	<u>71,276</u>	<u>59,890</u>
<b>LOSS FOR THE YEAR</b>		<u>(650,563)</u>	<u>(568,358)</u>
Loss attributable to Owners of the parent		<u>(650,563)</u>	<u>(568,358)</u>
Loss per share expressed in pence per share Basic and diluted	8	<u>(0.04)p</u>	<u>(0.04)p</u>

Sareum Holdings plc (Registered number 05147578)

Consolidated Statement of Comprehensive Income  
for the year ended 30 June 2012

	2012 £	2011 £
<b>LOSS FOR THE YEAR</b>	(650,563)	(568,358)
<b>OTHER COMPREHENSIVE INCOME</b>	<u>-</u>	<u>-</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<u>(650,563)</u>	<u>(568,358)</u>
Total comprehensive income attributable to Owners of the parent	<u>(650,563)</u>	<u>(568,358)</u>

The notes form part of these financial statements


Consolidated Balance Sheet  
30 June 2012

	Notes	2012 £	2011 £
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Intangible assets	9	-	393
Property, plant and equipment	10	363	851
Investments	11	-	-
		<u>363</u>	<u>1,244</u>
<b>CURRENT ASSETS</b>			
Trade and other receivables	12	30,972	40,768
Tax receivable		61,362	60,090
Cash and cash equivalents	13	<u>510,555</u>	<u>870,829</u>
		<u>602,889</u>	<u>971,687</u>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables	14	<u>122,874</u>	<u>97,168</u>
<b>NET CURRENT ASSETS</b>		<u>480,015</u>	<u>874,519</u>
<b>NET ASSETS</b>		<u>480,378</u>	<u>875,763</u>
<b>SHAREHOLDERS' EQUITY</b>			
Called up share capital	17	370,075	362,649
Share premium	18	7,131,433	6,901,816
Share-based compensation reserve	18	46,473	28,338
Merger reserve	18	27	27
Retained earnings	18	<u>(7,067,630)</u>	<u>(6,417,067)</u>
<b>TOTAL EQUITY</b>		<u>480,378</u>	<u>875,763</u>

The financial statements were approved by the Board of Directors on its behalf by

2-Oct-2012

and were signed on

  
T Mitchell PhD - Director

Sareum Holdings plc (Registered number 05147578)

Company Balance Sheet

30 June 2012

	Notes	2012 £	2011 £
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Investments	11	30,000	30,000
Trade and other receivables	12	-	-
		<u>30,000</u>	<u>30,000</u>
<b>LIABILITIES</b>			
<b>NET CURRENT LIABILITIES</b>		<u>-</u>	<u>-</u>
<b>NET ASSETS</b>		<u>30,000</u>	<u>30,000</u>
<b>SHAREHOLDERS' EQUITY</b>			
Called up share capital	17	370,075	362,649
Share premium	18	7,131,433	6,901,816
Share-based compensation reserve	18	46,473	28,338
Retained earnings	18	(7,517,981)	(7,262,803)
<b>TOTAL EQUITY</b>		<u>30,000</u>	<u>30,000</u>

The financial statements were approved by the Board of Directors on its behalf by

2-Oct-2012 and were signed on

  
T Mitchell PhD - Director

The notes form part of these financial statements

Consolidated Statement of Changes in Equity  
for the year ended 30 June 2012

	Called up share capital £	Profit and loss account £	Share premium £
<b>Balance at 1 July 2010</b>	293,899	(5,848,709)	6,077,821
<b>Changes in equity</b>			
Issue of share capital	68,750	-	823,995
Total comprehensive income	-	(568,358)	-
Share-based compensation	-	-	-
<b>Balance at 30 June 2011</b>	<u>362,649</u>	<u>(6,417,067)</u>	<u>6,901,816</u>
<b>Changes in equity</b>			
Issue of share capital	7,426	-	229,617
Total comprehensive income	-	(650,563)	-
Share-based compensation	-	-	-
<b>Balance at 30 June 2012</b>	<u>370,075</u>	<u>(7,067,630)</u>	<u>7,131,433</u>

	Share-based compensation reserve £	Merger reserve £	Total equity £
<b>Balance at 1 July 2010</b>	-	27	523,038
<b>Changes in equity</b>			
Issue of share capital	-	-	892,745
Total comprehensive income	-	-	(568,358)
Share-based compensation	28,338	-	28,338
<b>Balance at 30 June 2011</b>	<u>28,338</u>	<u>27</u>	<u>875,763</u>
<b>Changes in equity</b>			
Issue of share capital	-	-	237,043
Total comprehensive income	-	-	(650,563)
Share-based compensation	18,135	-	18,135
<b>Balance at 30 June 2012</b>	<u>46,473</u>	<u>27</u>	<u>480,378</u>

Company Statement of Changes in Equity  
for the year ended 30 June 2012

	Called up share capital £	Profit and loss account £	Share premium £	Share-based compensation reserve £	Total equity £
<b>Balance at 1 July 2010</b>	293,899	(6,341,720)	6,077,821	-	30,000
<b>Changes in equity</b>					
Issue of share capital	68,750	-	823,995	-	892,745
Total comprehensive income	-	(921,083)	-	-	(921,083)
Share-based compensation	-	-	-	28,338	28,338
<b>Balance at 30 June 2011</b>	<u>362,649</u>	<u>(7,262,803)</u>	<u>6,901,816</u>	<u>28,338</u>	<u>30,000</u>
<b>Changes in equity</b>					
Issue of share capital	7,426	-	229,617	-	237,043
Total comprehensive income	-	(255,178)	-	-	(255,178)
Share-based compensation	-	-	-	18,135	18,135
<b>Balance at 30 June 2012</b>	<u>370,075</u>	<u>(7,517,981)</u>	<u>7,131,433</u>	<u>46,473</u>	<u>30,000</u>

Consolidated Cash Flow Statement  
for the year ended 30 June 2012

	Notes	2012 £	2011 £
<b>Cash flows from operating activities</b>			
Cash (used in) operations	24	(672,142)	(622,918)
Tax received		<u>70,004</u>	<u>74,774</u>
Net cash from operating activities		<u>(602,138)</u>	<u>(548,144)</u>
<b>Cash flows from investing activities</b>			
Purchase of tangible fixed assets		-	(264)
Sale of tangible fixed assets		-	100
Interest received		<u>4,821</u>	<u>9,611</u>
Net cash from investing activities		<u>4,821</u>	<u>9,447</u>
<b>Cash flows from financing activities</b>			
Share issue		7,426	68,750
Share premium on share issue		<u>229,617</u>	<u>823,995</u>
Net cash from financing activities		<u>237,043</u>	<u>892,745</u>
		<hr/>	<hr/>
<b>(Decrease)/increase in cash and cash equivalents</b>		<b>(360,274)</b>	<b>354,048</b>
<b>Cash and cash equivalents at beginning of year</b>	25	<u>870,829</u>	<u>516,781</u>
<b>Cash and cash equivalents at end of year</b>	25	<u><u>510,555</u></u>	<u><u>870,829</u></u>

Company Cash Flow Statement  
for the year ended 30 June 2012

	Notes	2012 £	2011 £
<b>Cash flows from operating activities</b>			
Cash (used in) operations	24	<u>(237,043)</u>	<u>(892,745)</u>
Net cash from operating activities		<u>(237,043)</u>	<u>(892,745)</u>
 <b>Cash flows from financing activities</b>			
Share issue		7,426	68,750
Share premium on share issue		<u>229,617</u>	<u>823,995</u>
Net cash from financing activities		<u>237,043</u>	<u>892,745</u>
 <b>Increase in cash and cash equivalents</b>		<u>-</u>	<u>-</u>
<b>Cash and cash equivalents at beginning of year</b>	25	<u>-</u>	<u>-</u>
<b>Cash and cash equivalents at end of year</b>	25	<u><u>-</u></u>	<u><u>-</u></u>



Notes to the Consolidated Financial Statements  
for the year ended 30 June 2012

**1 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS**

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

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

- Amendments to IFRS 7 "Financial instruments - Disclosures" - disclosures on transfers of financial assets

The IASB has issued the following standards and interpretations considered relevant to the Group, with an effective date after the date of these financial statements. Their adoption, where applicable, is not expected to have a material effect on the financial statements of the Group

- Amendment to IAS 1, 'Presentation of financial statements' - presentation of items of other comprehensive income (applies to periods beginning from 1 July 2012)
- IFRS 10 'Consolidated financial statements' (applies to periods beginning from 1 January 2013)
- IFRS 12 'Disclosure of interests in other entities' (applies to periods beginning from 1 January 2013)
- IFRS 13 'Fair value measurement' (applies to periods beginning from 1 January 2013)
- IAS 19 (revised) 'Employee benefits' (applies to periods beginning from 1 January 2013)
- IFRS 9 'Financial instruments' - classification of financial assets and financial liabilities (applies to periods beginning from 1 January 2015)

**2 ACCOUNTING POLICIES**

**Basis of preparation**

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

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

**Going concern**

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

**Basis of consolidation**

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

**2 ACCOUNTING POLICIES - continued**

**Amortisation of intangibles**

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

Intellectual property - straight line over 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.

**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.

Notes to the consolidated financial statements - continued  
for the year ended 30 June 2012

3. **EMPLOYEES AND DIRECTORS**

	2012	2011
	£	£
Wages and salaries	184,500	174,483
Social security costs	18,546	18,116
Other pension costs	13,420	11,244
	<u>216,466</u>	<u>203,843</u>

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

	2012	2011
Office and management	1	1
Research	<u>1</u>	<u>1</u>
	<u>2</u>	<u>2</u>

	2012	2011
	£	£
Directors' remuneration	184,092	174,199
Directors' pension contributions to money purchase schemes	<u>13,420</u>	<u>11,244</u>

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

Money purchase schemes	<u>2</u>	<u>2</u>
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The Directors comprise the key management personnel of the Group. Further information regarding directors' remuneration is provided in the Remuneration Committee report.

4. **NET FINANCE INCOME**

	2012	2011
	£	£
Finance income		
Deposit account interest	<u>4,821</u>	<u>9,611</u>

5. **LOSS BEFORE INCOME TAX**

The loss before income tax is stated after charging

	2012	2011
	£	£
Other operating leases	10,686	10,726
Depreciation - owned assets	488	487
Loss on disposal of fixed assets	-	56
Intellectual property amortisation	393	591
Research and development	330,974	282,733
Auditor's remuneration - see analysis below	<u>11,750</u>	<u>11,790</u>

Notes to the consolidated financial statements - continued  
for the year ended 30 June 2012

**5 LOSS BEFORE INCOME TAX - continued**

The analysis of auditor's remuneration is as follows

	2012 £	2011 £
Fees payable to the Company's auditor for the audit of the annual accounts		
Audit of the Company	4,000	3,700
Audit of subsidiaries	<u>6,500</u>	<u>5,780</u>
Total audit fees	10,500	9,480
Fees payable to the Company's auditor for other services		
Taxation services	<u>1,250</u>	<u>2,310</u>
Total fees payable to the Company's auditor	<u>11,750</u>	<u>11,790</u>

**6 INCOME TAX**

	2012 £	2011 £
Current tax		
UK corporation tax credit on losses of the period	(61,362)	(54,887)
Adjustments recognised in the current year in relation to the current tax of prior years	<u>(9,914)</u>	<u>(5,003)</u>
Tax credit to the Income Statement	<u>(71,276)</u>	<u>(59,890)</u>

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

	2012 £	2011 £
Loss before tax	<u>(721,839)</u>	<u>(628,248)</u>
At standard rate of 20% (2011 21%)	(144,368)	(131,932)
Effects of		
Expenses not allowable for tax purposes	11,627	5,951
Capital allowances in excess of depreciation	(657)	(938)
Unutilised tax losses	91,041	79,873
Losses surrendered for research and development tax credits (less uplift)	42,357	47,046
Research and development tax credits claimed	(61,362)	(54,887)
Prior year adjustments	<u>(9,914)</u>	<u>(5,003)</u>
Actual current tax credit in the year	<u>(71,276)</u>	<u>(59,890)</u>

The tax rate used above for the 2012 and 2011 reconciliations of 20% and 21% respectively are the small company corporation tax rates applicable in the United Kingdom, on taxable profits under tax law in that jurisdiction

Notes to the consolidated financial statements - continued  
for the year ended 30 June 2012

**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 £255,178 (2011 £921,083 loss)

The loss represents costs of £134,019 (2011 £93,762) associated with the Company's obligations to maintain its AIM listing, the share-based compensation adjustment of £18,135 (2011 28,338) and a provision of £103,024 (2011 £798,983) for impairment of amounts owed by group undertakings

**8 EARNINGS PER SHARE**

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

	2012	2011
Loss on ordinary activities after tax	£(650,563)	£(568,358)
Weighted average number of shares for basic loss per share	1,452,212,949	1,348,885,384
Basic and diluted loss per share	(0.04p)	(0.04p)

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 £
<b>COST</b>	
At 1 July 2011 and 30 June 2012	<u>2,953</u>
<b>AMORTISATION</b>	
At 1 July 2011	2,560
Amortisation for year	<u>393</u>
At 30 June 2012	<u>2,953</u>
<b>NET BOOK VALUE</b>	
At 30 June 2012	<u>-</u>
At 30 June 2011	<u>393</u>

Notes to the consolidated financial statements - continued  
for the year ended 30 June 2012

**10 PROPERTY, PLANT AND EQUIPMENT**

<b>Group</b>	<b>Fixtures and computers £</b>
<b>COST</b>	
At 1 July 2011	8,151
Disposals	<u>(2,068)</u>
At 30 June 2012	<u>6,083</u>
<b>DEPRECIATION</b>	
At 1 July 2011	7,300
Charge for year	488
Eliminated on disposal	<u>(2,068)</u>
At 30 June 2012	<u>5,720</u>
<b>NET BOOK VALUE</b>	
At 30 June 2012	<u>363</u>
At 30 June 2011	<u>851</u>

**11 INVESTMENTS**

<b>Company</b>	<b>Shares in group undertakings £</b>
<b>COST</b>	
At 1 July 2011 and 30 June 2012	<u>30,000</u>
<b>NET BOOK VALUE</b>	
At 30 June 2012	<u>30,000</u>
At 30 June 2011	<u>30,000</u>

On 5 July 2004, the Company acquired 100% of the issued share capital of Sareum Limited, a company incorporated in England and Wales and operating in the United Kingdom. In consideration, the shareholders in Sareum Limited received ordinary shares in Sareum Holdings plc and a loan to finance its operations. This event was not an acquisition in the normal way but purely a mechanism for floating Sareum Limited on AIM. Sareum Limited is included within the consolidated financial statements of Sareum Holdings plc.

Notes to the consolidated financial statements - continued  
for the year ended 30 June 2012

**12 TRADE AND OTHER RECEIVABLES**

	<b>Group</b>	
	2012	2011
	£	£
Current		
VAT	5,803	6,895
Prepayments and accrued income	<u>25,169</u>	<u>33,873</u>
	<u>30,972</u>	<u>40,768</u>
	<b>Company</b>	
	2012	2011
	£	£
Non-current		
Amounts owed by group undertakings	6,633,398	6,530,374
Provision for impairment	<u>(6,633,398)</u>	<u>(6,530,374)</u>
	<u>-</u>	<u>-</u>

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 CASH AND CASH EQUIVALENTS**

	<b>Group</b>	
	2012	2011
	£	£
Bank deposit account	500,115	859,978
Bank accounts	<u>10,440</u>	<u>10,851</u>
	<u>510,555</u>	<u>870,829</u>

**14 TRADE AND OTHER PAYABLES**

	<b>Group</b>	
	2012	2011
	£	£
Current		
Trade creditors	97,033	69,905
Social security and other taxes	5,782	5,130
Other creditors	2,735	4,074
Accrued expenses	<u>17,324</u>	<u>18,059</u>
	<u>122,874</u>	<u>97,168</u>

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

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

**15 LEASING AGREEMENTS**

**Group**

	Non-cancellable operating leases	
	2012	2011
	£	£
Within one year	10,600	5,300
Between one and five years	<u>15,900</u>	<u>-</u>
	<u>26,500</u>	<u>5,300</u>

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 2012.

**16 FINANCIAL INSTRUMENTS**

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

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

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

**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.



Notes to the consolidated financial statements - continued  
for the year ended 30 June 2012

**17 CALLED UP SHARE CAPITAL**

**Allotted, issued and fully paid:**

Number	Class	Nominal value	2012 £	2011 £
1,480,303,593	Ordinary shares	0 025p	<u>370,075</u>	<u>362,649</u>
(2011 1,450,597,713)				

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 June 2012, 29,705,880 Ordinary shares of 0 025 pence were issued at 0 85 pence per share

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

**18 RESERVES**

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

Details of movements in each reserve are set out in the Consolidated Statement of Changes in Equity on page 11

**19 PENSION COMMITMENTS**

The Group makes contributions to its employees' own personal pension schemes. The contributions for the period of £13,420 (2011 £11,244) are charged to the profit and loss account. At the balance sheet date contributions of £2,729 (2011 £4,074) were owed and are included in creditors.

**20 CONTINGENT LIABILITIES**

There are no contingent liabilities (2011 £nil)

**21 RELATED PARTY DISCLOSURES**

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

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

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

22 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

Group	2012	2011
	£	£
Loss for the financial year	(650,563)	(568,358)
Issue of share capital	237,043	892,745
Share-based compensation reserve	<u>18,135</u>	<u>28,338</u>
<b>Net (reduction)/addition to shareholders' funds</b>	<b>(395,385)</b>	<b>352,725</b>
Opening shareholders' funds	<u>875,763</u>	<u>523,038</u>
<b>Closing shareholders' funds</b>	<b><u>480,378</u></b>	<b><u>875,763</u></b>
 Company		
	2012	2011
	£	£
Loss for the financial year	(255,178)	(921,083)
Issue of share capital	237,043	892,745
Share-based compensation reserve	<u>18,135</u>	<u>28,338</u>
Opening shareholders' funds	<u>30,000</u>	<u>30,000</u>
<b>Closing shareholders' funds</b>	<b><u>30,000</u></b>	<b><u>30,000</u></b>

Notes to the consolidated financial statements - continued  
for the year ended 30 June 2012**23 SHARE-BASED PAYMENT TRANSACTIONS**

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

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

	2012		2011	
	Number of share options	Weighted average exercise price (in pence)	Number of share options	Weighted average exercise price (in pence)
Outstanding at beginning of period	25,107,692	0.255	12,800,000	0.25
Granted during the period	5,133,332	1.2	12,307,692	0.26
Forfeited during the period	-	-	-	-
Exercised during the period	-	-	-	-
Expired during the period	-	-	-	-
Outstanding at the end of the period	<u>30,241,024</u>	<u>0.415</u>	<u>25,107,692</u>	<u>0.255</u>
Exercisable at the end of the period	<u>15,120,512</u>	<u>0.415</u>	<u>12,553,846</u>	<u>0.255</u>

The options outstanding at 30 June 2012 had a weighted average remaining contractual life of eight years and three months (30 June 2011: eight years and eleven months). The options outstanding but not exercisable at 30 June 2012 and 30 June 2011 vest on the date upon which a significant commercial deal is signed by the Group.

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

**Fair value calculation**

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

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

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

The weighted average fair value of the share options at 30 June 2012 was 0.202 pence per share (2011: 0.158 pence per share). A fair value charge of £18,135 has been provided in the year (2011: £28,338).

Notes to the consolidated financial statements - continued  
for the year ended 30 June 2012

24 RECONCILIATION OF LOSS BEFORE INCOME TAX TO CASH GENERATED FROM OPERATIONS

Group	2012	2011
	£	£
Loss before income tax	(721,839)	(628,248)
Depreciation charges	881	1,078
Loss on disposal of fixed assets	-	56
Add back Share-based compensation	18,135	28,338
Finance income	(4,821)	(9,611)
	(707,644)	(608,387)
Decrease/(increase) in trade and other receivables	9,796	(14,141)
Increase/(decrease) in trade and other payables	25,706	(390)
<b>Cash (used in) operations</b>	<b>(672,142)</b>	<b>(622,918)</b>
<b>Company</b>	<b>2012</b>	<b>2011</b>
	£	£
Loss before income tax	(255,178)	(921,083)
Add back Impairment provision	103,024	798,983
Add back Share-based compensation	18,135	28,338
	(134,019)	(93,762)
Increase in trade and other receivables	(103,024)	(798,983)
<b>Cash (used in) operations</b>	<b>(237,043)</b>	<b>(892,745)</b>

25 CASH AND CASH EQUIVALENTS

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

	Group		Company	
Year ended 30 June 2012	30 6 12	1 7 11	30 6 12	1 7 11
	£	£	£	£
Cash and cash equivalents	<u>510,555</u>	<u>870,829</u>	<u>-</u>	<u>-</u>
Year ended 30 June 2011	30 6 11	1 7 10	30 6 11	1 7 10
	£	£	£	£
Cash and cash equivalents	<u>870,829</u>	<u>516,781</u>	<u>-</u>	<u>-</u>

26 CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the Group and its subsidiary company will be able to continue as going concerns

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

Notes to the consolidated financial statements - continued  
for the year ended 30 June 2012

**27 DEFERRED TAX**

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

	2012 £	2011 £
Excess of depreciation on fixed assets over taxation allowances claimed	(3,364)	(4,020)
Tax losses available	<u>(781,450)</u>	<u>(697,889)</u>
	<u>(784,814)</u>	<u>(701,909)</u>

A potential deferred tax asset of £784,814 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.

**28 POST BALANCE SHEET EVENTS**

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

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

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