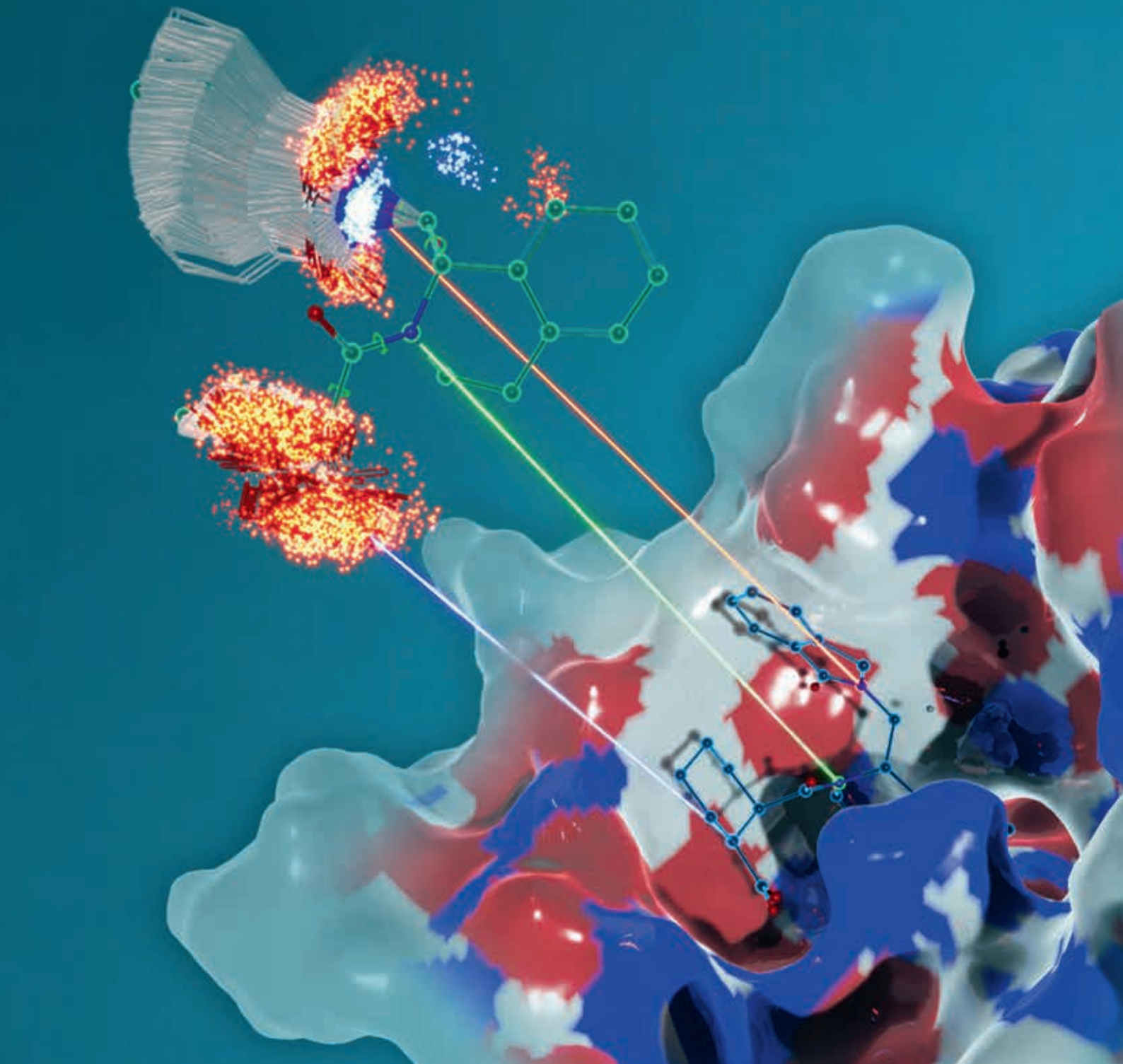
C4X Discovery Holdings plc
Annual report and accounts 2019

BUILDING THE FIRST SELF-SUSTAINING DRUG DISCOVERY ENGINE



C4X Discovery ("C4XD") is a pioneering Drug Discovery company with the aim to create the world's most productive Drug Discovery Engine.

Using cutting-edge Drug Discovery technologies and expertise, C4XD aims to efficiently deliver world-leading medicines which are developed by our partners for the benefit of patients.

Creating value through discovery for:

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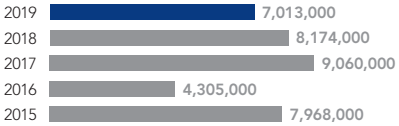
2019 highlights

Financial highlights

- Revenue was £nil (2018: £7,064,000 driven entirely by the Indivior licensing agreement)
- R&D expenses increased 51% to £10,585,000 (2018: £6,992,000), reflecting the Company's increased investment in Drug Discovery activity and development of lead drug candidates
- Total loss after tax was £10,912,000 or 18.82 pence per share (2018: £1,135,000 or 2.34 pence per share)
- Total fundraising of £17.7 million (before expenses) in two tranches, one post-period end:
  - October 2018 – Successful fundraise of £10.1 million (before expenses), with a total of 11,210,674 shares issued to both new and existing investors
  - Post-period end, November 2019 – Successful fundraise of £7.6 million (before expenses) with a total of 50,573,808 shares issued to both new and existing investors

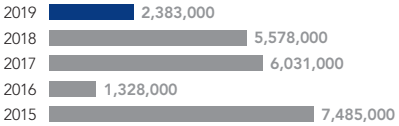
Net assets

£7,013,000



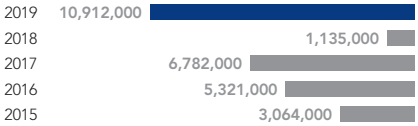
Cash

£2,383,000



Loss after tax

£10,912,000



Operational highlights

Programme partnering

- Partnering process for oral NRF-2 activator programme launched
- Post-period end – Indivior was awarded a National Institutes of Health ("NIH") grant for the application entitled "Clinical Evaluation of C4X_3256, a Non-Opioid, Highly-Selective Orexin-1 Receptor Antagonist for the Treatment of Opioid Use Disorder"

Discovery Engine progress

- Continued progress across our proprietary portfolio of 11 Drug Discovery programmes in multiple therapeutic areas
- Post-period end – C4XD formed a Drug Discovery Advisory Network headed by Dr Robin Carr to identify new technologies and act as C4XD ambassadors

Partnerships

- The Company continued to enhance its core state of the art target identification platform, drug design capabilities and Drug Discovery portfolio with four new synergistic strategic partnerships
- Post-period end – a lead target was identified in the Horizon Discovery ("Horizon") collaboration and is nearing progression into a formal C4XD Drug Discovery programme

Discovery Engine progress

2018

November
High-value inflammation/oncology target
lifeArc

Assessment of innovative AI technology for a neurodegenerative target
GTN LTD

Taxonomy3® analysis of Ulcerative Colitis dataset initiated

December
Initiation of synthetic lethality collaboration
horizon

Additional novel biological pathways in Parkinson's Disease identified

2019

April
NRF-2 partnering process announced

May
Lead oncology asset hit-to-lead ready
evotec

June
Parkinson's Disease target discovery and validation collaboration
PHOREMOST

July
Parkinson's Disease clinical phenotype genetic dataset accessed

September
One lead target identified
horizon

Dr Robin Carr appointed as Head of Drug Discovery Advisory Network

October
NRF-2 candidate nomination studies underway with candidate selection expected Q1 2020

→ POST-PERIOD END

September
Indivior awarded NIH grant for C4X_3256 evaluation
INDIVIOR

C4XD at a glance

Our vision is to become the world's most productive Drug Discovery Engine and provide pharmaceutical companies with a sustainable source of commercially attractive, pre-clinical drug assets for clinical development and commercialisation.

We prudently use our resources to drive discovery of novel therapeutic targets for high-value disease areas and generate novel small molecules against these targets rather than competing with other pharmaceutical companies by running clinical studies.

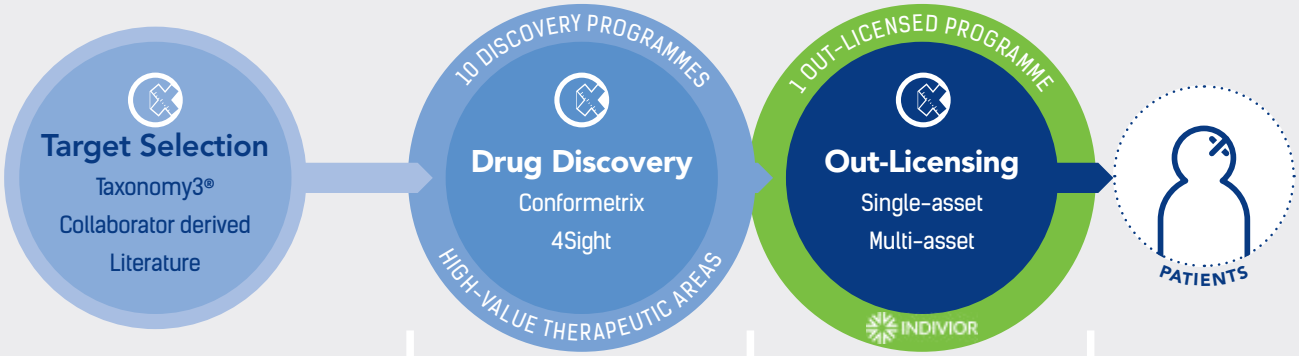
Our sustainability will be driven by licensing our assets to the pharmaceutical industry and using the revenue generated to drive our engine harder. We continue to invest in our proprietary suite of Drug Discovery technologies and our highly experienced scientific team. Combined, we believe this uniquely positions us to achieve our vision.

Our Discovery Engine

C4XD has created a unique Drug Discovery Engine, enhanced through accessing the innovative capabilities of our strategic partners and built upon our expertise and core suite of combined proprietary state of the art technologies spanning novel target identification and drug molecule design.

Taxonomy3® is used to analyse complex "healthy versus disease" genetic datasets. It can identify and characterise defined patient groups and is able to uncover previously unknown genetic linkages and interactions between genes and biological pathways in a broad range of diseases. Taxonomy3® fuels our Drug Discovery portfolio by generating novel potential targets, often in these genetically defined patient sub-groups.

Our pioneering drug design technology, Conformetrix, and its analytical design tool, 4Sight, enable C4XD to more quickly enter the novel chemical space and rapidly gain knowledge about the bioactive form required for a successful molecule, aiding design of highly potent and selective drug candidates.



Strategic partnerships

horizon · PHORMEST DRUGGING THE UNDRUGGABLE · e-therapeutics

Early stage target assessments

TAXONOMY3® NOVEL INSIGHTS
COLLABORATOR DERIVED TARGETS
HIGH-POTENTIAL LITERATURE TARGETS

Strategic partnerships

evotec · PHORMEST DRUGGING THE UNDRUGGABLE · lifeArc · GTN LTD

Commercial partnership programmes

OX-1 — INDIVIOR
NRF-2 — NEGOTIATIONS ONGOING

Our business model

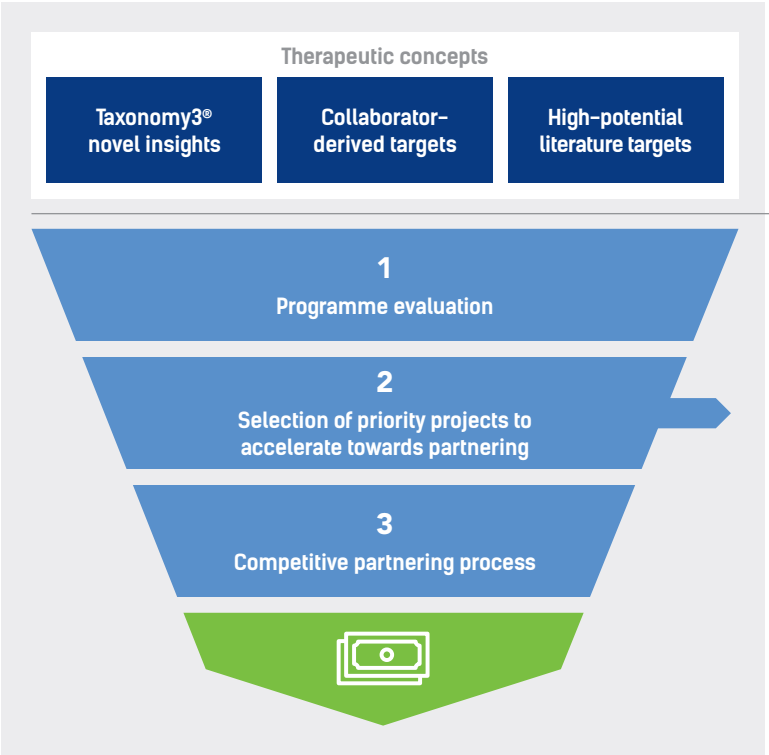
Our aim is to become self-sustaining by generating revenues from early stage licensing deals that will be reinvested into our Drug Discovery Engine to maximise value for shareholders.

Key components of our business model

Business model and strategy	AIM-listed, pre-clinical Drug Discovery Engine
Virtual R&D model	Supported by extensive partner network
Therapeutic areas of focus	Oncology, Neurodegeneration, Inflammation
In-house Drug Discovery expertise	Strengths in biology and chemistry
Build a proprietary pre-clinical portfolio	11 Drug Discovery programmes, multiple early stage target assessments (Taxonomy3®, Horizon collaboration)
Commercial track record	Out-licensing deals, risk-share partnerships, discovery alliances
Technology-driven discovery	Novel and precedented target programmes via Taxononmy3® and Conformetrix

The pharmaceutical industry's demand for high quality, early stage drug candidates continues to grow and we are poised to take advantage of this trend by continuing to build a focused commercial function that proactively monitors the landscape for licensing opportunities. To ensure that we only advance high-value targets that offer commercial out-licensing potential, we undertake a funnel approach. We assess and validate targets ahead of early partnering or initiation of a C4XD Drug Discovery programme to develop a small molecule candidate for future out-licensing. We work in collaboration with our partners to access their complementary expertise and technologies and we continue to seek opportunities to build alliances with organisations that have capabilities synergistic to our own in order to optimise our Drug Discovery Engine.

Filling our pipeline with revenue-generating opportunities



We only pursue new discovery programmes in areas of high unmet medical need that are commercially attractive and we focus on generating long-term partnerships with licensees. We have validated our model with the licensing of our Orexin-1 programme to Indivior in March 2018 for $10 million upfront and potential further payments of up to $284 million for development, regulatory and commercialisation milestones in addition to royalties. We are also receiving partnering interest across our next wave of out-licensing opportunities (e.g. oral IL-17 inhibitor) and have launched a competitive partnering process for our oral NRF-2 activator programme.

Non-Executive Chairman's statement

Eva-Lotta Allan, Non-Executive Chairman

"I am inspired by the vision, dedication and hard work of the C4X Discovery team. C4XD is rapidly expanding its Drug Discovery target selection portfolio to build the basis of future out-licensing assets and we are making great strides toward our goal of one day becoming the world's most productive Drug Discovery company."

This year has continued to see great advancements across our portfolio of programmes. We are delighted that Indivior, whom we successfully out-licensed our Orexin-1 programme to last year, is advancing C4X_3256 into clinical trials.

We have been focusing on building our next wave of out-licensing opportunities. Leading the wave is our NRF-2 programme for the treatment of inflammatory diseases where recently generated data will help to drive a competitive partnering process. Furthermore, key programmes including our oral IL-17 programme and Taxonomy3®-derived projects in Parkinson's Disease, continue to produce compelling data as they progress through the Drug Discovery pipeline.

Our strategy to invest and build our portfolio through collaborations with companies using cutting-edge Drug Discovery technologies complementary to our own is gaining traction. During the year, we entered into new partnerships with Horizon Discovery, LifeArc, GTN and Phoremost. These partnerships are making good progress, further advancing C4XD's portfolio in the fields of Neurodegeneration, Inflammation and Oncology.

In order to ensure that we remain at the forefront of Drug Discovery we have tasked Dr Robin Carr, a renowned industry veteran, to build and head up our Drug Discovery Advisory Network. This network will not only identify new and exciting technologies, but also act as the Company's ambassadors within the biotech and pharmaceutical industry.

Since July 2018, we are pleased to have secured total funding of £17.7 million despite the extremely challenging markets resulting from the current political turmoil in the United Kingdom. Our goal with the recent financing round was to maximise the capital raised to deliver on our strategy, whilst maintaining our considered approach to the deployment of available funds. Development of a continuous and sustainable pipeline not only takes the deep expertise and talent of our employees but also time, patience and belief in what we are doing. We thank you, our shareholders, both existing and new, for your patience and continued confidence in our vision.

Looking to the future, we continue to drive and deliver innovation in Drug Discovery. Our responsibility is to find novel approaches to enable the discovery of new drugs to meet the challenges faced by our industry. On behalf of the Board, I would like to take this opportunity to recognise and thank our dedicated employees, whose capabilities and expertise have helped C4XD to advance significantly in the past year. I admire the C4XD team's ability to think radically and have the courage to embrace new techniques. Our reputation is growing as a great company to work for and to collaborate with, to drive the creation of future medicines. This is why I believe in the strategy and feel so inspired by being part of the Company's Board of Directors.

In the coming year, we expect to see further commercial traction and the advancement of our existing portfolio, as well as new and exciting developments coming through. And with your continued support, together, we will break new ground and build the world's most productive Drug Discovery Engine.

Eva-Lotta Allan
Non-Executive Chairman
6 January 2020

CEO's statement

Clive Dix, Chief Executive Officer

"2019 has been a year of building out the C4XD portfolio, driving early innovation and rapidly advancing near-term programmes to create a sustainable pipeline of potential future out-licensing opportunities."

Advancing the next wave of out-licensing opportunities

To create a sustainable pipeline of revenue-generating assets, C4XD carefully evaluates a range of potential targets to review, assess and validate through detailed scientific work and cutting-edge technologies. From these prioritised high-potential targets, the Company undertakes Drug Discovery activities, prudently selecting drug candidates that offer true commercial potential for out-licensing.

Throughout 2019, we have worked hard to build the next wave of candidates behind our successfully out-licensed Orexin-1 receptor antagonist for the treatment of addictive disorders. The near-term focus is on our NRF-2 activator programme, which has entered into the partnering phase. Early discussions have demonstrated to us that there is clear commercial interest and opportunity for NRF-2. Recent pre-clinical studies performed by both academia and industry, combined with our own in-house data, indicate NRF-2 activation as a potentially desirable therapeutic option for the treatment of Sickle Cell Disease ("SCD"). Further studies are now underway aiming to support candidate nomination in Q1 2020. We are driving forward a competitive out-licensing process with a particular focus in SCD alongside already established interest in Pulmonary Arterial Hypertension ("PAH").

Our broader pipeline now has 11 Drug Discovery programmes across Neurodegeneration, Oncology and Inflammation and we continue to expand this pipeline. During the past year, we have made progress across several key programmes. C4XD studies have demonstrated that molecules from our oral IL-17 inhibitor series can inhibit the inflammation induced by IL-17 in the blood and we are currently working to increase the maximal concentration in the blood following oral dosing ahead of examining lead molecules from our series in disease model studies. Should these studies be successful, C4XD believes that the IL-17 programme has the potential for future out-licensing as we continue to receive significant commercial interest for this target.

Our early target discovery research is also bearing fruit, with compelling biological data for our Taxonomy3® project in Parkinson's Disease and within our Horizon oncology collaboration. This validation is critical to build the evidence base required to initiate Drug Discovery programmes against promising targets and initiate early stage partnering discussions. Working in collaboration with our partners to access their expertise and technologies means we can do this swiftly and cost effectively, creating a funnel effect to take forward only commercially viable opportunities.

Post-period end, we received the positive news that Indivior has been awarded a National Institutes of Health ("NIH") grant to take our Orexin-1 antagonist candidate, C4X_3256, into a Phase 1 clinical trial for the treatment of opioid use disorder and we eagerly await updates on its progress.

Collaborating to advance our Discovery Engine

To deliver our strategy and build our vision, strategic alliances are key to facilitating our team of Drug Discovery experts with additional expertise and technologies at the appropriate stage of each programme. C4XD was founded on cutting-edge technology and we continually assess pioneering and innovative new technologies that add to our current capabilities in target identification and drug design. In 2019, we entered into four new collaborations.

In November 2018, we joined forces with LifeArc, one of the UK's leading medical research charities, on a novel, commercially attractive programme in Oncology and Inflammation. The collaboration utilises Drug Discovery expertise from both parties and C4XD's Conformetrix tool to progress a Drug Discovery programme, building on LifeArc's early stage research with the objective of developing potent, oral and selective small molecule compounds for pre-clinical partnering.

Also in November 2018, we partnered with GTN, a new disruptive player in the field of Drug Discovery artificial intelligence focusing on novel ligand virtual screening. This collaboration uses ligand information from C4XD's Conformetrix technology which could be potentially synergistic with GTN's quantum machine learning platform. Together, the technologies aim to unlock new areas of chemical space to identify novel small molecule hits against a C4XD identified target in Neurodegeneration.

In December 2018, we entered into an exclusive oncology target discovery partnership with Horizon, a global leader in the application of gene editing and gene modulation technologies. We are progressing target validation activities against Horizon's novel synthetic lethal oncology targets to enable Drug Discovery programmes and, ultimately, new therapies for patients with limited effective treatments in colorectal and lung cancer. Oncology remains a hot area for drug development and this collaboration has the potential to generate high-value pre-clinical assets for partnering.

CEO's statement continued

Clive Dix, Chief Executive Officer

Collaborating to advance our Discovery Engine continued

In June 2019, we partnered with Phoremost Limited, a UK-based biopharmaceutical company dedicated to drugging "undruggable" disease targets, with an initial focus on Parkinson's Disease. Under the collaboration, C4XD has access to Phoremost's cutting-edge SITESEEKER® phenotypic screening platform. SITESEEKER® is being used to validate novel targets already identified by C4XD's proprietary target identification platform, Taxonomy3®, with the potential to provide chemical starting points or tool molecules to initiate Drug Discovery programmes. This partnership complements C4XD's existing target validation collaborations in the field as it allows us to examine potential targets where there are no existing ligands and will enable us to accelerate our Parkinson's Disease portfolio, whilst decreasing the timelines in Drug Discovery.

With each partnership progressing, understanding what further technologies and expertise we can access through synergistic relationships is critical to ensuring C4XD remains at the forefront of Drug Discovery. To aid in this endeavour, C4XD announced post-period end that it was forming a Drug Discovery Advisory Network headed by industry veteran Dr Robin Carr.

Creating a strong foundation to deliver out-licensing deals

Since July 2018, we have raised a total of £17.7 million in two tranches, one post-period end, to support the execution of our strategy and believe that the shareholder support we have received is reflective of confidence in the future value of our business.

C4XD aims to address the pharma industry's biggest challenges by identifying promising disease targets and solving chemistry challenges to generate attractive pre-clinical programmes. Our goal is to maximise the capital raised so that we can deliver on our strategy whilst maintaining our considered approach to the deployment of available funds. The monies raised put us in a strong position to drive the expansion of our pipeline and to advance the next wave of deal opportunities in the C4XD portfolio as momentum continues to build across our key out-licensing projects.

C4XD's highly skilled team

Our employees are highly qualified and their dedication has enabled C4XD to progress so far, and so rapidly this year, and I would like to take this opportunity to thank them for their continued hard work from which we are seeing a strong pipeline of potential out-licensing opportunities growing.

Outlook

C4XD's combination of state of the art proprietary technologies, highly experienced scientific team and industry experience puts the Company in a strong position to fulfil the pharmaceutical industry's demand for high quality early stage drug candidates. As momentum continues to build across our key programmes, we remain confident in our business strategy with partner discussions to date confirming commercial interest for our NRF-2 activator programme, alongside our already out-licensed Orexin-1 programme progressing to clinical studies with Indivior. In 2020, we will continue to advance the next wave of potential out-licensing candidates and to drive forward revenue-generating deals to create value for our shareholders. With the business in a strong position to deliver on our strategy, we are excited by our future prospects as we build a sustainable Drug Discovery company.

Portfolio review

Momentum continues to build across the C4XD portfolio. Recent exciting academic and industry SCD data supports the potential of our NRF-2 activator programme as an alternative treatment for poorly served SCD patients. Furthermore, the C4XD discovery team continues to build a highly valuable portfolio of new medicines across Oncology, Neurodegeneration and Inflammation, with particular focus on rapidly advancing the next wave of potential revenue-generating assets in Inflammation and Oncology to maximise value for shareholders.

The Company is progressing its strategy to deliver Drug Discovery programmes for out-licensing (e.g. NRF-2 activator, IL-17 inhibitor and LifeArc collaboration) and early stage multi-target disease area opportunities for novel targets have been identified through C4XD's discovery activities (e.g. Taxonomy3®-derived novel target insights in Parkinson's Disease). Key updates on these programmes are outlined below.

Highlighted Drug Discovery programmes

Inflammation

Oral NRF-2 activator programme

C4XD is progressing a series of novel potent activators of the NRF-2 pathway for the treatment of inflammatory diseases. In our studies, multiple lead compounds show >12hr duration of action following low oral dosing on activation of NRF-2 in key tissues such as lung and liver, as well as blood. Recent pre-clinical studies performed by both academia and industry highlight the role of NRF-2 in the regulation of foetal haemoglobin ("HbF") in addition to providing anti-oxidant and anti-inflammatory activity which in concert may reduce severe complications of SCD including severe pain episodes and organ damage, including kidney failure, liver damage and lung problems. This scientific data, combined with our own in-house data where we have demonstrated that molecules from our series upregulate HbF in human blood progenitor cells, makes an NRF-2 activator a desirable therapeutic option for the treatment of SCD. Candidate nomination studies are underway post-period end, potentially resulting in candidate selection in Q1 2020. The C4XD Board believes that upcoming C4XD data will be valuable in driving a competitive out-licensing process focused on SCD and PAH.

Oral IL-17 inhibitor programme

Interleukin-17 ("IL-17") is a high-value clinically-validated target for inflammation and autoimmune diseases such as psoriasis (estimated to be worth c.$13 billion per annum by 2024[1]). C4XD has identified small molecules that can selectively block IL-17 activity whilst keeping the molecular size of the molecule in the traditional "drug-like" range. In C4XD studies, optimisation of lead oral compounds continues to increase the maximal drug concentration in the blood to enable inflammatory disease model studies. The current marketed drugs that target IL-17 are based on injectable monoclonal antibodies. Development of new oral treatments is highly desirable due to their relative ease of administration and patients' preference for pills over an injection. As such, oral medication has the potential to increase the number of patients who can access drugs targeting this mechanism. C4XD continues to receive strong interest from potential partners for this oral IL-17 inhibitor approach, particularly driven by the C4XD series profiles.

Oncology

LifeArc Oncology and Inflammation collaboration

The initial phase of the collaboration with LifeArc has been successful. In initial studies, multiple hit compounds have progressed with the aim of generating a lead series with in vivo activity for oncology and inflammatory indications by the second quarter of 2020. This programme is directed against a highly desirable target for both Oncology and Inflammation.

Partnered

Oral Orexin-1 receptor antagonist programme

In March 2018, Indivior entered a licence agreement to obtain exclusive global rights to develop and commercialise C4X_3256, C4XD's oral Orexin-1 receptor antagonist programme for the treatment of opioid use disorder. Post-period end, Indivior announced in September 2019 that it had been awarded an NIH grant to advance C4X_3256 from pre-clinical status through Phase 1 clinical evaluation and perform the necessary toxicology and drug metabolism studies to enable Phase 2 trials.

Future opportunities

Activities continue across the remainder of C4XD's discovery portfolio to build a sustainable pipeline of potential future out-licensing opportunities.

In Oncology, C4XD has progressed two programmes within its strategic alliance with Evotec with potential application in immuno-oncology. The Company's most advanced programme reached a key milestone in second quarter 2019 through the design of small molecules with differentiated administration compared to lead competition. C4XD is now targeting progression of hits to a tractable lead series in immuno-oncology.

In Neurodegeneration, C4XD continues to evaluate two promising targets, one of which was identified using Taxonomy3®-derived novel insights in Parkinson's Disease. The second programme is the subject of the Company's strategic partnership with GTN, a disruptive new player in the field of Drug Discovery artificial intelligence. The partnership, initiated in November 2018, will focus on identifying potential small molecules for a high-value neurodegeneration target selected by C4XD.

Disease case study

There is a significant global SCD burden, however, current therapies fail to successfully combat the disease, resulting in severe morbidity and early death.

SCD is a severe hereditary form of anaemia, most common amongst those of African descent, in which a mutated form of haemoglobin distorts the red blood cells into a crescent shape at low oxygen levels, preventing free flow of these blood cells and oxygen delivery around the body. SCD has debilitating long-term effects on the body, including:

- anaemia;
- severe pain episodes;
- organ damage, including kidney failure, liver damage and lung problems; and
- heart attacks and stroke.

SCD is a serious and lifelong health condition which often leads to early death. Current treatment options are limited and variable in their efficacy, depending on the patient. There is a significant need for new disease modifying therapies for SCD to successfully address this severe unmet need and help patients suffering with this terrible disease. **This is the goal of C4XD's oral NRF-2 activator therapy.**

Stay up to date with the latest developments at c4xdiscovery.com

300,000

INFANTS BORN ANNUALLY WITH SCD[2]

30%

EXPECTED INCREASE IN SCD CASES GLOBALLY BY 2050[3]

42–48 years

MEDIAN MALE/FEMALE AGE OF DEATH[4]

CEO's statement continued

Clive Dix, Chief Executive Officer

Highlighted Drug Discovery programmes continued

Future opportunities continued

In Inflammation, C4XD's oral α4β7 integrin inhibitor programme continues to progress following an Innovate UK Feasibility Award received in September 2018 to fund the early stages of the programme. C4XD has initiated an evaluation stage Drug Discovery programme to expedite the identification of novel, selective α4β7 integrin inhibitors for the treatment of Inflammatory Bowel Disease ("IBD"). Like IL-17, a non-oral biologic therapy is already marketed against the target for use in adult IBD, with the total anti-integrin biologics market forecast to reach c.$2 billion per annum by 2023[5]. An oral therapy would be expected to increase patient access to anti-integrin therapy and thus be commercially attractive to potential partners. In addition, the Company continues to evaluate promising targets from both Taxonomy3®-derived novel insights in Rheumatoid Arthritis and from the scientific literature.

Early stage multi-target disease area opportunities

Oncology

Horizon

C4XD and Horizon entered into an exclusive novel target discovery partnership in December 2018 to take forward high-value novel synthetic lethal[6] oncology targets discovered through in-depth CRISPR-Cas9 analyses conducted by Horizon, which have the potential to offer an alternative route to creating new oncology drugs. The collaboration has made rapid progress and has now generated comprehensive in vitro validation data packages for the lead novel target in the collaboration.

In vitro studies have confirmed that inhibition of this target induces cell death that is dependent on the presence of cancer-specific mutations, thereby demonstrating synthetic lethality. Additional in vivo studies have shown that knock-out of the gene inhibits growth of implanted colon cancer cells with a KRAS mutant background. As an enzyme, the target is expected to be highly amenable to targeting with small molecules and is nearing progression into a C4XD-led Drug Discovery programme, with additional targets to follow the development pathway.

Neurodegeneration

Taxonomy3®-derived Parkinson's Disease projects

C4XD continues to progress the validation of its proprietary Taxonomy3®-derived novel targets for Parkinson's Disease, utilising a diversified strategic approach:

- C4XD's internally led biological validation studies are near completion for targets with existing tool compounds. This provides a low risk starting point from which to rapidly initiate Drug Discovery programmes for promising targets with some known chemistry and biology.
- The Phoremost collaboration, initiated in June 2019, uses Phoremost's SITESEEKER® platform to generate biological validation for all Taxonomy3® targets as well as providing chemical starting points for highly novel Taxonomy® targets without existing chemistry in the literature. This enables the progression of more novel but high-potential targets.
- The e-therapeutics collaboration has identified additional novel biological pathways derived from Taxonomy3®'s novel genes which are currently being evaluated to identify additional targets with the potential to start new Drug Discovery programmes.

Enabling Drug Discovery through cutting-edge technology

C4XD leverages a suite of proprietary technologies to drive its Drug Discovery activities. In addition to the cutting-edge technologies provided by its partners, C4XD has developed and utilises technologies across the Drug Discovery process which are regularly reviewed and upgraded to ensure our technology remains at the forefront of Drug Discovery.

Taxonomy3®

Taxonomy3® is a novel in silico platform technology that utilises proprietary ground-breaking mathematical algorithms to perform complex multivariate analysis of genetic data. Since these novel targets are based on human genetic data, this enables the discovery of targets that cause disease, rather than those that are simply associated with its symptoms, and thereby provides the best starting point for Drug Discovery, biomarker identification and patient stratification. The resulting drugs have a greater probability of successful clinical development and product realisation[7].

Conformetrix

Conformetrix enables rational, accelerated 4D structural drug design using experimental data rather than theoretical data. The information provided by Conformetrix provides C4XD's medicinal chemists with new and unprecedented insights into the behaviour and physical properties of drug molecules to inform design choices. This has the potential to provide more accurate molecule design that is better suited for the intended therapeutic target.

4Sight

C4XD is pioneering the creation of a specialised visualiser, 4Sight, to allow its research scientists to view, understand and interrogate the complex, multidimensional molecular shape data of drug molecules. Having measured these shapes using C4XD's Conformetrix technology, this "4D molecular data" can then be visualised and manipulated to inspire the design of drug molecules in new and innovative ways. Working from both a desktop environment and within a virtual reality ("VR") space, the visualiser also facilitates simultaneous collaboration with multiple users across various sites and enables the chemists to virtually step inside and "see" those drug molecules as they are being designed. 4Sight is becoming the central tool for conformational drug design within C4XD, enabling our chemists to make faster progress in developing new candidates that will lead to more effective drugs to meet the medical industry's needs.

Clive Dix
Chief Executive Officer
6 January 2020

1 Direct inhibition of IL-17A with small molecule compounds identified from DEL. Thomas Franch, PhD, Chief Scientific Officer, Nuevolution A/S, Oxford Global 5th Drug Discovery USA Congress, 11th October 2018, San Diego. Global Discovery to Development Innovation Forum 2019, 14–15 May 2019, Amsterdam. Thorsten Thormann, Vice President Research, Leo Pharma.

2 Centre for Disease Control and Prevention, 9 August 2017.

3 Global burden of Sickle Cell Anemia in children under five, 2010–2050: Modelling based on demographics, mortality and interventions, PLoS Med (2013).

4 "Mortality in sickle cell disease. Life expectancy and risk factors for early death" – Platt et al., New England Journal of Medicine (1994).

5 Analysis of Global Data: Crohn's Disease – Dynamic Market Forecast to 2026 and Global Data: Ulcerative Colitis – Global Drug Forecast and Market Analysis to 2026.

6 The term "synthetic lethality" was originally coined by geneticists in the 1940s to describe the process where mutations in two different genes together resulted in cell death but independently did not affect viability. In cancer, targeting inhibition of the critical DNA repair pathway has the potential to cause tumour cells with specific mutations (e.g. KRAS and p53) to self-destruct.

7 "The support of human genetic evidence for approved drug indications" – Nelson et al., Nature Genetics, 47,856–860 (2015).

Disease case study

PAH is a rare disease but one with significant disease burden and high unmet need for effective disease modifying therapies.

PAH is a progressive disorder characterised by high blood pressure in the arteries of the lungs that carry blood from the right side of the heart to and through the lungs. This increase in pressure causes symptoms for sufferers which can significantly impact their quality of life, including:

- shortness of breath which is exacerbated by exercise;
- chest pain; and
- fainting.

The exact cause of PAH is unknown but without treatment this high blood pressure can cause the right side of the heart to become overworked, straining the muscle and causing it to weaken or even fail. Although treatment does exist, these therapeutic options primarily focus on providing symptomatic relief via vasodilation and do not stop disease progression, creating a demand for novel therapies that modify disease pathogenesis with the aim of impacting disease progression. **This is the goal of C4XD's oral NRF-2 activator therapy.**

c.62,000
DIAGNOSED PREVALENCE IN MAJOR MARKETS[1]

c.75%
REHOSPITALISATION RATE WITHIN 1 YEAR[2]

c.5 years
MEDIAN SURVIVAL[3]

1 GlobalData PAH epidemiology forecast, using 2019 estimates for diagnosed prevalent cases, accounting for underestimation, in the US, France, Germany, Italy, Spain, UK and Japan.

2 Datamonitor Healthcare PAH report.

3 The Giessen Pulmonary Hypertension Registry: Survival in pulmonary hypertension subgroups – Gall et al., 2017.

Stay up to date with the latest developments at c4xdiscovery.com

Strategic review

Clive Dix, Chief Executive Officer

Pages 1–9 of the annual report include details of the core strategy for the Group.

Business model

A description of the Group's activities and how it seeks to add value is included in the "Our business model" section, the Non-Executive Chairman's statement and the CEO's statement on pages 3 to 9.

Review of the business and future developments

C4XD continues to progress its proprietary programmes and focus its activities on the delivery of its strategic ambitions and acquiring complementary technologies.

Brexit

C4XD has considered the potential impact of Brexit on the business and perceives the risk to be minimal. We will continue to review the situation, in particular the harmonisation of drug approval regulations and patent law, as well as any potential impact on existing staff and planned staff recruitment caused by any changes in immigration legislation and foreign exchange cost implications. C4XD will continue to monitor the impact of Brexit on the equity markets and how it may or may not impact the ability of C4XD to raise capital in the form of the placing of shares from time to time.

Key performance indicators

The key performance indicators for the business in its current stage of development are the progression of the Group's proprietary pipeline projects through the relevant milestones, together with collaborations with industry partners and other major bodies (2019: 4 – 2018: 1).

In addition, the management and control of cash balances is a priority for the Group and this is budgeted and monitored closely to ensure that the Group maintains adequate liquid resources to meet financial commitments as they arise (cash balance at 31 July 2019: £2,383,000 and at 31 July 2018: £5,578,000).

At this stage of its development, quantitative key performance indicators are not generally an effective way of measuring the Group's performance, although the Group's monitoring of cash and expenditure against budget is also measured against progress in its programmes. In addition, a qualitative summary of performance is provided in the Non-Executive Chairman's statement and the CEO's statement and key financial metrics are reported on the highlights page.

Promoting a corporate culture

We seek to maintain the highest standards of integrity in the conduct of C4XD's operations. An open culture is encouraged, with regular communication being delivered to staff regarding progress, and staff feedback being regularly sought. The Executive Committee regularly monitors the cultural environment and seeks to address any concerns than may arise, escalating these to Board level as necessary.

There is a clear expectation that the Board and senior management teams lead by example, communicating regularly with staff through meetings and messages, and actively engage in team building and social events.

Clive Dix
Chief Executive Officer
6 January 2020

Principal risks and uncertainties

The Group remains committed to understanding, analysing and addressing risk. The Board is accountable for identifying procedures to minimise risk impact and implementing these at every level of the business, in an ongoing process overseen by the Audit Committee.

Drug discovery success

Risk or uncertainty: Identifying potential drug candidates can fail due to a lack of efficacy, potency or selectivity, unacceptable toxicology results or insurmountable challenges in chemical ligand design. These risks contribute to why the conventional pharmaceutical R&D model takes many years and billions of dollars from discovery to approved medicine. Therefore, there is a risk that we do not successfully identify any viable potential drug candidates from our Drug Discovery programmes.

Mitigation strategy: The Group carefully and continually selects, monitors and evaluates Drug Discovery programmes from both a commercial and scientific perspective to ensure investment is provided only when a robust case exists. Lack of efficacy is mitigated by choosing Drug Discovery targets where this has already been generated by others (e.g. pre-clinically or clinically) or by choosing genetically validated drug targets (e.g. identified by Taxonomy3®). Potential issues with potency, selectivity or insurmountable challenges in chemical ligand design are actively assessed as the programme progresses and additional investment is only provided where this risk is low or has been overcome. De-risking unacceptable toxicology can be achieved by a combination of others already taking molecules forward against a specific target of interest and the utility of Conformetrix to ensure potent and selective molecules resulting in reduced "off-target" liabilities. In addition, surrogates to assess potential clinical safety are actively utilised as programmes progress for early detection of unexpected scientific risks.

Technology

Risk or uncertainty: In common with other technology businesses developing new and innovative technical applications for the pharmaceutical sector, there is an inherent risk that C4XD's techniques will not enable its scientists to obtain the results required to generate meaningful value in its internal Drug Discovery programmes nor satisfy the needs of its customers. The Group cannot guarantee in advance that its technologies will meet either its internal demands or those of its partners.

Mitigation strategy: The Group works closely with its collaborators and partners to ensure that C4XD continues to meet their expectations. The C4XD technical development team continues to improve the core technology in terms of functionality and efficiency of output. C4XD believes this strategy to be effective based upon the progression of its programmes and partnerships.

Timing

Risk or uncertainty: It may take longer than anticipated for the Group's proprietary programmes to progress, and for the Group's technology to identify drug candidates that are commercially and technically attractive to pharmaceutical company collaborators.

Mitigation strategy: C4XD has established a project management process to ensure that the Company's projects are resourced appropriately and progressed, assessed and managed to try to avoid roadblocks. Furthermore, C4X has developed a proactive commercial function to ensure that only programmes with sufficient commercial opportunity to warrant partner interest are initiated and executed. C4XD believes this strategy to be effective based upon the timely success of its Indivior programme and ongoing progress and commercial interest with its other programmes (e.g. NRF-2 activator series).

Principal risks and uncertainties continued

Market and competition

Risk or uncertainty: Alternative competing technologies and products could emerge that might displace the market opportunity for drug candidates discovered by the Group.

Mitigation strategy: C4XD has developed a proactive commercial function to monitor competition and develop strategies to mitigate competitive risk. Furthermore, C4XD's team of experienced scientists continues to monitor the state of the art technology via conference attendance and literature reviews. C4XD believes this strategy to be effective, based upon its portfolio of competitive projects and technologies.

Intellectual property

Risk or uncertainty: The success of C4XD depends in part upon the Group's ability to protect and defend its rights over current and future intellectual property in the form of products, processes or technologies. The Group may be unable to adequately protect itself from intellectual property infringement or effectively enforce its rights in certain jurisdictions.

Mitigation strategy: C4XD has developed a robust IP strategy which, to date, has provided adequate protection for its portfolio of technologies and discovery programmes.

Cyber security

Risk or uncertainty: Cyber attacks could threaten the integrity of our core technology or IP and lead to a misappropriation of our data.

Mitigation strategy: The Group has an IT disaster recovery plan to reduce business disruption in the event of a technological failure. Attempted data breaches are reported to the Executive Committee and employee policies are reviewed annually. A number of security measures have been implemented including two factor authentications, hardware encryption, file protections, an audit trail, incident logs and information asset registers.

Financial review

Brad Hoy, Chief Financial Officer

"Our cash position and fundraising will allow us to continue with our plan of becoming the world's most productive Drug Discovery Engine."

Results

Revenue for the 12 months ended 31 July 2019 was £nil (2018: £7,064,000). Revenue in the prior year related solely to the amount received under the Indivior licensing agreement. Grants secured are accounted for as a reduction to research and development expenses and not included in revenue.

R&D expenses, which comprise invoiced material costs, payroll costs and software costs, have increased by 51% to £10,585,000 for the year ended 31 July 2019 (2018: £6,992,000). This reflects the investment in both the increase in Drug Discovery activity and the continued development of lead drug candidates as outlined in the Non-Executive Chairman's and CEO's statements.

Administrative expenses increased by £447,000 during the year to £3,052,000 (2018: £2,605,000).

The loss after tax for the year ended 31 July 2019 was £10,912,000 or 18.82 pence per share (2018: £1,135,000 or 2.34 pence per share).

The Group had net assets at 31 July 2019 of £7,013,000 (2018: £8,174,000) and cash and cash equivalents of £2,383,000 (2018: £5,578,000).

In November 2019 the Company raised £7.6 million before expenses on the issue of ordinary shares at 15 pence each via a placing, subscription by Directors and open offer.

Both cash and costs continue to be prudently and tightly managed.

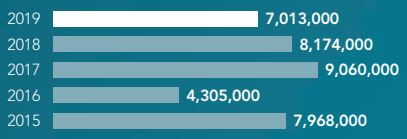
By order of the Board

Brad Hoy
Chief Financial Officer
6 January 2020

Clive Dix
Chief Executive Officer
6 January 2020

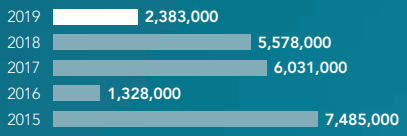
Net assets

£7,013,000



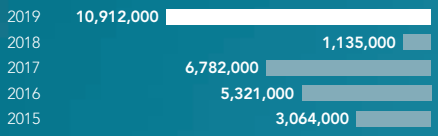
Cash

£2,383,000



Loss after tax

£10,912,000



Board of Directors

Eva-Lotta Allan
Non-Executive Chairman

Experience and qualifications

Eva-Lotta has more than 30 years' experience in the healthcare industry. During this time, she has been a senior executive and Board member at both public and private companies. Most recently, Eva-Lotta was chief business officer (and previously a Board member) at Immunocore, where she held full responsibility for all aspects of business development and played an instrumental role in the $320 million fundraising in 2015. Prior to this, Eva-Lotta served as chief business officer and member of the executive committee and Euronext IPO team for Ablynx NV, as well as senior positions at Vertex Pharmaceuticals (Europe) Ltd, Oxford Asymmetry International plc, Oxford Glycosciences and Amersham International.

External appointments

Eva-Lotta currently serves as non-executive director and Member of the Corporate Governance Committee and the R&D Sub-Committee of Oslo-listed company Targovax ASA and is a non-executive director of Crescendo Biologics and Aleta Biotherapeutics. Eva-Lotta was also a Board Member of the UK BioIndustry Association ("BIA").

Clive Dix PhD
Chief Executive Officer

Experience and qualifications

Clive has more than 30 years' experience in life science research, with over 20 years in senior pharmaceutical industry positions and a degree and PhD in Pharmacology. His expertise includes an in-depth understanding of all facets of Drug Discovery and development, a broad knowledge of the science and commercial landscape of a variety of therapeutic areas and solid experience of the pharmaceutical business and finance community supporting the sector.

Clive was co-founder and chief executive of Convergence Pharmaceuticals Ltd, which was acquired by Biogen in January 2015. Clive was previously co-founder and chief executive of PowderMed Ltd, a vaccines development company acquired by Pfizer in November 2006. Before that he was senior vice president, research and development and a Board member of PowderJect Pharmaceuticals plc until its acquisition by Chiron Vaccines in 2003. Clive began his career in industry at Ciba-Geigy and then GlaxoWellcome, where he left as UK research director in 2001.

External appointments

Clive is a recent past chairman of the BioIndustry Association, is currently non-executive chairman of Touchlight Genetics Ltd and Centauri Ltd, and is a non executive Board member of the Medicines Discovery Catapult.

Craig Fox PhD
Chief Scientific Officer

Experience and qualifications

Craig is an experienced biologist having worked on and managed many Drug Discovery and development projects over more than 20 years in the industry, from initial target selection right through to investigating clinical efficacy and safety in Phase 2 patient studies. Craig joined C4X as Head of Biology in June 2015 before becoming Chief Scientific Officer in October later that year. Prior to joining C4XD, Craig was Director of respiratory research at Pulmagen Therapeutics, a clinical stage company spun out of Argenta in 2010. At Pulmagen, Craig managed several of its collaborations and partnerships, including those with AstraZeneca, Chiesi, Domantis, Dr Reddy's, Skyepharma and Teijin Pharma. Craig was part of the Etiologics team that merged with Argenta Discovery in 2004 and prior to this he worked for Bayer as a research scientist. Craig has a PhD in Respiratory Medicine from Birmingham University and a first-class biochemistry degree from the University of Surrey.

External appointments

None.

Brad Hoy
Chief Financial Officer

Experience and qualifications

Brad has more than 20 years' experience in the pharmaceutical and biotechnology industries and has held a number of senior financial and general management positions in both the UK and the US. Previously, Brad was chief financial officer of Plethora Solutions Holdings plc, an AIM-listed specialty pharmaceutical company, chief executive officer of Xcellsyz Limited, a UK venture capital-backed life science company, and senior director of Geron Corporation's stem cell-focused UK subsidiary. Brad was formerly a non-executive director on the Board of Directors for e-Therapeutics plc.

External appointments

None.

Harry Finch PhD
Non-Executive Director

Experience and qualifications

Harry has significant experience within the pharmaceutical industry, specialising in medicinal chemistry, Drug Discovery and development.

After attaining a PhD in Organic Chemistry, Harry worked at Ciba-Geigy AG (now Novartis AG) and Roche Allen & Hanburys Limited, before joining GlaxoWellcome plc where he became Director of Chemistry. Harry is an expert in the respiratory area of the pharma industry and is co-inventor of GSK's successful asthma drug salmeterol (Serevent). In addition, he has worked across a range of therapeutic areas and at several biotechnology companies, including Ribotargets, Vernalis, Argenta and Pulmagen.

External appointments

Currently he is an independent consultant working with a variety of small biotech companies and investors, many of which are in the oncology arena.

Alex Stevenson PhD
Non-Executive Director

Experience and qualifications

Alex began his career as a microbiologist, working in research for a number of years before joining an NYSE-quoted drug development company. He subsequently moved into pharmaceutical and healthcare investment and has fulfilled a number of board-level investment and operational management roles. He was a director and shareholder in Aquarius Equity from 2008, where he was responsible for identifying new investments and developing and implementing scientific strategies both pre and post-investment. These included Tissue Regenix Group plc, C4X Discovery Holdings plc and Brabant Pharma (subsequently sold to Zogenix, Inc.). Alex joined the Board of C4XD as a Non-Executive Director following Aquarius' investment in the Company.

Prior to joining Aquarius, Alex worked for IP Group plc, where he specialised in life sciences investments identifying, developing and advising a number of companies in its portfolio, some of which went on to list on AIM.

External appointments

He joined IP Group following its acquisition of Techtran Group Limited in 2005 and Alex is a co-founder of 4D pharma plc and has served as chief scientific officer since 2014.

Natalie Walter
Non-Executive Director

Experience and qualifications

Natalie is a corporate finance lawyer with more than 20 years of experience advising on international equity capital markets transactions in the healthcare sector. Most recently, Natalie was an Equity Partner at Covington & Burling LLP. Prior to this, Natalie had been an Equity Partner at Morrison & Foerster LLP and had spent part of her career as a Director and Legal Counsel on the ECM desk at Lehman Brothers.

External appointments

Natalie is currently General Counsel to Oxford Biomedica plc, having previously acted as "external" General Counsel to a number of companies and financial institutions whilst in private practice, advising Boards on a range of strategic, transactional and general corporate finance matters, with particular expertise in advising on deals in the life sciences and medtech sectors. Natalie also sits as a non-executive director on the Board of RSA (Holdings) Ltd, a boutique talent consultancy in life sciences.

Corporate governance statement

The Directors acknowledge the importance of good corporate governance and have chosen to apply the Quoted Companies Alliance Corporate Governance Code ("the QCA Code"). The QCA Code was developed in consultation with several significant institutional small company investors, as an alternative corporate governance code applicable to AIM companies. The QCA Code identifies ten principles to be followed to enable companies to deliver growth in long-term shareholder value, encompassing an efficient, effective and dynamic management framework accompanied by good communication to promote confidence and trust.

The Board

The Group is controlled through its Board of Directors. The Board's main roles are to provide overall strategy and direction for the Group and to ensure that the necessary financial and other resources are made available to enable those objectives to be met. It has a schedule of matters reserved for its approval, including, but not limited to, decisions on strategy and risk management, approval of budgets, acquisitions and disposals, major capital expenditure, legal and insurance issues, Board structure and the appointment of advisers. In some areas, responsibility is delegated to Committees of the Board within clearly defined terms of reference.

Once the strategic and financial objectives of the Group have been set by the Board it is the role of the Chief Executive Officer to ensure that through the day-to-day management of the Group's business they are achieved.

All Directors are subject to election by the shareholders at the next general meeting following appointment to the Board and to re-election at intervals of not more than three years.

As at 31 July 2019, the Board comprised the Non-Executive Chairman, the Chief Executive Officer, the Chief Financial Officer, the Chief Scientific Officer and three Non-Executive Directors.

The names of the current Directors together with their biographical details and any other directorships are set out on pages 14 and 15. The Directors at 31 July 2019 served throughout the period under review.

The contracts of the Non-Executive Directors are available for inspection by shareholders at the AGM.

The Board considers that two Non-Executive Directors bring an independent judgement to bear, notwithstanding the varying lengths of service. The Board does not consider Alex Stevenson to be independent: he is a director of Aquarius, and holds shares (8%) in Aquarius Equity Holdings Ltd. The Aquarius IV Fund LLP remains a major shareholder with C4XD. However, the Board believes that the contribution of Alex is in the best interests of the Company and all of its shareholders.

No Non-Executive Director has been an employee of the Group; has had a material business relationship with the Group; receives remuneration other than a Director's fee and share options (save as disclosed); has close family ties with any of the Group's advisers, Directors or senior employees; or holds cross-directorships. The independent Non-Executive Directors are Eva-Lotta Allan (Chairman), Harry Finch and Natalie Walter.

The Non-Executive Directors constructively challenge and help develop proposals on strategy and bring strong, independent judgement, knowledge and experience to the Board's deliberations. Please refer to Director biographies on pages 14 and 15 which detail their relevant skills and experience.

The Directors are given access to independent professional advice at the Group's expense, when the Directors deem it is necessary in order for them to carry out their responsibilities.

The Board meets at least six times a year and the Audit Committee and Remuneration Committee normally meet at least twice a year.

The Board is satisfied that both the Executive and Non-Executive Directors devote sufficient time to the Company's business through attendance at relevant Board and Committee meetings throughout the year.

The Board receives appropriate and timely information prior to each meeting, with a formal agenda and Board and Committee papers being distributed several days before meetings take place. Any Director may challenge Group proposals and decisions are taken democratically after discussion. Any Director who feels that any concern remains unresolved after discussion may ask for that concern to be noted in the minutes of the meeting. Any specific actions arising from such meetings are agreed by the Board and then followed up by management.

The Group maintains, for its Directors and Officers, liability insurance for any claims against them in that capacity.

The Group has effective procedures in place to deal with conflicts of interest. The Board is aware of other commitments of its Directors and changes to these commitments are reported to the Board.

The number of Board meetings attended by each of the Directors during the year is shown below.

	Full Board
Number of meetings in year	6
Attendance:	
Executive Directors	
Clive Dix	6
Brad Hoy	6
Craig Fox	6
Non-Executive Directors	
Eva-Lotta Allan	6
Harry Finch	6
Alex Stevenson	5
Natalie Walter	6

Audit, Remuneration and Nominations Committee meetings were held, as required, coincidental with full Board meetings.

The roles of the Chairman and Chief Executive Officer

The division of responsibilities between the Chairman of the Board and the Chief Executive Officer is clearly defined. The Chairman leads the Board in the determination of its strategy and in the achievement of its objectives. The Chairman is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda. The Chairman is a Non-Executive Director and has no involvement in the day-to-day business of the Group. The Chairman facilitates the effective contribution of Non-Executive Directors and constructive relations between Executive and Non-Executive Directors, ensures Directors receive accurate, timely and clear information and facilitates effective communication with shareholders.

The Chief Executive Officer has direct charge of the Group on a day-to-day basis and is accountable to the Board for the financial and operational performance of the Group.

The roles of the Company Secretary

The Company Secretary reports to the Board although is not an employee of the Group and has no involvement in the day-to-day running of the business. The principal role of the Company Secretary is to liaise with Group's legal advisers and registrars in connection the maintenance of the statutory registers, the filing of statutory forms and financial statements, the provision of notice of meetings to members and auditors and the filing with the registrar of copies of resolutions and agreements.

Professional development

On appointment, each Director takes part in an induction programme in which they receive comprehensive information about the Group, and the role of the Board and the matters reserved for its decision, the terms of reference and membership of the Board and Committees and the powers delegated to those Committees, the Group's corporate governance practices and procedures, including the powers reserved to the Group's most senior executives, and the latest financial information about the Group. Throughout their period in office the Directors are updated on the Group's business, the competitive environment in which it operates, corporate social responsibility matters and other changes affecting the Group and the industry it operates in as a whole.

Performance evaluation

The Board has implemented a structured and rigorous process for the evaluation of its own performance, that of its Committees and individual Directors, including the Chairman.

This Board evaluation is based on a performance evaluation questionnaire, to be completed by each member of the Board. The Chairman consolidates the responses, highlighting significant improvements or deteriorations in any area, leading to actions being agreed for any areas requiring improvement.

Additionally, annual appraisals of the Executive Directors have taken place, most recently in March 2019. The appraisal of the Chief Executive Officer is performed by the Chairman and the appraisal of the other Executive Directors is performed by the Chief Executive Officer.

The performance appraisals assess how effectively the Executive Directors are leading the organisation to deliver results in the short and longer term, considering their strategic planning, people management and relationships, financial management and conduct of business. The appraisal will conclude by summarising the goals for the coming year, job-related strengths and plans to strengthen performance.

The Non-Executive Directors appraise the Chairman's performance after consultation with the other Directors.

Succession planning is regarded by the Board as vitally important for the future success of the business. The Nominations Committee considers the balance of skills, knowledge and experience on the Board and makes recommendations for change where appropriate. The whole Board reviews the objective criteria against which potential candidates will be measured to ensure the Board composition remains diverse, appropriate and balanced.

Other senior appointments to the Executive and R&D Executive Committees are made by the Chief Executive in discussion with the Chairman. Through regular reviews, the Company's future business leaders can be identified, and personal development plans are put in place to harness their potential and plan for job growth and career progression.

Information

Board reports and papers are circulated to the Directors in advance of the relevant Board or Committee meeting. These papers are supplemented by information specifically requested by the Directors from time to time. Minutes of Board and Committee meetings are circulated to all Board members.

The Non-Executive Directors receive monthly management accounts and regular management reports and information which enable them to scrutinise Group and management performance against agreed objectives.

Director dealings in Group shares

The Group has adopted a model code for Directors' dealings in securities of the Group which is appropriate for a company quoted on AIM. The Directors comply with Rule 21 of the AIM Rules relating to Directors' and applicable employees' dealings.

Investor relations

The Chairman and other Non-Executive Directors are available to shareholders to discuss strategy and governance issues at a shareholder's request. In accordance with AIM Rule 26, there is an Investors section on the Group's website, https://www.c4xdiscovery.com, which is kept up to date.

Annual General Meeting ("AGM")

At the AGM, separate resolutions will be proposed for each substantially different issue. The outcome of the voting on AGM resolutions is disclosed by means of an announcement on the London Stock Exchange.

Corporate governance statement continued

Board Committees

Audit Committee

The Audit Committee comprises Alex Stevenson, who is Chair of the Committee, and Natalie Walter. The Committee normally meets twice a year and is responsible for monitoring the quality of internal controls, ensuring that the financial performance of the Group is properly measured and reported on and reviewing reports from the Group's auditor relating to the Group's accounting and internal controls, in all cases having due regard to the interests of shareholders.

The Audit Committee's primary responsibilities are to review and monitor:

- the annual report and accounts and preliminary and interim results and statements of the Group;
- the appropriateness of accounting policies and the critical judgements and estimates;
- the relevance of developments in accounting and reporting requirements;
- the effectiveness of internal controls and risk management systems;
- the auditor's plan for the year-end audit;
- the formal engagement terms, performance, objectivity and independence of the auditor, including the extent of non-audit work undertaken by the auditor; and
- the audit and non-audit fees of the auditor. These are set out in note 6 to the financial statements.

The Audit Committee reports to the Board on its activities and recommendations.

The Committee has recommended to the Board that a resolution reappointing KPMG LLP as external auditor be put to the shareholders at the AGM.

Nominations Committee

The Nominations Committee comprises Alex Stevenson, who is Chair of the Committee, and Eva-Lotta Allan. The Committee is responsible for identifying and nominating, for the approval of the Board, candidates to fill Board vacancies as and when they arise.

Internal controls and risk management

The Board has overall responsibility for the Group's system of internal controls, including reviewing the effectiveness of these controls and the processes in place for risk management. The role of the Executive Director is to implement the Board's policies on risk and control and provide assurance on compliance with these policies. The processes and procedures in place are designed to manage rather than eliminate risk and can therefore only provide a reasonable and not an absolute assurance against material misstatements or losses.

Executive Directors have a close involvement with all day-to-day operations and also meet with staff on a regular basis to identify and review business risks, the controls needed to minimise those risks and the effectiveness of controls in place. Business risks are monitored and updated on a regular basis. Insurance is in place where appropriate.

Some key features of the internal control system are:

i) annual budgets and rolling forecasts reviewed and approved by the Board;

ii) monthly management accounts information compared and reconciled with budgets;

iii) the Group has written operational, accounting and employment policies in place;

iv) the Board actively identifies and evaluates the risks inherent in the business and ensures that appropriate controls and procedures are in place to manage these risks;

v) the Group has well established financial reporting and approval systems and procedures which cover all key transactional processes and Group commitments; and

vi) the Group has a uniform system of investment appraisal.

Risk management

Details of the technical, product, market and operational risks of the business are disclosed in the Strategic Report.

Details of the Group's financial risk management objectives and policies are disclosed in note 24 to the financial statements.

The Directors do not consider that the business is, at this time, significantly exposed to credit or interest risk and as such these risks are not considered to be material for an assessment of the assets, liabilities, financial position and results.

The Group seeks to manage liquidity by ensuring funds are available to meet foreseeable needs and to invest cash assets safely and profitably. The Group had cash and cash equivalents of £2,383,000 at 31 July 2019 (2018: £5,578,000). Cash deposits are spread across a range of financial institutions with investment grade credit status. Deposits are invested in a mixture of fixed-term and notice accounts. The Board approves all financial institutions before deposits are placed and regularly reviews the level of funds allocated to each institution.

Directors' remuneration report

As a Company listed on AIM, the Group is not required by the Companies Act 2006 to prepare a Directors' Remuneration Report. The Board has, however, provided certain information in relation to the remuneration policy of the Group as set out in this report.

Remuneration Committee

The Remuneration Committee comprises Natalie Walter, who is Chair of the Committee, and Harry Finch. The Committee may invite anyone it deems appropriate to attend and advise at meetings.

The Committee is responsible for establishing a formal and transparent procedure for developing policy on Executive remuneration and for setting the remuneration of the Directors and certain senior management, as well as reviewing the performance of the Executive Directors of the Group.

The overall policy of the Board is to ensure that Executive management are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their contribution to the success of the Group, including, where appropriate, bonuses and the award of share options. The Remuneration Committee takes into account the remuneration practices adopted in similar businesses and best practice in other AIM-listed businesses as well as in the general market.

There are four main elements to the remuneration packages for Executive Directors and senior management:

Basic annual salary

The base salary is reviewed annually. The review process is undertaken by the Remuneration Committee and takes into account several factors, including the current position and development of the Group, individual contributions and market salaries for comparable organisations.

Other taxable benefits

The Group provides an occupational pension scheme for employees, including Directors. The Group provides a private health insurance scheme for employees, including Executive Directors, as a benefit in kind, along with critical illness insurance.

The Group does not provide any other taxable benefits for Executives.

Discretionary annual bonus

All Executive Directors and employees are eligible for a discretionary annual bonus. This takes into account individual contribution, business performance and technical and commercial progress, along with financial results.

Discretionary share option schemes

All Directors and employees are eligible to receive discretionary share options to be granted in accordance with the Group's approved share option scheme. Details of the grants made under the scheme are provided in note 19 to the financial statements. This takes into account the need to motivate and retain key individuals. Details of share option grants made to Directors are shown in the table on page 21.

Remuneration policy for Non-Executive Directors

Non-Executives receive a fixed fee and are eligible to receive pension payments or other benefits and to participate in the share option scheme at the discretion of the Remuneration Committee.

Service contracts

Eva-Lotta Allan (Non-Executive Chairman) entered into a letter of appointment with the Group on 4 July 2018. The appointment will continue for an initial term of three years (subject to re-election by shareholders as required by the Articles) and is terminable earlier by the Group in various specified circumstances and in any event by either party on three months' notice.

Harry Finch (Non-Executive Director) entered into a letter of appointment with the Company on 17 October 2014. The appointment will continue for a period of three years from admission to the AIM market (subject to re-election by shareholders as required by the Articles) and is terminable earlier by the Group in various specified circumstances and in any event by either party on six months' notice.

In addition to his duties as a Non-Executive Director, Harry Finch acts as a consultant on certain technical matters, for which he is remunerated at the rate of £1,500 per day (2018: £1,400 per day), which the Board (excluding Harry Finch) has determined to be an arm's length commercial rate.

Alex Stevenson (Non-Executive Director) entered into a letter of appointment with the Group on 17 October 2014. The appointment will continue for a period of three years from admission to the AIM market (subject to re-election by shareholders as required by the Articles) and is terminable earlier by the Group in various specified circumstances and in any event by either party on six months' notice.

Natalie Walter (Non-Executive Director) entered into a letter of appointment with the Group on 4 July 2018. The appointment will continue for an initial period of three years (subject to re-election by shareholders as required by the Articles) and is terminable earlier by the Group in various specified circumstances and in any event by either party on three months' notice.

Directors' remuneration report continued

Directors' shareholdings

Directors' interests in the shares of the Group, including family and beneficial interests, at 31 July 2019 were:

	Ordinary shares of 1p each			
	31 July 2019 Number	31 July 2019 %	31 July 2018 Number	31 July 2018 %
Eva-Lotta Allan	—	—	—	—
Clive Dix	1,455,586	2.52%	1,414,936	3.04%
Brad Hoy	—	—	—	—
Craig Fox	7,183	0.01%	1,283	—
Harry Finch	321,425	0.56%	321,425	0.69%
Alex Stevenson*	485,403	0.84%	485,403	1.04%
Natalie Walter	—	—	—	—

* Alex Stevenson's interest is by way of shares held on his behalf by Aquarius Equity Partners Limited and his participation in The Aquarius Origin Fund Co-investment LLP and The Aquarius IV Fund Co-investment LLP.

Directors' remuneration

The remuneration of the Directors, who served on the Board of C4X Discovery Holdings plc during the year to 31 July 2019, is as follows:

	Base salary & fees £000	Other £000	Annual bonus £000	Pension costs £000	Benefits in kind £000	Gain on exercise of options £000	Total £000
Executive Directors							
Clive Dix	159	—	—	—	—	—	159
Brad Hoy	148	—	11	1	—	—	160
Craig Fox	126	—	11	16	2	—	155
Non-Executive Directors							
Eva-Lotta Allan	76	—	—	—	—	—	76
Harry Finch*	30	2	—	—	—	—	32
Alex Stevenson**	15	—	—	—	—	—	15
Natalie Walter	30	—	—	—	—	—	30
	584	2	22	17	2	—	627

31 July 2018 comparative

	Base salary & fees £000	Other £000	Annual bonus £000	Pension costs £000	Benefits in kind £000	Gain on exercise of options £000	Total £000
Executive Directors							
Clive Dix	154	—	24	—	—	—	178
Brad Hoy	109	—	24	1	—	—	134
Craig Fox	123	—	24	16	1	—	164
Non-Executive Directors							
Eva-Lotta Allan	7	—	—	—	—	—	7
Sam Williams	16	—	—	—	—	—	16
Harry Finch*	17	13	—	—	—	—	30
Alex Stevenson**	15	—	—	—	—	—	15
Natalie Walter	3	—	—	—	—	—	3
	444	13	72	17	1	—	547

* Harry Finch's other earnings comprise remuneration in connection with the services he provided as a technical consultant.

** Alex Stevenson's remuneration takes the form of monitoring fees paid to Aquarius Equity Partners Limited.

Directors' share options

Directors' interests in share options to acquire ordinary shares of 1 pence in the Group as at 31 July 2019 were:

Share options	Date granted	Exercise price	At 31 July 2018	Exercised during the year	Lapsed	Granted during the year	At 31 July 2019
Clive Dix	8 Jun 2015	£1.00	20,000	—	—	—	20,000
	8 Dec 2015	£0.77	125,000	—	—	—	125,000
	16 Oct 2018	£0.892	—	—	—	50,000	50,000
Harry Finch	8 Jun 2015	£1.00	20,000	—	—	—	20,000
Brad Hoy	23 Nov 2016	£1.05	300,000	—	—	—	300,000
	16 Oct 2018	£0.892	—	—	—	50,000	50,000
Craig Fox	8 Jun 2015	£1.00	150,000	—	—	—	150,000
	1 Feb 2017	£0.91	50,000	—	—	—	50,000
	16 Oct 2018	£0.892	—	—	—	50,000	50,000

The options granted on 8 June 2015 are exercisable at any time between 3 years and 10 years of them being granted.

The options granted on 8 December 2015 are exercisable, subject to meeting certain performance criteria, at any time between 3 years and 10 years of them being granted.

The options granted on 23 November 2016 are exercisable at any time between 3 years and 10 years of them being granted.

The options granted on 1 February 2017 are exercisable at any time between 3 years and 10 years of them being granted.

The options granted on 16 October 2018 are exercisable at any time between 3 years and 10 years of them being granted.

The market price for C4XD shares as at 31 July 2019 was 46.5 pence per share; the highest and lowest prices during the year were 110.5 pence and 45.5 pence respectively.

No options were granted during the year below market value.

Natalie Walter
Chair of the Remuneration Committee
6 January 2020

Directors' report

The Directors present their report and the audited financial statements for the Group and parent company for the year ended 31 July 2019.

Financial instruments

Details of the Group's financial risk management objectives and policies are disclosed in note 24 to the financial statements.

Research and development

The principal activity of the Group is research and development through the identification, assessment and validation of Drug Discovery targets ahead of early commercial partnering or initiation of a C4XD Drug Discovery programme to develop a small molecule for future out-licensing. In addition, we work in collaboration with partners to access expertise and technologies complementary to our own. A review of which is included in the Chairman's and CEO's statements on pages 4 to 9.

Total research and development spend was £10,585,000 (2018: £6,992,000). No development expenditure was capitalised in the period (2018: £nil) for the reasons provided in note 3(f) to the accounts.

Dividends

The Directors do not recommend payment of an ordinary dividend (2018: £nil).

Share capital and funding

As at 31 July 2019 share capital comprised 57.8 million ordinary shares of 1 pence each (2018: 46.6 million ordinary shares) and 2.0 million deferred shares of £1 each (2018: 2.0 million shares). Full details of the Group's and Company's share capital movements during the period are given in note 18 to the financial statements.

During November 2019 £7.6 million (before expenses) was raised via a placing of 46,466,667 ordinary shares, a subscription by Directors for 200,000 ordinary shares and an open offer for 3,907,141 ordinary shares at 15 pence each.

Details of shares under option are provided in note 19 to the financial statements.

Directors and their interests

The following Directors held office throughout the year:

Ms Eva-Lotta Allan
Dr Harry Finch
Dr Alex Stevenson
Ms Natalie Walter
Dr Clive Dix
Mr Brad Hoy
Dr Craig Fox

Biographies of the Directors can be found on pages 14 and 15.

Details of Directors' remuneration and interests in the share capital of the Group are shown in the Directors' Remuneration Report on pages 19 to 21.

No Director had an interest in any contract that was significant in relation to the Group's business at any time during the year.

Directors are subject to re-election at intervals of not more than three years.

Directors' indemnity insurance

The Group has maintained insurance throughout the year for its Directors and Officers against the consequences of actions brought against them in relation to their duties for the Group. Such provision remains in force as at the date of approval of the Directors' Report.

Substantial shareholders

The Company is aware that the following had an interest in 3% or more of the issued ordinary share capital of the Company at 31 July 2019 and following the placing and open offer on 13 November 2019 respectively:

Donations

No charitable or political donations were made in the year (2018: £nil).

	19-Dec-19 No shares*	%	31-Jul-19 No shares	%
Polar Capital (London)	10,978,188	10.1	5,680,370	9.8
Octopus Investments (London)	10,000,000	9.2	0.00	0.0
Calculus Capital (London)	9,276,555	8.6	4,609,889	8.0
Canaccord Genuity Wealth Mgt (London)	7,501,521	6.9	5,566,924	9.6
Aquarius Equity Partners (Manchester)	7,459,425	6.9	7,459,425	12.9
Baillie Gifford & Co (Edinburgh)	6,529,369	6.0	3,612,703	6.3
Legal & General Investment Mgt (London)	6,151,830	5.7	3,552,000	6.1
Herald Investment Mgt (London)	4,833,333	4.5	150,000	2.6
Canaccord Genuity Wealth Mgt (Jersey)	3,888,888	3.6	0	0.0

* This includes notifications of major interests in shares received by 6 January 2020.

Employment policies

The Company handbook summarises the policies and working practices to be adopted by all employees in the Company. The Board is committed to providing a safe working environment and has a clear and robust Health and Safety Policy.

The Company also has a Whistleblowing Policy to allow staff to raise any concerns in confidence. Additionally, the Company has policies in Bioethics, Data Processing, Anti-corruption and Bribery, Dignity at Work, Equal Opportunities and Social Networking, which highlight the expected behaviours of staff.

The Group supports the employment of disabled people where possible through recruitment, by retention of those who become disabled and generally through training, career development and promotion.

The Group is committed to keeping employees as fully informed as possible with regard to the Group's performance and prospects and seeks their views, wherever possible, on matters which affect them as employees.

Corporate governance statement

The Group's statement on corporate governance can be found in the Corporate Governance statement on pages 16 to 18.

Going concern

The Chairman's and CEO's statements on pages 4 to 9 outline the business activities of the Group along with the factors which may affect its future development and performance. The Group's financial position is discussed in the Financial Review on page 13 along with details of its cash flow and liquidity. Note 24 to the financial statements sets out the Group's financial risks and the management of those risks.

Having prepared management forecasts and made appropriate enquiries, the Directors are satisfied that the Group has adequate resources for the foreseeable future. Accordingly, they have continued to adopt the going concern basis in preparing the Group and Company financial statements. Please also refer to the disclosures made in note 2c.

Disclosure of information to the auditor

The Directors who held office at the date of approval of this Directors' Report confirm that:

- so far as they are each aware there is no relevant audit information of which the Group's auditor is unaware; and
- that each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Auditor

Ordinary resolutions to reappoint KPMG LLP as auditor and to authorise the Directors to agree its audit fee will be proposed at the forthcoming Annual General Meeting.

Annual General Meeting notice

The Annual General Meeting of the Company will be held on 31 January 2020, at 11:00am, at Panmure Gordon, One New Change, London. The notice convening the AGM, together with an explanation of the resolutions to be proposed at the meeting, is contained in the Notice of Annual General Meeting.

On behalf of the Board

Clive Dix
Chief Executive Officer
6 January 2020

C4X Discovery Holdings PLC
Manchester One
53 Portland Street
Manchester
M1 3LD

Statement of Directors' responsibilities

The Directors are responsible for preparing the annual report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the EU (IFRSs as adopted by the EU) and applicable law and they have elected to prepare the parent company financial statements on the same basis.

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 Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditor's report
to the members of C4X Discovery Holdings plc

1. Our opinion is unmodified

We have audited the financial statements of C4X Discovery Holdings plc ("the Company") for the year ended 31 July 2019 which comprise the Consolidated statement of comprehensive income, the Consolidated statement of changes in equity, the Company statement of changes in equity, the Consolidated and Company statements of financial position, the Consolidated and Company statements of cash flows, and the related notes, including the accounting policies in note 3.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 July 2019 and of the Group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Overview

Materiality: Group financial statements as a whole	£73,000 (2018: £73,000) 0.5% (2018: 0.75%) of total expenses	
Coverage	100% (2018: 100%) of total expenses	
Key audit matters		vs 2018
Recurring risks	Impairment of group goodwill and intangible assets and the parent's investment in subsidiaries and its intra-group debtors	◄►
Event driven	**New:** Brexit	▲
	New: Going concern	▲

Independent auditor's report continued

to the members of C4X Discovery Holdings plc

2. Key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters in arriving at our audit opinion above. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

	The risk	Our response
The impact of uncertainties due to the UK exiting the European Union on our audit *Refer to page 10 (strategic review).*	**Unprecedented levels of uncertainty:** All audits assess and challenge the reasonableness of estimates, in particular as described in impairment of goodwill and intangibles and impairment of the parent's investment in subsidiary and its intra-group receivables below, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements (see below). All of these depend on assessments of the future economic environment and the Group's future prospects and performance. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: • **Our Brexit knowledge:** We considered the directors' assessment of Brexit-related sources of risk for the group's business and financial resources compared with our understanding of the risks. We considered the directors' plans to take action to mitigate the risks. • **Sensitivity analysis:** When addressing impairment of goodwill and intangibles, impairment of the parent's investment in subsidiary and its intra-group debtors, and going concern and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty. • **Assessing transparency:** As well as assessing individual disclosures as part of our procedures on impairment of goodwill and intangibles, impairment of the parent's investment in subsidiary and its intra-group debtors, and going concern we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

2. Key audit matters: including our assessment of risks of material misstatement continued

	The risk	Our response
Going concern *Refer to page 35 (financial disclosures).*	**Disclosure quality:** The financial statements explain how the Directors have formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and parent Company. That judgement is based on an evaluation of the inherent risks to the Group's and Company's business model and how those risks might affect the Group's and parent Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements. The risks most likely to adversely affect the Group's and parent Company's available financial resources over this period were: • The forecast level of overhead expenses; • The timing and future revenue receipts from new licence deals; and • The ability to secure additional funds on the capital markets. There are also less predictable but realistic second order impacts, such as the impact of Brexit which could result in a reduction of available financial resources as markets monitor UK companies more closely. The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.	Our procedures included: • **Historical comparisons:** Considered the Group's historical budgeting accuracy, by assessing actual performance against budget and analysing the Group's explanations for variances between actual and budgeted results. • **Key dependency assessment:** Assessed the Group's cash flow forecasts to identify key inputs for further enquiry. • **Assessing assumptions:** We challenged the directors' assumptions over these key inputs using our knowledge of the entity and the industry in which it operates including comparison to external data sources. • **Sensitivity analysis:** Considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) downside sensitivities that could arise. • **Assessing transparency:** Assessed the completeness and accuracy of the matters covered in the going concern disclosure by assessing the reasonableness of the risks and uncertainties specified by the disclosure against our findings from our evaluation of the directors' assessment of going concern.
Impairment of group goodwill and intangibles assets and the parent's investment in subsidiaries and its intra-group debtors (Group £1.5 million; 2018: £1.6 million) (Parent £2.6 million; 2018: £25.8m). *Refer to page 39 (accounting policy) and pages 46 and 47 (financial disclosures).*	**Forecast based valuation** Goodwill and intangible assets in the Group and the Parent's investment in subsidiaries and its intra-group debtors are at significant risk of impairment due to the current loss making position of the Group. The estimated recoverable amount is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows.	Our procedures included: • **Assessing assumptions:** Critically assessed the reasonableness of the key assumptions being timing of signing future licence deals, total deal value, success rates and discount rate in comparison to external and internal evidence. • **Sensitivity analysis:** Performed breakeven analysis on each of the key assumptions being timing of signing future licence deals, total deal value, success rates and discount rate. • **Comparing valuations:** Compared the sum of the discounted cash flows to the Group's market capitalisation to assess the reasonableness of those cash flows. • **Assessing transparency:** Assessed whether the Group and parent company's disclosures describing the sensitivity of the impairment assessment to changes in key assumptions accurately reflect the risks inherent in the Group's valuation of goodwill and intangible assets and the parent company's valuation of investment in subsidiary and intra-group receivables.

Independent auditor's report continued

to the members of C4X Discovery Holdings plc

3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £73,000 (2018: £73,000), determined with reference to a benchmark of Group total expenses of £13.6m (2018: £9.7m), of which it represents 0.5% (2018: 0.75%). We consider total expenses to be the most appropriate benchmark as it provides a more stable measure year on year than group loss before tax.

Materiality for the parent Company financial statements as a whole was set at £60,000 (2018: £70,000), determined with reference to a benchmark of parent Company total assets of £2.6m (2018: £25.8m), of which it represents 2.3% (2018: 0.3%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £3,650 (2018: £3,650), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's two (2018: two) reporting components, one of which is the parent Company, we subjected two (2018: two) to full scope audits for Group purposes using component materialities that ranged from £60,000 to £70,000 (2018: £60,000 to £70,000) having regard to the mix of size and risk profile of the Group across the components. The Group audit team performed the audit of both components.

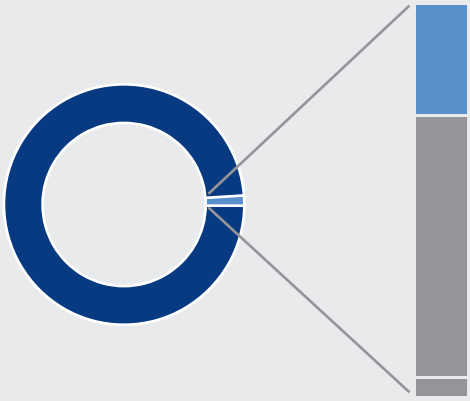
The components within the scope of our work accounted for the percentages illustrated opposite.

Total expenses

£13.6m (2018: £9.7m)

Group materiality

£73,000 (2018: £73,000)



£73,000

Whole financial statements materiality (2018: £73,000)

£70,000

Range of materiality at two components (£60,000–£70,000) (2018: £60,000–£70,000)

£3,650

Misstatements reported to the Audit Committee (2018: £3,650)

Group total expenses

Group loss before tax

Group total assets

Full scope for Group audit purposes 2019

Full scope for Group audit purposes 2018

4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the parent Company or the Group or to cease their operations, and as they have concluded that the parent Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the parent Company will continue in operation.

We identified going concern as a key audit matter (see section 2 of this report). Based on the work described in our response to that key audit matter, we are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements.

We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the Strategic report and the Directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6. We have nothing to report on the other matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 24, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an Auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

8. The purpose of our audit work and to whom we owe our responsibilities

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 an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Antony Whittle
(Senior Statutory Auditor)
for and on behalf of KPMG LLP,
Statutory Auditor
Chartered Accountants
One St. Peter's Square
Manchester M2 3AE
6 January 2020

Consolidated statement of comprehensive income

for the year ended 31 July 2019

	Notes	2019 £000	2018 £000
Revenue	4	—	7,064
Cost of sales		—	—
Gross profit		—	7,064
Research and development expenses		(10,585)	(6,992)
Administrative expenses		(3,052)	(2,605)
Operating loss	5	(13,637)	(2,533)
Finance income	7	15	7
Loss before taxation		(13,622)	(2,526)
Taxation	8	2,710	1,391
Loss for the year and total comprehensive loss for the year		(10,912)	(1,135)
Loss per share			
Basic and diluted loss for the year	9	(18.82)p	(2.34)p

The loss for the year arises from the Group's continuing operations and is attributable to the equity holders of the parent.

There were no other items of comprehensive income for the year (2018: £nil) and therefore the loss for the year is also the total comprehensive loss for the year.

The basic and diluted loss per share are the same as the effect of share options issued is anti-dilutive.

The notes on pages 35 to 56 form an integral part of these financial statements.

Consolidated statement of changes in equity
for the year ended 31 July 2019

	Issued equity capital £000	Share premium £000	Share-based payment reserve £000	Merger reserve £000	Capital contribution reserve £000	Revenue reserve £000	Total £000
At 31 July 2017	2,490	22,844	260	920	195	(17,649)	9,060
Loss for the year and total comprehensive loss for the year	—	—	—	—	—	(1,135)	(1,135)
Share-based payments	—	—	249	—	—	—	249
Transactions with owners	—	—	249	—	—	—	249
At 31 July 2018	2,490	22,844	509	920	195	(18,784)	8,174
Loss for the year and total comprehensive loss for the year	—	—	—	—	—	(10,912)	(10,912)
Issue of share capital	112	9,978	—	—	—	—	10,090
Expenses of placing	—	(566)	—	—	—	—	(566)
Share-based payments	—	—	227	—	—	—	227
Transactions with owners	112	9,412	227	—	—	—	9,751
At 31 July 2019	**2,602**	**32,256**	**736**	**920**	**195**	**(29,696)**	**7,013**

The notes on pages 35 to 56 form an integral part of these financial statements.

Company statement of changes in equity
for the year ended 31 July 2019

	Issued equity capital £000	Share premium £000	Share-based payment reserve £000	Revenue reserve £000	Total £000
At 31 July 2017	2,490	22,844	231	—	25,565
Loss for the year and total comprehensive loss for the year	—	—	—	—	—
Share-based payments	—	—	249	—	249
Transactions with owners	—	—	249	—	249
At 31 July 2018	2,490	22,844	480	—	25,814
Loss for the year and total comprehensive loss for the year	—	—	—	(32,987)	(32,987)
Issue of share capital	112	9,978	—	—	10,090
Expenses of placing	—	(566)	—	—	(566)
Share-based payments	—	—	227	—	227
Transactions with owners	112	9,412	227	—	9,751
At 31 July 2019	**2,602**	**32,256**	**707**	**(32,987)**	**2,578**

The notes on pages 35 to 56 form an integral part of these financial statements.

Statements of financial position

at 31 July 2019
Registered no. 09134041

	Notes	31 July 2019 Group £000	31 July 2019 Company £000	31 July 2018 Group £000	31 July 2018 Company £000
Assets					
Non-current assets					
Property, plant and equipment	10	78	—	83	—
Intangible assets	11	295	—	433	—
Goodwill	12	1,192	—	1,192	—
Investment in subsidiaries	13	—	2,578	—	2,351
		1,565	2,578	1,708	2,351
Current assets					
Trade and other receivables	14	641	—	388	23,462
Income tax asset	15	4,076	—	1,366	—
Cash and cash equivalents	16	2,383	—	5,578	1
		7,100	—	7,332	23,463
Total assets		8,665	2,578	9,040	25,814
Liabilities					
Current liabilities					
Trade and other liabilities	17	1,652	—	866	—
		1,652	—	866	—
Total liabilities		1,652	—	866	—
Net assets		7,013	2,578	8,174	25,814
Capital and reserves					
Issued equity capital	18	2,602	2,602	2,490	2,490
Share premium	18	32,256	32,256	22,844	22,844
Share-based payment reserve	19	736	707	509	480
Merger reserve	20	920	—	920	—
Capital contribution reserve	21	195	—	195	—
Revenue reserve	22	(29,696)	(32,987)	(18,784)	—
Total equity		7,013	2,578	8,174	25,814

Approved by the Board and authorised for issue on 6 January 2020.

The notes on pages 35 to 56 form an integral part of these financial statements.

Clive Dix
Chief Executive Officer
6 January 2020

Registered number: 09134041

Cash flow statements

for the year ended 31 July 2019

	Notes	31 July 2019 Group £000	31 July 2019 Company £000	31 July 2018 Group £000	31 July 2018 Company £000
Loss after interest and tax		**(10,912)**	**(32,987)**	(1,135)	—
Adjustments for:					
Depreciation of tangible fixed assets	10	**53**	**—**	51	—
Amortisation of intangible assets	11	**138**	**—**	137	—
Impairment of inter-company receivables		**—**	**32,987**	—	—
Share-based payments	19	**227**	**—**	249	—
Finance income	7	**(15)**	**—**	(7)	—
Taxation		**(2,710)**	**—**	(1,391)	—
Changes in working capital:					
(Increase)/decrease in trade and other receivables	14	**(253)**	**(9,525)**	160	—
Increase/(decrease) in trade and other payables	17	**786**	**—**	(205)	—
Cash outflow from operating activities		**(12,686)**	**(9,525)**	(2,141)	—
Research and development tax credit received		**—**	**—**	1,725	—
Net cash outflow from operating activities		**(12,686)**	**(9,525)**	(416)	—
Cash flows from investing activities					
Purchases of tangible fixed assets	10	**(48)**	**—**	(44)	—
Finance income	7	**15**	**—**	7	—
Net cash outflow from investing activities		**(33)**	**—**	(37)	—
Cash flows from financing activities					
Proceeds from issues of ordinary share capital	18	**10,090**	**10,090**	—	—
Expenses of share capital issue	18	**(566)**	**(566)**	—	—
Net cash inflow from financing activities		**9,524**	**9,524**	—	—
Decrease in cash and cash equivalents		**(3,195)**	**(1)**	(453)	—
Cash and cash equivalents at the start of the year		**5,578**	**1**	6,031	1
Cash and cash equivalents at the end of the year		**2,383**	**—**	5,578	1
Cash, cash equivalents and deposits at the end of the year	16	**2,383**	**—**	5,578	1

The notes on pages 35 to 56 form an integral part of these financial statements.

Notes to the financial statements
for the year ended 31 July 2019

1. Reporting entity

C4X Discovery Holdings plc ("the Company") is an AIM-listed company incorporated, registered and domiciled in England and Wales within the UK.

These Group financial statements consolidate those of the Company and its subsidiaries (together referred to as "the Group" and individually as "Group entities") for the year ended 31 July 2019.

The financial statements of the Company and the Group for the year ended 31 July 2019 were authorised for issue by the Board of Directors on 6 January 2020 and the statement of financial position was signed on the Board's behalf by Clive Dix.

The Company has elected to take the exemption under Section 408 of the Companies Act 2006 not to present the parent company's statement of comprehensive income. The parent Company's loss for the year ended 31 July 2019 was £32,987,000 (2018: £nil).

The significant accounting policies adopted by the Group are set out in note 3.

2. Basis of preparation

(a) Statement of accounting compliance

The Group's and parent company's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and International Financial Reporting Committee ("IFRIC") interpretations as they apply to the financial statements of the Group for the period ended 31 July 2019.

(b) Basis of measurement

The Company and Group financial statements have been prepared on the historical cost basis.

The methods used to measure fair values of assets and liabilities are discussed in the respective notes in note 3 below.

(c) Going concern

Notwithstanding a consolidated operating loss for the year ended 31 July 2019 of £13.6 million (2018: £2.5 million) and revenues of £nil (2018: £7.1 million) and net cash used in operating activities of £12.7 million (2018: £0.4 million), the Directors have prepared both the consolidated and Company financial statements on a going concern basis, which the Directors believe to be appropriate for the following reasons.

The Board has considered the applicability of the going concern basis of preparation of the financial statements. This included the review of internal budgets and cash flow forecasts for the period to 31 July 2021, being 18 months from the date of signing the financial statements. The base case cash flow forecasts, which assume no revenue generation during the forecast period, show that additional funding will be required in March 2021 if no mitigating action is taken. In addition, further funding may be required in the medium term to support the Group in reaching sustainable profitability. The level of additional funds required will be dependent upon the Group's performance against forecasts and the level of income generated from licensing activities which in itself is dependent upon current licensing partner achieving certain development milestones on Orexin-1 and the agreement of new licensing deals on other drug targets.

The Directors have considered the potential impact of Brexit (refer to the Strategic Report) and consider the risk to be minimal.

The Group completed a £7.6 million fundraising with new and existing investors in November 2019 (2018: £10 million) and the Board has a reasonable expectation it will be able to raise further equity or debt financing to support its ongoing research activities. The Board also has a reasonable expectation that a new licence deal will be signed during the 2020 calendar year and that a further milestone payment on the Orexin-1 contract will be achieved within the forecast period, although there can be no guarantees that either of these events will occur, and they are not reflected in the Board's base case cash flow forecasts.

The Group has cash and cash equivalents at 31 July 2019 of £2.4 million (2018: £5.6 million) and at 31 December 2019 had cash resources of £6.4 million. In the event that a cash shortfall arises in the forecast period, the Board considers it is able to take reasonable mitigating action, which includes but is not limited to a reduction in expenditure on certain discretionary research programmes to focus purely on commercialising earlier stage drug molecules, and reducing other discretionary administrative expenditure, which would enable the Group to continue to operate within its existing cash resources during the forecast period without the need for additional funding.

Based on the above factors the Board is satisfied that the Group has adequate resources to enable the Group to continue discharging its liabilities and realising its assets for the foreseeable future. Accordingly it continues to adopt the going concern basis in preparing the Group and Company financial statements.

(d) Functional and presentational currency

These financial statements are presented in Pounds Sterling, which is also the functional currency of the Company and its subsidiaries. All financial information presented has been rounded to the nearest thousand.

Notes to the financial statements continued

for the year ended 31 July 2019

2. Basis of preparation continued

e) Use of judgements and estimates

The preparation of financial statements requires management to make estimates and judgements that affect the amounts reported for assets and liabilities as at the reporting date and the amounts reported for revenues and expenses during the year. The nature of estimation means that actual amounts could differ from those estimates. Estimates and judgements used in the preparation of the financial statements are continually reviewed and revised as necessary.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Judgements

Judgements made in applying the Group's accounting policies that have the most significant impact on the amounts recognised in the financial statements are:

Research and development

Careful judgement by the Directors is applied when deciding whether the recognition requirements for capitalisation of research and development costs have been met. This is necessary as the economic success of any product development is uncertain until such time as technical viability has been proven and commercial supply agreements are likely to be achieved. Judgements are based on the information available at each reporting date which includes the progress with testing and certification and progress on, for example, establishment of commercial arrangements with third parties. In addition, all internal activities related to research and development of new products are monitored by the Directors. Further information is included in note 3.

Estimates

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

Revenue contracts

The determination of the transaction price requires judgement over whether the variable consideration in a contract with a customer is constrained. If the variable consideration is judged to be constrained then an estimate is required of the amount of the variable consideration to be included within the transaction price. The key variables for the Group are the achievement of milestones set out within the licence agreement and described in note 4. The variable consideration for the Group's licensed Orexin-1 Receptor Antagonist is currently estimated to be constrained to £nil; however, the range of possible outcomes is from £nil to £216 million (US$284 million).

Intangible fixed assets and goodwill

The Group tests annually whether goodwill has suffered any impairment. The Group also tests other intangible assets for impairment when indicators of impairment arise. The potential recoverable amounts of intangible fixed assets and goodwill have been determined based on an income approach to calculating fair value less costs of disposal. These calculations require the use of estimates both in arriving at the expected future cash flows and the application of a suitable discount rate in order to calculate the present value of these flows. The assumptions used and related sensitivity analysis in these calculations are included in notes 11 and 12.

The recoverable amount of investments and inter-company receivables are tested for impairment when indicators of impairment arise. The potential recoverable amounts have been determined based on an income approach to calculating fair value less costs of disposal. These calculations require the use of estimates both in arriving at the expected future cash flows and the application of a suitable discount rate in order to calculate the present value of these flows. The recoverable amount of the combined value of the parent company investment in subsidiaries and its inter-company receivables now exceeds the carrying value by £0.8 million (30%) after reflecting an impairment of £32,987,000 recorded in the current year to the carrying amount.

3. Significant accounting policies

The accounting policies set out below are consistent with those of the previous financial year and are applied consistently by Group entities.

(a) Basis of consolidation

The Group financial statements consolidate the financial statements of C4X Discovery Holdings plc and the entities it controls (its subsidiaries) drawn up to 31 July each year.

All business combinations are accounted for by applying the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

3. Significant accounting policies continued

(a) Basis of consolidation continued

Transaction costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Subsidiaries are all entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. All C4X Discovery Holdings plc's subsidiaries are 100% owned. Subsidiaries are fully consolidated from the date control passes.

All intra-group transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Subsidiaries' accounting policies are amended where necessary to ensure consistency with the policies adopted by the Group.

(b) Foreign currency transactions

Transactions in foreign currencies are initially recorded in the functional currency by applying the spot rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to the consolidated statement of comprehensive income.

(c) Segmental reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. As at the reporting date the Group operated with only a single segment.

(d) Revenue

Revenue from right-to-use licences is recognised at the point in time that the performance condition is satisfied which is when the licence agreement is signed by both parties as this is the date that the customer can begin to use and benefit from the licence.

The transaction price is determined as the consideration the Group expects to be entitled to in exchange for licensing the IP to the customer. It includes variable consideration only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The Group updates the estimated transaction price at the end of each year based on the circumstances present at the end of that year and accounts for any change in transaction price in the period in which the change occurs.

The royalties based on sales of drugs are recognised in revenue when the subsequent sale occurs.

The Group's revenues in the prior year comprised amounts earned under joint development agreements and individual project development programmes in respect of novel small molecule therapies.

Revenues received from development programmes were recognised on a straight-line basis over the period that the development work is being performed as measured by contractual milestones. Revenue is not recognised where there is uncertainty regarding the achievement of such milestones and where either revenue has not been paid, or where the customer has the right to recoup advance payments. There were no open revenue contracts at the date of first application of IFRS 15.

(e) Government grants

Government grants are recognised when it is reasonable to expect that the grants will be received and that all related conditions are met, usually on submission of a valid claim for payment.

Government grants of a revenue nature are deducted from research and development expenses in the consolidated statement of comprehensive income in line with the terms of the underlying grant agreement.

Government grants relating to capital expenditure are deducted in arriving at the carrying amount of the asset.

(f) Research and development

Research costs are charged in the consolidated statement of comprehensive income as they are incurred. Development costs will be capitalised as intangible assets when it is probable that future economic benefits will flow to the Group. Such intangible assets will be amortised on a straight-line basis from the point at which the assets are ready for use over the period of the expected benefit, and will be reviewed for impairment at each reporting date based on the circumstances at the reporting date.

The criteria for recognising expenditure as an asset are:

- it is technically feasible to complete the product;
- management intends to complete the product and use or sell it;
- there is an ability to use or sell the product;
- it can be demonstrated how the product will generate probable future economic benefits;
- adequate technical, financial and other resources are available to complete the development, use and sale of the product; and

Notes to the financial statements continued

for the year ended 31 July 2019

3. Significant accounting policies continued

(f) Research and development continued

- expenditure attributable to the product can be reliably measured.

Development costs are currently charged against income as incurred since the criteria for their recognition as an asset are not met.

(g) Lease payments

Rentals payable under operating leases, which are leases where the lessor retains a significant proportion of the risks and rewards of the underlying asset, are charged in the consolidated statement of comprehensive income on a straight-line basis over the expected lease term.

Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

IFRS 16 will be effective from 1 August 2019, please refer to note (x) below.

(h) Finance income

Finance income comprises interest income on funds invested. Interest income is recognised as interest accrues using the effective interest rate method.

(i) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the consolidated statement of comprehensive income except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from, or paid to, the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination, that at the time of the transaction affects neither accounting nor taxable profit nor loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are measured on an undiscounted basis using the tax rates and tax laws that have been enacted or substantially enacted by the date and which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which differences can be utilised. An asset is not recognised to the extent that the transfer or economic benefits in the future is uncertain.

(j) Tangible fixed assets

Property, plant and equipment assets are recognised initially at cost. After initial recognition, these assets are carried at cost less any accumulated depreciation and any accumulated impairment losses. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended.

Depreciation is computed by allocating the depreciable amount of an asset on a systematic basis over its useful life and is applied separately to each identifiable component.

The following bases and rates are used to depreciate classes of assets:

Building improvements	–	straight line over remainder of lease period
Office equipment, fixtures and fittings	–	straight line over three years

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable, and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

A property, plant and equipment item is derecognised on disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the derecognition of the asset is included in the consolidated statement of comprehensive income in the period of derecognition.

(k) Intangible assets

Intangible assets acquired either as part of a business combination or from contractual or other legal rights are recognised separately from goodwill provided they are separable and their fair value can be measured reliably. This includes the costs associated with acquiring and registering patents in respect of intellectual property rights.

3. Significant accounting policies continued

(k) Intangible assets continued

Where intangible assets recognised have finite lives, after initial recognition their carrying value is amortised on a straight-line basis over those lives. The nature of those intangibles recognised and their estimated useful lives are as follows:

Patents – straight line over 20 years

IP assets – straight line over five years

Software – straight line over five years

(l) Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment.

(m) Impairment of assets

At each reporting date the Group reviews the carrying value of its plant, equipment, intangible assets and goodwill to determine whether there is an indication that these assets have suffered an impairment loss. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an assessment of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying value of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, an appropriate valuation model is used, these calculations corroborated by valuation multiples, or other available fair value indicators. Impairment losses on continuing operations are recognised in the consolidated statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of comprehensive income unless the asset is carried at revalued amount, in which case the reversal is treated as a valuation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

The carrying values of plant, equipment, intangible assets and goodwill as at the reporting date have not been subjected to impairment charges.

(n) Investments in subsidiaries

Investments in subsidiaries are stated in the Company statement of financial position at cost less provision for any impairment.

(o) Trade and other receivables

Trade receivables, which generally have 30 to 60 day terms, are recognised and carried at the lower of their original invoiced value and recoverable amount. The time value of money is not material.

Provision is made when there is objective evidence that the Group will not be able to recover balances in full. Significant financial difficulties faced by the customer, probability that the customer will enter bankruptcy or financial reorganisation and default in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying value of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated statement of comprehensive income within administrative expenses.

When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables.

(p) Cash, cash equivalents and short-term investments and cash on deposit

Cash and cash equivalents comprise cash at hand and deposits with maturities of three months or less. Short-term investments and cash on deposit comprise deposits with maturities of more than three months, but no greater than 12 months.

(q) Trade and other payables

Trade and other payables are non-interest bearing and are initially recognised at fair value. They are subsequently measured at amortised cost using the effective interest rate method.

Notes to the financial statements continued
for the year ended 31 July 2019

3. Significant accounting policies continued

(r) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The expense relating to any provision is presented in the consolidated statement of comprehensive income, net of any expected reimbursement, but only where recoverability of such reimbursement is virtually certain.

Provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risk specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

There were no provisions at 31 July 2019 (2018: nil).

(s) Financial instruments

i) Recognition and initial measurement

At the year end, the Group had no financial assets or liabilities designated at fair value through the consolidated statement of comprehensive income (2018: £nil).

Trade receivables and debt securities are initially recognised when they are originated. All other financial assets and liabilities are initially recognised when the Group becomes a party to the contractual provisions in the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or a financial liability is initially measured at fair value plus, for items not measured at fair value through profit and loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is measured at the transaction price.

ii) Classification and subsequent measurement

Financial assets

On initial recognition a financial instrument is classified as measured at: amortised cost, fair value through other comprehensive income ("FVOCI") or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets.

A financial asset is measured at amortised cost if it meets both the following conditions and is not designated as FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on a specified date to cash flows that are solely the payment of principal and interest on the principal outstanding.

A debt investment is measured at FVOCI if it meets both the following conditions and is not designated as FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment by investment basis.

Financial assets at amortised cost are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses.

Financial liabilities

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as FVTPL if it is held for trading, it is a derivative or it is designated as such on initial recognition. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense is recognised in profit or loss.

At the year end, the Group had no financial assets or liabilities designated at FVOCI (2018: £nil).

iii) Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

3. Significant accounting policies continued

(s) Financial instruments continued

iii) Derecognition continued

Financial liabilities

The Group derecognises a financial liability when the contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value. On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid is recognised in profit or loss.

(t) Share capital

Proceeds on issue of shares are included in shareholders' equity, net of transaction costs. The carrying amount is not remeasured in subsequent years.

(u) Share-based payments

Equity-settled share-based payment transactions are measured with reference to the fair value at the date of grant, recognised on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. Fair value is measured using a suitable option pricing model.

At each reporting date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and the number of equity instruments that will ultimately vest. The movement in cumulative expense since the previous reporting date is recognised in the consolidated statement of comprehensive income, with a corresponding entry in equity.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where awards are granted to the employees of a subsidiary company, the fair value of the awards at grant date is recorded in the Company's financial statements as an increase in the value of the investment with a corresponding increase in equity via the share-based payment reserve.

(v) Defined contribution pension scheme

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The amounts charged against profits represent the contributions payable to the scheme in respect of the accounting period.

(w) New accounting standards and interpretations

A number of new standards, amendments to standards and interpretations have been endorsed by the EU and are effective for annual periods commencing on or after 1 January 2019 or ending 31 July 2020 or thereafter and have not been applied in preparing these consolidated financial statements and those that are relevant to the Group are summarised below. None of these are expected to have a significant effect on the consolidated financial statements of the Group in the period of initial application.

The following standards and interpretations have an effective date after the date of these financial statements.

	EU Effective date
IFRS 16 Leases	1 January 2019
IFRS 17 Insurance contracts	To be confirmed
IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019
Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures	1 January 2019
Amendments to IFRS 9 Prepayment Features with Negative Compensation	1 January 2019
Annual improvements to IFRSs 2015–2017 Cycle	1 January 2019
Amendments to IAS 19 Employee Benefits	1 January 2019
Amendments to References to the Conceptual Framework in IFRS Standards	To be confirmed
Amendments to IFRS 3 Business Combinations	To be confirmed
Amendments to IAS 1 and IAS 8 Regarding the Definition of Material	1 January 2020

Notes to the financial statements continued
for the year ended 31 July 2019

3. Significant accounting policies continued

(x) Changes in significant accounting policies

IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019)

The new leases standard changes the previous lease accounting model so a lessee will now reflect more assets and liabilities arising from leases on its balance sheet. This can substantially affect key financial ratios, including ratios related to debt covenants or debt-to-equity ratios.

Under the new standard all lease contracts, with limited exceptions, are recognised in financial statements by way of right-to-use assets and corresponding lease liabilities. The Group has undertaken an assessment of the impact of IFRS 16 and currently expects that it will apply the modified retrospective approach, which means that the cumulative effect of initially applying the standard is recognised at the date of initial application and there is no restatement of comparative information. The Group will apply the practical expedient to grandfather the definition of a lease on transition and apply the recognition exemption for both short-term and low value assets. Compared with the existing accounting for operating leases, application of the standard will have a significant impact on the classification of expenditures and consequently the classification of cash flow from operating activities, cash flow from investing activities and cash flow from financing activities. It will also impact the timing of expenses recognised in the statement of income.

The Group expects to recognise an opening right of use asset and corresponding lease liability on 1 August 2019 of £668,000. There will be no adjustment to opening revenue reserves. These are indicative figures and reflect management's best estimation at this stage and as such are subject to final verification.

(y) Research partnerships

The costs and revenues related to research partnerships are shared between the parties in accordance with the terms of the agreement.

4. Revenue

Revenue from contracts with customers

	2019 £000	2018 £000
Revenue recognised at a point in time		
– Right-to-use licence revenue	—	7,064
– Joint development agreements	—	—
Revenue recognised over time	—	—
Total revenue	—	7,064

Revenue in the previous year was generated from a license of IP to a customer to enable them to further develop and commercialise a drug from the Group's discovery portfolio. C4XD has no control over when and if licence milestones are reached. Therefore, the licence is a right-to-use licence in accordance with IFRS 15 and hence the performance obligation in respect of the right-to-use licence is satisfied at a point in time. This is when the licence agreement is signed by both parties as this is the date that the customer can begin to use and benefit from the licence.

The Group's right-to-use licence agreement includes the following revenue streams/milestones:

1) Upfront payment coincidental with the signing of a licensing agreement.
2) Stage payments coincidental with certain clinical trials and regulatory milestones in certain disease classifications of the licensed IP.
3) Payments coincidental with the achievement of various sales milestones.
4) Royalties at a percentage of the sales of drugs utilising the Group's technologies.

Revenues related to milestones in 2–4 above are considered to represent variable consideration. The Group has determined that achievement of these milestones is susceptible to factors outside the Group's control. Therefore the transaction price is estimated to be the upfront payment coincidental with the signing of the licensing agreement.

Receivable balances in respect of contracts with customers are as follows:

	2019 £000	2018 £000
Trade receivables	—	—

There were no contract asset or liability balances related to contracts with customers at either the current or prior year end. No amounts were recognised in revenue in the year that were recorded in contract liabilities in the prior year.

Impairment losses recognised on receivables arising from contracts with customers are £nil (2018: £nil).

4. Revenue continued

Revenue from contracts with customers continued

Typical payment terms are 60 days after the occurrence of the relevant milestone.

Revenue relates to the Group's only reportable segment and arises in the UK. The Group had no revenue during the current financial year (2018: revenue was earned from one customer).

5. Operating loss

The Group	31 July 2019 £000	31 July 2018 £000
Operating loss is stated after charging/(crediting):		
Depreciation of property, plant and equipment (see note 10)	53	51
Amortisation of tangible assets (see note 11)	138	137
Research and development expense*	10,585	6,992
Grant income	(443)	(77)
Operating lease rentals:		
Land and buildings	142	221
Auditor's remuneration		
Audit services:		
– Fees payable to Company auditor for the audit of the parent and the consolidated accounts	55	40
Fees payable in respect of the audit of subsidiary companies:		
– Auditing the accounts of subsidiaries pursuant to legislation	20	20
– Other services	6	6
Total auditor's remuneration	81	66

* Included within research and development expense are staff costs totalling £2,685,000 (2018: £3,025,000) also included in note 6.

6. Staff costs and numbers

	31 July 2019 £000	31 July 2018 £000
Wages and salaries	3,273	3,288
Social security costs	411	489
Pension contributions	394	325
Share-based payments	227	249
	4,305	4,351
Directors' remuneration (including benefits in kind) included in the aggregate remuneration above comprised:		
Emoluments for qualifying services	627	547

Directors' emoluments (excluding social security costs, but including benefits in kind) disclosed above include £160,000 paid to the highest paid Director (2018: £178,000).

Retirement benefits are accruing to two Directors (2018: two Directors).

The average number of employees during the year (including Directors) was as follows:

The Group	31 July 2019 Number	31 July 2018 Number
Directors	7	6
Technological staff	34	34
Administrative staff	7	7
	48	47

Additional information on the emoluments of the Directors, together with information regarding the share interests and share options of the Directors, is included within the Remuneration Report on pages 19 to 21, which forms part of these audited financial statements.

Notes to the financial statements continued
for the year ended 31 July 2019

7. Finance income

The Group	31 July 2019 £000	31 July 2018 £000
Finance income		
Bank interest receivable	15	7
	15	7

8. Income tax

The tax credit is made up as follows:

The Group	31 July 2019 £000	31 July 2018 £000
Current income tax		
UK corporation tax on losses in the year		
Research and development income tax credit receivable	(2,700)	(1,366)
Adjustment in respect of prior years	(10)	(25)
Total current income tax	(2,710)	(1,391)

The tax assessed for the year varies from the standard rate of corporation tax as explained below:

The Group	31 July 2019 £000	31 July 2018 £000
Loss before taxation	(13,622)	(2,526)
Tax at standard rate of 19.00% (2018: 19.00%)	(2,588)	(480)
Effects of:		
Expenses not deductible for tax purposes	4	23
Movement in unprovided net deferred tax asset	(7)	69
Research and development tax credit receivable, net of R&D relief surrendered	(1,165)	(958)
Share options exercised (CTA 2009 Pt 12 deduction)	(4)	—
Tax losses carried forward/(utilised) for which no deferred tax asset is recognised	1,060	(20)
Adjustment in respect of prior years	(10)	(25)
Tax credit in income statement	(2,710)	(1,391)

Reductions in the main rate of corporation tax from 20% to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015.

An additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Group's future tax charge accordingly.

The Group has accumulated losses available to carry forward against future trading profits. The estimated value of the deferred tax asset, measured at a standard rate of 17% (2018: 17%) is £2,287,000 (2018: £1,405,000), of which £nil (2018: £nil) has been recognised. Tax losses have not been recognised as an asset as it is not probable that future taxable profits will be available against which the unused tax losses can be utilised.

The Group also has a deferred tax liability being accelerated capital allowances, for which the tax, measured at a standard rate of 17% (2018: 17%) is £49,000 (2018: £3,000).

The Group has a deferred tax asset for share-based payments, for which the tax, measured at a standard rate of 17% (2018: 17%), is £125,000 (2018: £86,000).

The net deferred tax asset of £76,000 (2018: £83,000) has not been recognised.

9. Earnings per share

The Group	31 July 2019 £000	31 July 2018 £000
Loss for the financial year attributable to equity shareholders	(10,912)	(1,135)
Weighted average number of shares		
Ordinary shares in issue	57,978,890	48,488,383
Basic loss per share (pence)	(18.82)	(2.34)

Basic and diluted loss per share are the same as the effect of share options issued is anti-dilutive.

The weighted average number of shares has been adjusted retrospectively to take account of the bonus element of the share issue in November 2019 in accordance with the requirements of IAS 33.

10. Property, plant and equipment

The Group	Office equipment, fixtures and fittings £000	Building improvements £000	Total £000
Cost			
At 31 July 2017	173	38	211
Additions	44	—	44
Disposals	(29)	—	(29)
At 31 July 2018	188	38	226
Additions	48	—	48
Disposals	—	—	—
At 31 July 2019	236	38	274
Depreciation			
At 31 July 2017	102	19	121
Provided during the year	44	7	51
Eliminated on disposal	(29)	—	(29)
At 31 July 2018	117	26	143
Provided during the year	46	7	53
Eliminated on disposal	—	—	—
At 31 July 2019	163	33	196
Net book value			
At 31 July 2019	73	5	78
At 31 July 2018	71	12	83

The Company has no property, plant and equipment.

Notes to the financial statements continued
for the year ended 31 July 2019

11. Intangible assets

The Group	Patents £000	IP assets £000	Software £000	Total £000
Cost				
At 31 July 2017	138	600	50	788
Additions	—	—	—	—
At 31 July 2018	138	600	50	788
Additions	—	—	—	—
At 31 July 2019	**138**	**600**	**50**	**788**
Amortisation				
At 31 July 2017	38	170	10	218
Provided during the year	7	120	10	137
At 31 July 2018	45	290	20	355
Provided during the year	8	120	10	138
At 31 July 2019	**53**	**410**	**30**	**493**
Net book value				
At 31 July 2019	**85**	**190**	**20**	**295**
At 31 July 2018	93	310	30	433

Patents are amortised on a straight-line basis over 20 years. Amortisation provided during the period is recognised in administrative expenses. The Group does not believe that any of its patents in isolation is material to the business.

IP assets and software are amortised on a straight-line basis over five years. Amortisation provided during the period is recognised in administrative expenses.

The recoverable amount of goodwill and intangible assets for the Group financial statements and, for the parent company, its recoverable amount of its investment in subsidiaries and its intra-group receivables are determined by using an income approach to calculating fair value less costs of disposal which uses fair value hierarchy level 3 inputs in accordance with the definitions in IFRS 13. Management has prepared a net present value calculation taking into account cash flows from expected future licence agreements at each expected contract milestone, the probability of reaching each contract milestone (a "success rate") and the costs incurred in securing those licence agreements, discounted to present value using a pre-tax discount rate of 25% (2018: 25%). The cash flows are projected until 2041.

The key assumptions used in the net present value calculation are the timing of signing future licence agreements, the deal value, the likely success rates of reaching licence milestones and the discount rate used. These assumptions have been benchmarked against the Group's own experience of such deals and external sources of information within the industry.

The recoverable amount of the combined value of IP assets and goodwill exceeds the carrying value by 121% (£1.8 million).

The key assumptions considered most sensitive for the net present value calculations are those regarding the timing of signing future licence agreements and the value of up front licence payments. The assumption over the timing of signing future licence agreements could slip by four years compared to the base case before an impairment would be triggered. The assumption over the value of up front licence payments could decrease by c.75% before an impairment is triggered. There is no reasonable possible change in other key assumptions that would cause the carrying value to exceed its recoverable amount. No impairment charge was provided during the period.

The Company has no intangible assets.

12. Goodwill

The Group	Purchased goodwill £000	Total £000
Cost		
At 31 July 2017, 31 July 2018 and 31 July 2019	**1,192**	**1,192**
Impairment		
At 31 July 2017	—	—
Provided during the year	—	—
At 31 July 2018	—	—
Provided during the year	—	—
At 31 July 2019	—	—
Net book value		
At 31 July 2019	**1,192**	**1,192**
At 31 July 2018	1,192	1,192

Goodwill is allocated to the Group's only cash-generating unit ("CGU") which is the UK operations.

Management assesses goodwill for impairment annually.

The recoverable amount of goodwill and intangible assets for the Group financial statements and, for the parent company, its recoverable amount of its investment in subsidiaries and its intra-group receivables are determined by using an income approach to calculating fair value less costs of disposal which uses fair value hierarchy level 3 inputs in accordance with the definitions in IFRS 13. Management has prepared a net present value calculation taking into account cash flows from expected future licence agreements at each expected contract milestone, the probability of reaching each contract milestone (a "success rate") and the costs incurred in securing those licence agreements, discounted to present value using a pre-tax discount rate of 25% (2018: 25%). The cash flows are projected until 2041.

The key assumptions used in the net present value calculation are the timing of signing future licence agreements, the deal value, the likely success rates of reaching licence milestones and the discount rate used. These assumptions have been benchmarked against the Group's own experience of such deals and external sources of information within the industry.

The recoverable amount of the combined value of IP assets and goodwill exceeds the carrying value by 121% (£1.8 million).

The key assumptions considered most sensitive for the net present value calculations are those regarding the timing of signing future licence agreements and the value of up front licence payments. The assumption over the timing of signing future licence agreements could slip by four years compared to the base case before an impairment would be triggered. The assumption over the value of up front licence payments could decrease by c.75% before an impairment is triggered. There is no reasonable possible change in other key assumptions that would cause the carrying value to exceed its recoverable amount. No impairment charge was provided during the period.

The Company has no goodwill.

13. Investment in subsidiaries

The Company	Shares £000	Loans £000	Total £000
At 31 July 2018	1,871	480	2,351
Increase in respect of share-based payments	—	227	227
At 31 July 2019	**1,871**	**707**	**2,578**
By subsidiary			
C4X Discovery Limited	1,871	707	2,578
C4X Drug Discovery Limited	—	—	—
Adorial Limited	—	—	—
At 31 July 2019	**1,871**	**707**	**2,578**

Notes to the financial statements continued
for the year ended 31 July 2019

13. Investment in subsidiaries continued

Subsidiary undertakings	Country of incorporation	Principal activity	Class of shares held	31 July 2019
C4X Discovery Limited*	England and Wales	Research and development	Ordinary	100%
C4X Drug Discovery Limited**	England and Wales	Dormant company	Ordinary	100%
Adorial Limited*	England and Wales	Dormant company	Ordinary	100%
Adorial Technologies Limited*	England and Wales	Dormant company	Ordinary	100%
Adorial Pharma Limited*	England and Wales	Dormant company	Ordinary	100%

* The registered office address is Manchester One, 53 Portland Street, Manchester M1 3LD.

** The registered office address is C/O Schofield Sweeney Springfield House, 76 Wellington Street, Leeds, West Yorkshire LS1 2AY.

14. Trade and other receivables

	31 July 2019 Group £000	31 July 2019 Company £000	31 July 2018 Group £000	31 July 2018 Company £000
Trade receivables	31	—	12	—
Prepayments	377	—	265	—
Inter-company short-term loan to subsidiary	—	—	—	23,462
Other receivables	233	—	111	—
	641	—	388	23,462

An impairment charge of £32,987,000 was recorded in relation to the accounts owed to the Parent undertaking from subsidiaries.

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

There were no revenue related contract assets or liabilities (2018: nil).

All trade receivables are denominated in Sterling.

There are no formal terms for the repayment of inter-company loans, none of which bear interest and all of which are repayable on demand.

Other receivables includes £233,000 VAT receivable (2018: £110,000).

15. Income tax asset

	31 July 2019 Group £000	31 July 2019 Company £000	31 July 2018 Group £000	31 July 2018 Company £000
Research and development income tax credit receivable	4,076	—	1,366	—
	4,076	—	1,366	—

16. Cash, cash equivalents and deposits

	31 July 2019 Group £000	31 July 2019 Company £000	31 July 2018 Group £000	31 July 2018 Company £000
Cash and cash equivalents	2,383	—	5,578	1
	2,383	—	5,578	1

Cash and cash equivalents at 31 July 2019 include deposits with original maturity of three months or less of £nil (2018: £nil).

An analysis of cash, cash equivalents and deposits by denominated currency is given in note 24.

17. Trade and other payables

	31 July 2019 Group £000	31 July 2019 Company £000	31 July 2018 Group £000	31 July 2018 Company £000
Current payables	671	—	406	—
Other payables	88	—	85	—
Accruals	893	—	375	—
	1,652	—	866	—

18. Issued equity capital

The Company	Deferred shares Number	Ordinary shares Number	Share capital £000	Deferred shares £000	Share premium £000	Total £000
Allotted, called up and fully paid ordinary shares of 1p						
At 31 July 2017 and at 31 July 2018	2,025,000	46,555,087	465	2,025	22,844	25,334
Issue of share capital on placing	—	11,111,111	111	—	9,889	10,000
Issue of share capital on open offer	—	99,563	1	—	88	89
Expenses of placing and open offer	—	—	—	—	(566)	(566)
Shares issued on exercise of options	—	26,875	—	—	1	1
Ordinary and deferred shares at 31 July 2019	**2,025,000**	**57,792,636**	**577**	**2,025**	**32,256**	**34,858**

The Group	Share capital £000	Deferred shares £000	Share premium £000	Total £000
Allotted, called up and fully paid ordinary shares of 1p				
At 31 July 2017 and at 31 July 2018	465	2,025	22,844	25,334
Issue of share capital on placing	111	—	9,889	10,000
Issue of share capital on open offer	1	—	88	89
Expenses of placing and open offer	—	—	(566)	(566)
Shares issued on exercise of options	—	—	1	1
Ordinary and deferred shares at 31 July 2019	**577**	**2,025**	**32,256**	**34,858**

On 5 October 2018, 11,111,111 ordinary shares were issued in a placing at a price of 90 pence resulting in share proceeds of £10,000,000 before expenses.

On 9 October 2018, 99,563 ordinary shares were issued in an open offer at a price of 90 pence resulting in share proceeds of £89,607 before expenses.

On 19 October 2018 26,875 ordinary shares were issued on exercise of options originally granted on 4 July 2013 at 5.58 pence per share.

During November 2019 £7.6 million (before expenses) was raised via a placing of 46,466,667 ordinary shares, a subscription by Directors for 200,000 ordinary shares and an open offer for 3,907,141 ordinary shares at 15 pence each.

The deferred shares of £1 carry no right to participate in dividends in respect of any financial year, until there shall have been paid to the holders of the ordinary shares £1 per ordinary share in respect of the relevant financial year; subject thereto, the deferred shares and the ordinary shares shall rank equally in respect of any further dividends in respect of the relevant financial year as if they constituted one class of share.

Notes to the financial statements continued

for the year ended 31 July 2019

19. Share-based payment reserve

The Group	£000
At 31 July 2017	260
Share-based payments	249
At 31 July 2018	509
Share-based payments	227
At 31 July 2019	736

The Company	£000
At 31 July 2017	231
Share-based payments	249
At 31 July 2018	480
Share-based payments	227
At 31 July 2019	707

The share-based payment reserve accumulates the corresponding credit entry in respect of share-based payment charges. Movements in the reserve are disclosed in the consolidated statement of changes in equity.

A charge of £227,000 has been recognised in the statement of comprehensive income for the year (2018: £249,000).

Share option schemes

The Group operates the following share option schemes all of which are operated as Enterprise Management Incentive ("EMI") schemes insofar as the share options being issued meet the EMI criteria as defined by HM Revenue & Customs. Share options issued that do not meet EMI criteria are issued as unapproved share options, but are subject to the same exercise performance conditions.

C4X Discovery Holdings plc Long Term Incentive Plan ("LTIP")

Grant in September 2009

Share options were granted to a staff member on 29 September 2009. The options granted are exercisable in the event of the listing of the Company, its acquisition or at the absolute discretion of the Board. The exercise price was set at 2.05 pence (the original exercise price of £22.00 was adjusted for a subdivision of 1,075 share options in C4X Discovery Holdings plc for each share option originally held in C4X Discovery Limited), being the estimated fair value of the shares on the day preceding the issue of the share options. The fair value benefit is measured using a Black Scholes model, taking into account the terms and conditions upon which the share options were issued.

Grant in August 2012

Share options were granted to staff on 28 August 2012. The options granted are exercisable in the event of the listing of the Company, its acquisition or at the absolute discretion of the Board. The exercise price was set at 5.58 pence (the original exercise price of £60.00 was adjusted for a subdivision of 1,075 share options in C4X Discovery Holdings plc for each share option originally held in C4X Discovery Limited), being the estimated fair value of the shares on the day preceding the issue of the share options. The fair value benefit is measured using a Black Scholes model, taking into account the terms and conditions upon which the share options were issued.

Grant in July 2013

Share options were granted to staff on 4 July 2013. The options granted are exercisable in the event of the listing of the Company, its acquisition or at the absolute discretion of the Board. The exercise price was set at 5.58 pence (the original exercise price of £60.00 was adjusted for a subdivision of 1,075 share options in C4X Discovery Holdings plc for each share option originally held in C4X Discovery Limited), being the estimated fair value of the shares on the day preceding the issue of the share options. The fair value benefit is measured using a Black Scholes model, taking into account the terms and conditions upon which the share options were issued.

Grant in May 2014

Share options were granted to staff on 27 May 2014. The options granted are exercisable in the event of the listing of the Company, its acquisition or at the absolute discretion of the Board. The exercise price was set at 5.58 pence (the original exercise price of £60.00 was adjusted for a subdivision of 1,075 share options in C4X Discovery Holdings plc for each share option originally held in C4X Discovery Limited), being the estimated fair value of the shares on the day preceding the issue of the share options. The fair value benefit is measured using a Black Scholes model, taking into account the terms and conditions upon which the share options were issued.

19. Share-based payment reserve continued

Share option schemes continued

C4X Discovery Holdings plc Long Term Incentive Plan ("LTIP") continued

Grant in June 2015

Share options were granted to staff and Directors on 8 June 2015. The options granted are exercisable at any time between 3 years and 10 years of them being granted. There are no performance criteria attached to the options. The exercise price was set at 100.0 pence, being the price at which shares were placed in the IPO in October 2014. The fair value benefit is measured using a Black Scholes model, taking into account the terms and conditions upon which the share options were issued.

Grant in December 2015

Share options were granted to a Director on 8 December 2015. The options granted are exercisable, subject to meeting certain performance criteria, at any time between 3 years and 10 years of them being granted. The exercise price was set at 77 pence, being the average of the mid-market closing price over the three days prior to 8 December 2015. The fair value benefit is measured using a Black Scholes model, taking into account the terms and conditions upon which the share options were issued.

Grant in November 2016

Share options were granted to staff and a Director on 23 November 2016. The options granted are exercisable, at any time between 3 years and 10 years of them being granted. The exercise price was set at 105 pence, being the average of the mid-market closing price over the three days prior to 23 November 2016. The fair value benefit is measured using a Black Scholes model, taking into account the terms and conditions upon which the share options were issued.

Grant in February 2017

Share options were granted to staff and a Director on 1 February 2017. The options granted are exercisable, at any time between 3 years and 10 years of them being granted. The exercise price was set at 91 pence, being the average of the mid-market closing price over the three days prior to 1 February 2017. The fair value benefit is measured using a Black Scholes model, taking into account the terms and conditions upon which the share options were issued.

Grant in May 2017

Share options were granted to staff on 17 May 2017. The options granted are exercisable, at any time between 3 years and 10 years of them being granted. The exercise price was set at 90 pence, being the average of the mid-market closing price over the three days prior to 17 May 2017. The fair value benefit is measured using a Black Scholes model, taking into account the terms and conditions upon which the share options were issued.

Grant in September 2017

Share options were granted to staff on 26 September 2017. The options granted are exercisable, at any time between 3 years and 10 years of them being granted. The exercise price was set at 77 pence, being the average of the mid-market closing price over the three days prior to 26 September 2017. The fair value benefit is measured using a Black Scholes model, taking into account the terms and conditions upon which the share options were issued.

Grant in October 2018

Share options were granted to staff and Directors on 16 October 2018 pursuant to the EMI 2014 Plan. The options granted are exercisable, at any time between 3 years and 10 years of them being granted. The exercise price was set at 89.2 pence, being the average 30 day closing price of the ordinary shares to 12 October 2018. The fair value benefit is measured using a Black Scholes model, taking into account the terms and conditions upon which the share options were issued.

Share options are awarded to management and key staff as a mechanism for attracting and retaining key members of staff. The options are granted at no lower than either: (i) market price on the day preceding grant; or (ii) in the event of abnormal price movements at an average market price for the week preceding grant date. Options may be granted at prices higher than the market price on the day preceding grant where the Board believes it is appropriate to do so. These options vest over a three year period from the date of grant and are exercisable until the tenth anniversary of the award. Exercise of the award is subject to the employee remaining a full time member of staff at the point of exercise. The fair value benefit is measured using a Black Scholes valuation model, taking into account the terms and conditions upon which the share options were issued.

Notes to the financial statements continued
for the year ended 31 July 2019

19. Share-based payment reserve continued

Share option schemes continued

C4X Discovery Holdings plc Long Term Incentive Plan ("LTIP") continued

The following tables illustrate the number and weighted average exercise prices of, and movements in, share options during the year.

The Group and Company	2019 Number	2018 Number
Outstanding at 1 August	3,185,414	3,185,414
Granted during the year	960,000	—
Exercised during the year	(26,875)	—
Lapsed/cancelled	(331,686)	—
Outstanding at 31 July	3,786,853	3,185,414
Exercisable at 31 July	1,282,075	1,257,950

During the year ended 31 July 2019, 26,875 options were exercised (2018: nil).

Weighted average exercise price of options

The Group and Company	2019 Pence	2018 Pence
Outstanding at 1 August	75.67	75.67
Granted during the year	89.20	—
Exercised during the year	5.58	—
Outstanding at 31 July	76.58	75.67

960,000 share options were granted during the year (2018: nil). The range of exercise prices for options outstanding at the end of the year was 2.05 pence – 105.00 pence (2018: 2.05 pence – 105.00 pence).

For the share options outstanding as at 31 July 2019, the weighted average remaining contractual life is 6.8 years (2018: 7.1 years).

The following table lists the inputs to the models used for the years ended 31 July 2019 and 31 July 2018.

The Group and Company	2019	2018
Expected volatility (%)	52.5%	52.5%
Risk-free interest rate (%)	0.50%–1.00%	0.41%–0.91%
Expected life of options (year's average)	3 years	3 years
Weighted average exercise price (pence)	n/a	n/a
Weighted average share price at date of grant (pence)	89.20	n/a

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other features of options granted were incorporated into the measurement of fair value.

20. Merger reserve

The Group	£000
At 31 July 2017, 31 July 2018 and 31 July 2019	920

The merger reserve arises as a result of the reverse acquisition requirements of IFRS 3 meaning the consolidated accounts are presented as a continuation of the C4X Discovery Limited accounts along with the share capital structure of the legal parent company (C4X Discovery Holdings plc).

21. Capital contribution reserve

The Group	£000
At 31 July 2017, 31 July 2018 and 31 July 2019	195

22. Revenue reserve

The Group	£000
At 31 July 2017	(17,649)
Loss for the year	(1,135)
At 31 July 2018	(18,784)
Loss for the year	(10,912)
At 31 July 2019	(29,696)

The Company	£000
At 31 July 2017	—
Loss for the year	—
At 31 July 2018	—
Loss for the year	(32,987)
At 31 July 2019	(32,987)

23. Commitments

Operating lease commitments

The Group leases premises under non–cancellable operating lease agreements. The future aggregate minimum lease and service charge payments under non–cancellable operating leases are as follows:

	31 July 2019 Group £000	31 July 2018 Group £000
Land and buildings:		
Not later than one year	175	113
After one year but not more than five	—	71
	175	184

Capital commitments

At 31 July 2019, the Group had capital commitments amounting to £nil in respect of orders placed for capital expenditure (2018: £nil).

24. Financial risk management

Overview

This note presents information about the Group's exposure to various kinds of financial risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

The Board has overall responsibility for the establishment and oversight of the Group's risk management framework. The Executive Directors report regularly to the Board on Group risk management.

Capital risk management

The Group reviews its forecast capital requirements on a half-yearly basis to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders.

The capital structure of the Group consists of equity attributable to equity holders of the parent, comprising issued share capital, reserves and retained earnings as disclosed in notes 18 to 22 and in the Group statement of changes in equity. Total equity was £7,013,000 at 31 July 2019 (£8,174,000 at 31 July 2018).

The Group is not subject to externally imposed capital requirements.

Liquidity risk

The Group's approach to managing liquidity is to ensure that, as far as possible, it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Notes to the financial statements continued
for the year ended 31 July 2019

24. Financial risk management continued

Liquidity risk continued

The Group manages all of its external bank relationships centrally in accordance with defined treasury policies. The policies include the minimum acceptable credit rating of relationship banks and financial transaction authority limits. Any material change to the Group's principal banking facility requires Board approval. The Group seeks to mitigate the risk of bank failure by ensuring that it maintains relationships with a number of investment grade banks.

At the reporting date the Group was cash positive with no outstanding borrowings.

Categorisation of financial instruments

Financial assets/(liabilities)	Loans and receivables £000	Financial liabilities at amortised cost £000	Group £000	Company £000
31 July 2019				
Trade receivables	31	—	31	—
Inter-company short-term loan to subsidiary	—	—	—	—
Cash, cash equivalents and deposits	2,383	—	2,383	—
Trade and other payables*	—	(759)	(759)	—
	2,414	(759)	1,655	—

Financial assets/(liabilities)	Loans and receivables £000	Financial liabilities £000	Group £000	Company £000
31 July 2018				
Trade receivables	12	—	12	—
Inter-company short-term loan to subsidiary	—	—	—	23,462
Cash, cash equivalents and deposits	5,578	—	5,578	1
Trade and other payables*	—	(491)	(491)	—
	5,590	(491)	5,099	23,463

* Excluding accruals.

The values disclosed in the above table are carrying values. The Board considers that the carrying amount of financial assets and liabilities approximates to their fair value.

The main risks arising from the Group's financial instruments are credit risk and foreign currency risk. The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

Credit risk

The Group's principal financial assets are cash, cash equivalents and deposits. The Group seeks to limit the level of credit risk on the cash balances by only depositing surplus liquid funds with multiple counterparty banks that have investment grade credit ratings.

The Group trades only with recognised, creditworthy third parties. Receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The Group's maximum exposure is the carrying amount of trade receivables as disclosed in note 14, which was neither past due nor impaired. All trade receivables are ultimately overseen by the Chief Executive Officer and are managed on a day-to-day basis by the finance team. Credit limits are set as deemed appropriate for the customer.

The maximum exposure to credit risk in relation to cash, cash equivalents and deposits is the carrying value at the balance sheet date.

Foreign currency risk

The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currency of the Company and its subsidiaries. Other than Pounds Sterling (GBP), the currencies that sales and purchases most often arise in are US Dollars (USD) and Euros. Transactions in other foreign currencies are limited.

The Group may use forward exchange contracts as an economic hedge against currency risk, where cash flow can be judged with reasonable certainty. Foreign exchange swaps and options may be used to hedge foreign currency receipts in the event that the timing of the receipt is less certain.

There were no open forward contracts as at 31 July 2019 or at 31 July 2018 and the Group did not enter into any such contracts during 2019 or 2018.

24. Financial risk management continued

Foreign currency risk continued

The split of Group assets between Sterling and other currencies at the year end is analysed as follows:

The Group	GBP £000	USD £000	EUR £000	2019 Total £000	GBP £000	USD £000	EUR £000	2018 Total £000
Cash, cash equivalents and deposits	2,219	125	39	2,383	5,489	56	33	5,578
Trade receivables	31	—	—	31	12	—	—	12
Trade payables	(645)	—	(26)	(671)	(395)	(6)	(5)	(406)
	1,605	125	13	1,743	5,106	50	28	5,184

Sensitivity analysis to movement in exchange rates

Given the immaterial net asset balances in foreign currency, the exposure to a change in exchange rate is negligible.

Interest rate risk

As the Group has no borrowings the risk is limited to the reduction of interest received on cash surpluses held at bank which receive a floating rate of interest. The principal impact to the Group is the result of interest-bearing cash and cash equivalent balances held as set out below:

	31 July 2019			31 July 2018		
The Group	Fixed rate £000	Floating rate £000	Total £000	Fixed rate £000	Floating rate £000	Total £000
Cash, cash equivalents and deposits	—	2,383	2,383	—	5,578	5,578
The Company						
Cash, cash equivalents and deposits	—	—	—	—	1	1

As the majority of cash and cash equivalents are held on floating deposit and the overall level of interest rates is low, the exposure to interest rate movements is immaterial.

Maturity profile

Set out below is the maturity profile of the Group's financial liabilities at 31 July 2019 based on contractual undiscounted payments including contractual interest.

2019	Less than 1 year £000	1 to 5 years £000	Total £000
Financial liabilities			
Trade and other payables*	759	—	759
	759	—	759

2018	Less than 1 year £000	1 to 5 years £000	Total £000
Financial liabilities			
Trade and other payables*	491	—	491
	491	—	491

* Excluding accruals. Trade and other payables are due within three months.

The Directors consider that the carrying amount of the financial liabilities approximates to their fair value.

As all financial assets are expected to mature within the next 12 months an aged analysis of financial assets has not been presented.

Notes to the financial statements continued
for the year ended 31 July 2019

25. Related party transactions

During the year, shareholder Aquarius Equity Partners Limited charged the Group £15,450 (2018: £15,450) for monitoring fees and was owed £1,288 at 31 July 2019 (2018: £nil).

During the year, The Aquarius IV Fund LLP, a fund managed by shareholder Aquarius Equity Partners Limited, held 2,025,000 deferred shares of £1 each (2018: £2,025,000).

During the year, Director Harry Finch charged the Group £2,200 (2018: £12,822) for services which he provided as a technical consultant and was owed £nil at 31 July 2019 (2018: £nil).

The Group

There were no sales to, purchases from or, at the year end, balances with any related party.

The Company

The following table summarises inter-company balances at the year end between C4X Discovery Holdings plc and subsidiary entities:

	Notes	31 July 2019 £000	31 July 2018 £000
Short-term loans owed to C4X Discovery Holdings plc by:			
C4X Discovery Limited	14	—	23,462
C4X Drug Discovery Limited		—	—
Adorial Limited		—	—
		—	23,462

There are no formal terms of repayment in place for these loans and it has been confirmed by the Directors that the long-term loans will not be recalled within the next 12 months.

None of the loans are interest bearing.

26. Compensation of key management personnel (including Directors)

	2019 £000	2018 £000
Short-term employee benefits	1,296	1,110
Pension costs	141	88
Benefits in kind	2	1
Share-based payments	121	79
	1,560	1,278

27. Post balance sheet events

On 13th November 2019 the Company raised £7.6m before expenses via a placing of 46,466,667 ordinary shares, a subscription by Directors for 200,000 ordinary shares and an open offer for 3,907,141 ordinary shares at 15 pence each.

Following the issue of these shares, the Company's ordinary share capital increased to 108,366,444 ordinary shares.

Corporate information

Directors

Ms E-L Allan	(Non-Executive Chairman)
Dr H Finch	(Non-Executive Director)
Dr A Stevenson	(Non-Executive Director)
Ms N Walter	(Non-Executive Director)
Dr C Dix	(Chief Executive Officer)
Mr B Hoy	(Chief Financial Officer)
Dr C Fox	(Chief Scientific Officer)

Secretary

Mr M J Sullivan

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Legal adviser

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Financial PR consultants

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