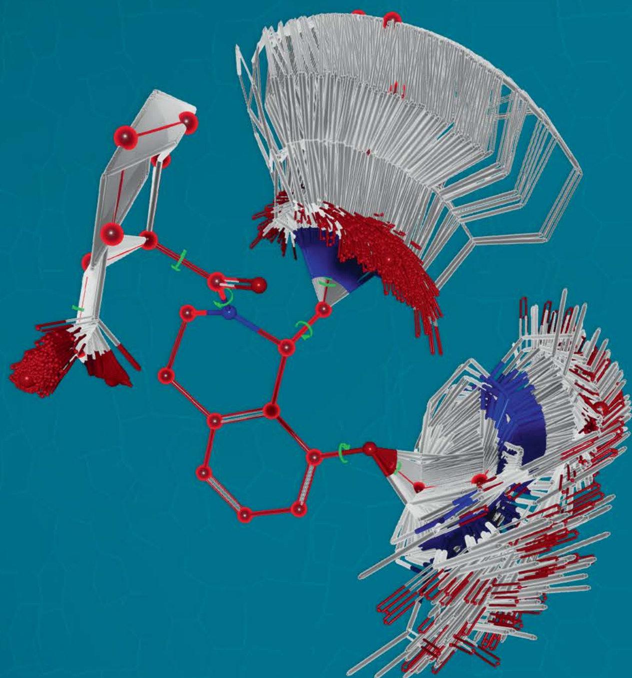
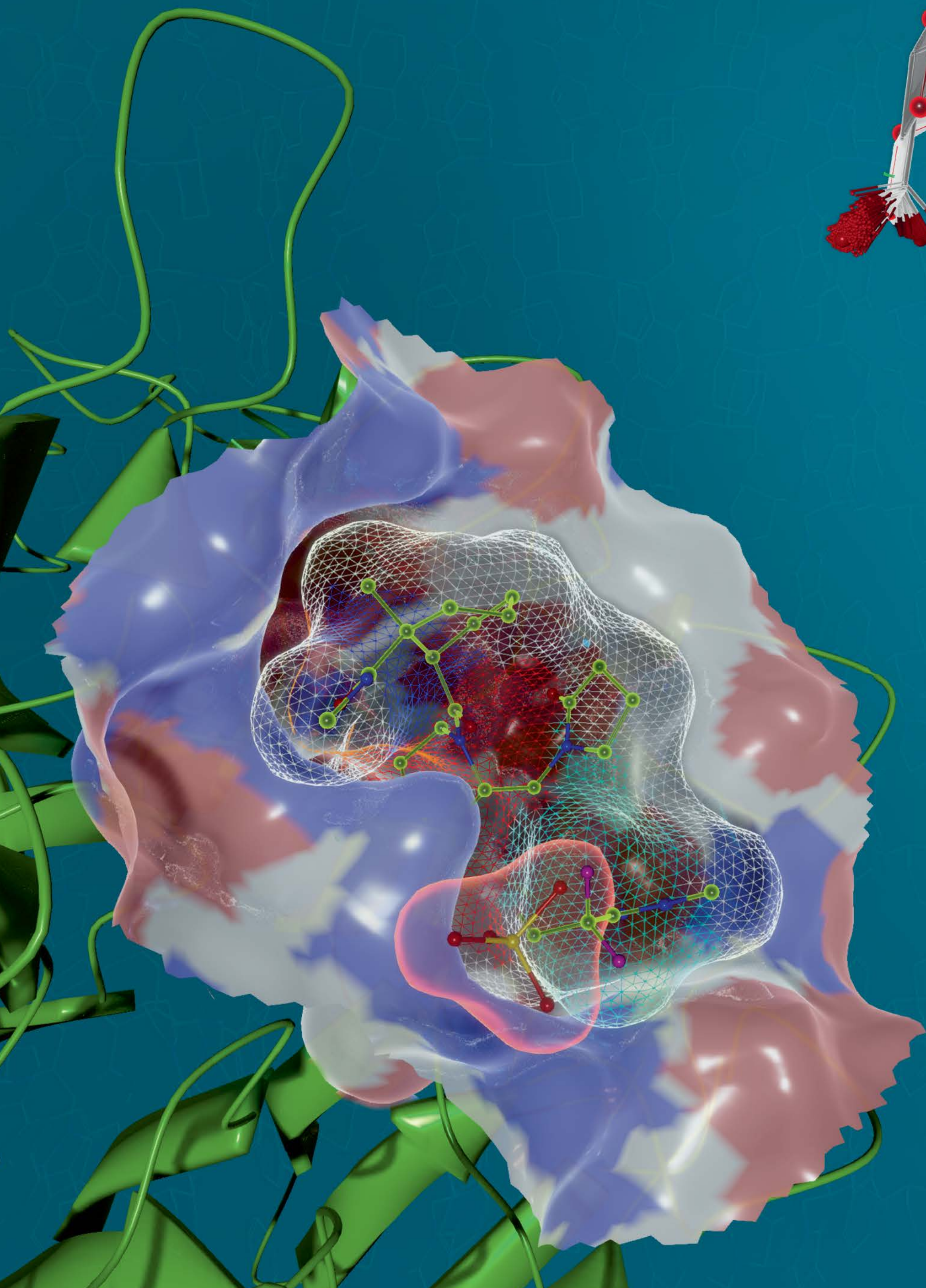
C4X Discovery Holdings plc
Annual report and accounts 2020

Harnessing the power of Drug Discovery





Using cutting-edge Drug Discovery technologies and expertise, C4X Discovery ("C4XD") aims to efficiently deliver world-leading medicines which are developed by our partners for the benefit of patients.

Creating value through discovery for:

Stay up to date with the latest investor news and information at c4xdiscovery.com

Highlights

A year of progress across key Drug Discovery programmes

Operational highlights

- Post-period end: Indivior commenced Phase 1 clinical trial for C4XD's Orexin-1 antagonist, C4X_3256 (also known as INDV-2000), for the treatment of opioid dependence, with first subject dosed
- NRF-2 lead activator molecule C4X-6746 shown to significantly inhibit disease score in pre-clinical model of inflammatory bowel disease ("IBD"). Candidate nomination studies continue
- IL-17 oral inhibitor programme for treatment of psoriasis has been shown to significantly reduce inflammation *in vivo*, and is being optimised towards candidate shortlist
- α4β7 integrin inhibitor programme for the treatment of IBD demonstrated significant selectivity vs α4β1 *in vitro* and oral bioavailability in PK studies. Discussions with several potential partners under CDA continue
- LifeArc risk-share collaboration continues to progress well. C4XD and LifeArc have completed the initial phase of the collaboration to progress a small molecule MALT-1 inhibitor programme, with three novel series identified. Optimisation studies continue
- Post-period end: new collaboration with GEN-COVID Consortium to investigate the role genetics play in the susceptibility, severity and prognosis between different individuals with COVID-19
- Conformetrix technology patent was granted in the USA

Financial highlights

- Revenue was £nil (2019: £nil)
- Total loss after tax of £7.8 million or 8.10 pence per share (2019: £10.9m or 18.82 pence per share)
- R&D expenses reduced by 35% to £6.9 million (2019: £10.6m), reflecting focused investment in key Drug Discovery programmes
- Net assets of £8.1 million (2019: £7.0m)
- Total fundraising of £24.2 million (before expenses) in three tranches, one post-period end:
  - October 2019 – fundraise of £7.6 million (before expenses) with a total of 50,573,808 shares issued to both new and existing investors
  - May 2020 – £1.6 million investment (before expenses) by key strategic shareholder Polar Capital with total of 10,836,700 Shares issued
  - Post-period end: October 2020 – fundraise of £15.0 million (before expenses) with a total of 107,142,858 Placing Shares and 99,169,286 Warrants issued to new and existing shareholders
- Cash:
  - Net cash as at 31 July 2020: £5.6 million (31 July 2019: £2.4m)
  - Net cash as at 30 November following fundraise: £17.3 million

Loss for the year (£m)

£7.8m

Net cash at year end (£m)

£5.6m

Cash at 30 November 2020 (£m)

£17.3m

Investment (£m)

£24.2m

What sets C4XD apart?

Harnessing Drug Discovery to build a high value portfolio

1

Significant market opportunity

- Demand from big pharma for high quality, early stage molecules continues to grow – the real source of innovation in pharmaceuticals
- Focused commercial team proactively monitors the pharma landscape for licensing opportunities

Read more about our path to value on page 6

2

Commercially attractive portfolio

- First partnered product in Phase 1 clinical trials
- Data packages building across the portfolio

Read more about our portfolio on page 4

3

Leadership team

- Big pharma and biotech backgrounds
- Track record of proven delivery
- World class Drug Discovery science

Find our Board of Directors on page 18

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Cutting-edge technology

- Proprietary technologies across the Drug Discovery process
- Network of expert partners to maximise data value from platforms and programmes

Read more about our Drug Discovery expertise on page 5

5

Robust pre-clinical commercialisation process

- Establish clear line of sight on licensing potential from start of project
- Dedicated commercialisation team and process to maximise value

Find our business model on page 3

6

Targeting high value indications

- Efforts focused on high value indications where the C4XD approach can bring real benefit – truly novel, small molecule drugs in inflammation, oncology and neurology

Read more about our portfolio on page 10

Our business model

Promoting long-term value for stakeholders

Our goal is to drive returns through early stage revenue-generating licensing deals for our high value pre-clinical assets with the pharmaceutical industry, which will be reinvested into our Drug Discovery portfolio to maximise value for shareholders.

Our discovery programmes

A commercially attractive portfolio

We have carefully built a commercially attractive portfolio ranging from early stage novel target opportunities to late stage Drug Discovery programmes ready for out-licensing to partners.

Programmes	Proposed indications	Target ID & validation (Drug Discovery studies)	Hit to lead (Drug Discovery studies)	Lead optimisation (Drug Discovery studies)	IND enabling	Clinical studies	Partners/strategic collaborators
Orexin-1 antagonist	**Addictive disorders**					■	INDIVIOR
NRF-2 activator	**Inflammation** (SCD, IBD, PAH)			●			
IL-17 inhibitor	**Inflammation** (Psoriasis)			●			
MALT-1 inhibitor	**Oncology** (Haematological malignancies)		○				LifeArc
α4β7 integrin inhibitor	**Inflammation** (IBD)		●				
Other Conformetrix opportunities	**Various**		●				
Taxonomy3® novel targets	**Inflammation and Neurodegeneration**	● ○					PHOREMOST DRUGGING THE UNDRUGGABLE; e-therapeutics
Synthetic lethal novel targets	**Oncology** (Lung and Colorectal)	●					horizon INSPIRED CELL SOLUTIONS

SCD: Sickle Cell Disease
PAH: Pulmonary Arterial Hypertension
IBD: Inflammatory Bowel Disease

● In-house
○ Risk share
■ Out-licensed

Our discovery platform

A highly valuable and differentiated platform

We have a highly valuable and differentiated approach to Drug Discovery through our enhanced DNA-based target identification and candidate molecule generation capabilities, generating differentiated candidates across multiple disease areas.

C4XD Team

C4XD has a highly experienced scientific team with expertise across core areas of Drug Discovery. The depth and breadth of knowledge in our team enables us to create industry-leading small molecule programmes which meet critical unmet needs for the industry and patients.

Our technologies

Our proprietary chemistry tools (Conformetrix and 4sight) enable our scientists to "see" the shape and behaviour of molecules in a revolutionary new way, delivering unprecedented insights and fuelling innovation.

Our target identification platform (Taxonomy3®) is uncovering the next generation of novel targets, based on human genetics, which have been found to double the probability of successful clinical development and product realisation.

Strategic collaborators

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.

Our path to value

A rigorous approach to commercialisation

Right target

The pharmaceutical industry's demand for high quality, early stage drug candidates continues to grow and we are poised to take advantage of these opportunities with a strong portfolio of small molecule assets.

To ensure that we only advance programmes against high value targets that offer significant commercial out-licensing potential, we undertake a detailed assessment of potential targets ahead of initiation of a C4XD Drug Discovery programme or collaboration.

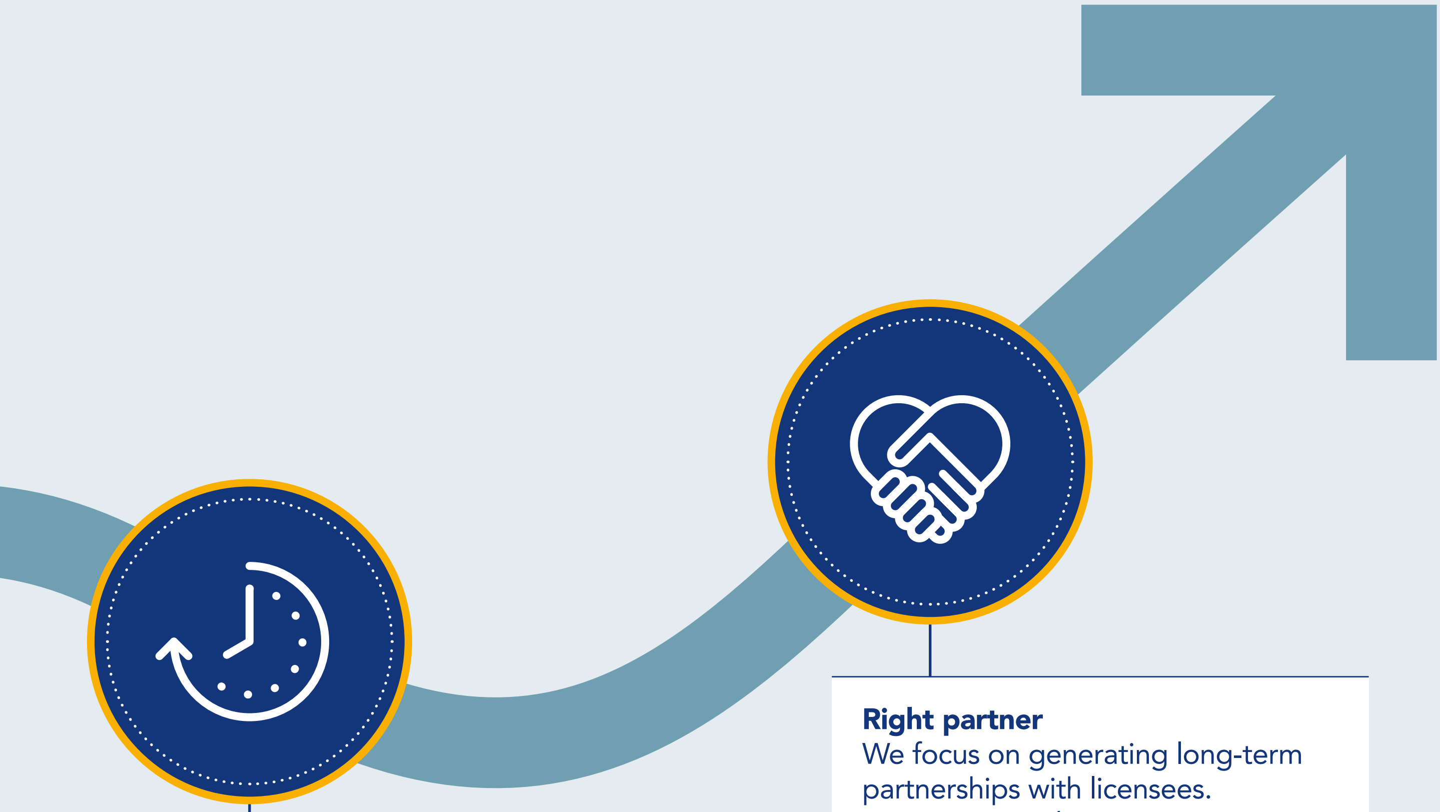
We only pursue new Drug Discovery programmes in areas of high unmet medical need that are commercially attractive and offer the potential to deliver meaningful returns to our investors.

Right data

Following programme initiation, we apply our discovery expertise to generate high quality data packages which demonstrate the potential of our compounds to progress into clinical studies.

As programmes progress through discovery, we rigorously review the emerging scientific data and identify critical inflection points that will enable initiation of advanced partnering discussions.

Where appropriate, we will also engage with potential partners to allow them to test our compounds in their proprietary disease models, providing the partner with evidence first hand of the profile and quality of the proprietary molecules C4XD has generated.



Right time

The pharma industry focus is constantly evolving in the search for new innovative drugs for diseases with no current treatments or where treatments exist but provide inadequate efficacy, safety or dosing and where new drugs could improve patient adherence.

We monitor the pharma landscape to continually assess what the industry will be looking for in a few years' time when a discovery programme can be partner ready. This may follow a specific industry trend, indications with high unmet need or a new scientific discovery.

For certain Drug Discovery programmes, such as where the pharma partner has strategically prioritised the biology of the drug target and generating active molecules in-house is unlikely, there is potential to partner with very early stage data and progress towards the clinic in partnership. For other high value discovery programmes, a more mature Drug Discovery programme may be needed to provide additional de-risking for the path to the clinic, sometimes through to IND enabling studies, making the partnering process longer.

Right partner

We focus on generating long-term partnerships with licensees. Partnering can happen at any stage of the Drug Discovery process, and partnering with the right partner for the programme is critical. A successful licensing transaction will not just be defined by any near-term revenue, but matched by the commitment of the partner to the therapeutic area in question so that the programme will be advanced as fast as possible towards the market.

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.

Non-Executive Chairman's statement
Eva-Lotta Allan, Non-Executive Chairman

Building for success

We are now in a strong position to generate significant value to our shareholders by advancing our proprietary portfolio of programmes and translating some of our key programmes into partnerships.

The financial year ended 31 July 2020 was a year of significant and focused progress with some key milestones achieved for C4XD. The commitment and dedication of the C4XD team, together with our unique technologies, mean our portfolio of assets has matured significantly during the year.

We have made great strides advancing our early stage Drug Discovery programmes by applying our cutting-edge technologies, which has resulted in a solid portfolio of novel, pre-clinical, small molecule programmes. While our proprietary portfolio is predominantly focused in the area of inflammation, we are actively pursuing other therapeutic areas including oncology and neurology.

The Board fully supports the current business strategy of out-licensing programmes at the pre-clinical stage through partnerships with pharmaceutical companies who have development and commercial capabilities, as well as significant expertise in the relevant therapeutic area. We were therefore pleased to see our first candidate CX_3256 (now INDV-2000), out-licensed to Indivior, entering Phase I clinical trials during the year. This is great news for C4XD and, as we continue to drive forward potential partner discussions across the portfolio, the Company routinely assesses the partnering landscape to identify the right opportunities for out-licensing of our other lead programmes.

I am happy to say we have a diverse Board, which continues to be closely aligned with the Company's strategy and has been particularly supportive during recent months when working practices have had to change. The Company is tracking the COVID-19 pandemic situation closely and is continuously monitoring for any potential challenges that may arise. To date there are no significant implications to our core operations due to the pandemic and we continue to focus on creating long-term value for our shareholders.

In addition, I would like to say how proud we are at C4XD of the work our CEO, Clive Dix, is doing in the fight against COVID-19. His role in the UK Vaccines Taskforce is important for our country. I believe that his appointment reflects his commitment to our industry as a whole, and the respect the industry has for his expertise. Whilst supporting the efforts to find a vaccine for COVID-19, Clive continues to be dedicated to C4XD and I am impressed by his professionalism and drive to build a successful company.

We have completed three successful financings, including an additional £15 million raise in October 2020 supported by our key existing shareholders as well as new shareholders, enabling the Company to further advance its portfolio of unique assets to near term inflection points and to strengthen the balance sheet as partnering discussions and strategic collaborations progress.

On behalf of the Board, I would like to thank our dedicated employees and management team for their ongoing commitment, creativity and hard work to make C4XD a successful global Drug Discovery player. I would like to thank our shareholders for their continued support and belief in our vision, and I am thrilled to welcome our new shareholders to the Company.

We are poised for a new and exciting year ahead.

Eva-Lotta Allan
Non-Executive Chairman
9 December 2020

CEO's statement
Clive Dix, Chief Executive Officer

Portfolio continues to deliver strong value potential

It is in challenging times such as these that you understand the importance of building a strong, talented and motivated team and it is due to their resilience and fortitude that we have continued to make great progress across the C4XD Drug Discovery portfolio throughout 2020.

Progress across our portfolio and, in particular, our key Drug Discovery programmes has continued apace. Each of our programmes has advanced, with new data and key milestones met. We were delighted to see our first molecule reach the clinic, with the first subject dosed in Indivior's Phase 1 clinical trial for opioid dependence. This is a huge milestone for the Company and clearly demonstrates C4XD's scientific expertise and capabilities to generate, develop and deliver new molecules that the pharmaceutical industry wants and needs to create new medicines. We look forward to the results of this trial next year.

Our oral NRF-2 programme for the treatment of inflammatory diseases continues to make progress, with compounds now showing promise in a number of indications including Sickle Cell Disease, Pulmonary Arterial Hypertension and, more recently, Inflammatory Bowel Disease. More work is underway to identify the right candidate molecule to progress into IND enabling studies. We have also seen important scientific developments in both our IL-17 and α4β7 integrin inhibitor programmes, with our novel oral series of IL-17 inhibitors being optimised towards a candidate shortlist and commercial discussions with potential partners continuing. Whilst at an earlier stage, our α4β7 integrin inhibitor programme has made significant progress in 2020 and we aim to shortly move the lead series into *in vivo* studies. Furthermore, the identification of a second series of α4β7 integrin inhibitors underlines the value that our Conformetrix technology offers in the Drug Discovery process.

Our partnership with LifeArc® developing novel MALT-1 inhibitors for haematological cancer is progressing nicely and there is now external commercial evidence that validates this as a target in oncology. We have also entered a new partnership focused on studying the genetics of COVID-19 patients with the GEN-COVID consortium in Italy. The understanding of COVID-19 is still very naïve and we do not fully understand how it affects the human physiology and why it affects people differently, such as some ethnic minority patient groups or those with underlying health issues such as obesity. Therefore, understanding the role of genetics in this disease, which our Taxonomy3® platform does, may be key to understanding this disease better. This project has the potential to produce exciting data that may explain the way different people react to the disease and subsequently influence not only how they are treated for COVID-19, but diseases of this type in the future.

What we do is early stage work, but it is at the forefront of the next generation of medicines. Our scientists' expertise in the Drug Discovery process, combined with our cutting-edge technologies, enable us to seek out and investigate potential targets, and to undertake complex chemistry and biological studies to create what are the beginnings of future drugs. This places us in a strong position to fulfil the pharmaceutical industry's demand for high quality early stage drug candidates.

Whilst 2020 has presented challenges for all companies that no one could have foreseen, we have been able to adapt quickly and efficiently in how we work. As a result of our decisive initiatives, we have seen limited impact to our day-to-day activities from the COVID-19 pandemic.

Where we work with partners who have been impacted due to COVID-19, we have seen nothing but determination and commitment to enable work to progress. To this effect, our timelines may have been stretched in some cases but as the majority of our work is in the earlier non-clinical stages, we remain on track.

We thank our shareholders for their continued support that enables us to do this important work. The pharmaceutical industry has an opportunity, right now, to demonstrate its value to world health, and with the recent fundraise, we can use our Drug Discovery expertise to support our partners, for the benefit of patients. Polar Capital increased its investment with us earlier this year, and again in a post-period fundraise along with new investors, demonstrating confidence in our strategy. In total we raised £24.2 million which we will use to advance our key programmes towards out-licensing and this money sets us in good stead for the coming year.

Finally, I would like to thank our employees for their continued hard work and flexibility, despite the challenges this year has presented. Without their dedication, we could not have made the progress we have and because of that progress, received the investment that will allow us to drive our programmes forward.

CEO's statement continued
Portfolio review

We are making significant headway across our portfolio

Despite the challenges across the pharmaceutical industry caused by the COVID-19 pandemic, we have continued to make significant headway across our portfolio. Our first potential drug, discovered by harnessing our Conformetrix technology, has entered the clinic with our partner, Indivior, for the treatment of opioid dependence. In November 2019, C4XD's Conformetrix technology patent was granted in the USA.

The team at C4XD has worked hard to ensure all discovery programmes remain on track where possible and as a result, our key programmes continue to demonstrate progress and generate positive data. We also entered into a new partnership with the GEN-COVID consortium to study the role genetics plays on how COVID-19 affects different individuals through utilising our proprietary Taxonomy3® platform.

Entering the clinic

C4XD completed its first licensing deal in March 2018 with Indivior UK Limited ("Indivior") to further develop and commercialise C4XD's oral Orexin-1 receptor antagonist C4X_3256, also known as INDV-2000, for the treatment of addiction. Under the terms of the agreement, C4XD received an upfront payment of US$10 million and could receive up to US$284 million in development, regulatory and commercialisation milestones in addition to royalties. In turn, Indivior received a global and exclusive licence to C4X_3256 and all other compounds in the same patent family and is responsible for the cost and execution of the development of C4X_3256 in multiple indications.

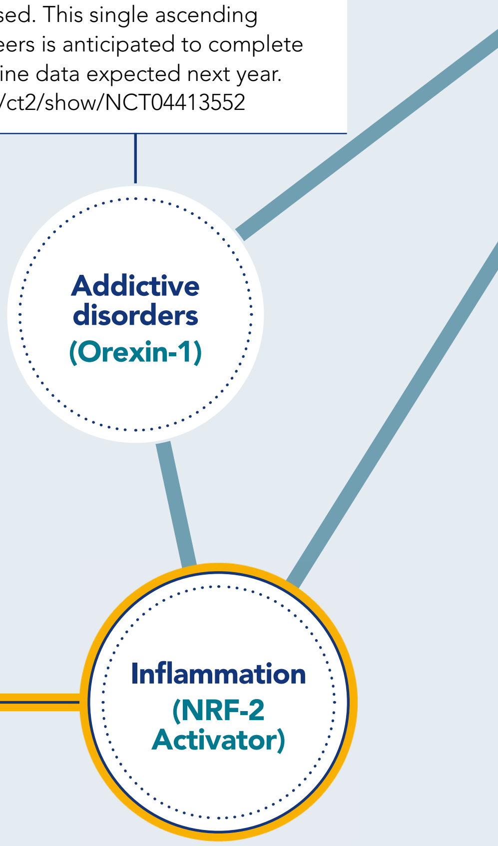
In September 2019, Indivior announced that it had been awarded a NIH HEAL grant for "Clinical Evaluation of C4X_3256, a non-opioid, highly-selective Orexin-1 Receptor Antagonist for the Treatment of Opioid Use Disorder", providing funding for key Phase I and Phase II enabling studies. In July 2020, Indivior commenced a Phase I clinical trial for C4X_3256, for the treatment of Opioid Use Disorder, with the first subject now dosed. This single ascending dose study in healthy volunteers is anticipated to complete by the end of 2020, with topline data expected next year. https://www.clinicaltrials.gov/ct2/show/NCT04413552

Expanding into new markets

In October 2019, the Company announced progression of a series of novel potent activators of the NRF-2 pathway for the treatment of a variety of inflammatory diseases. The identified series of keap-1 inhibitors has been found to significantly activate NRF-2 following oral dosing, providing anti-inflammatory and anti-oxidant activity.

In C4XD studies, multiple lead compounds show greater than a 12-hour duration of action following low oral dosing on activation of NRF-2 in key tissues such as the lung and the liver and in blood. More recently, one of C4XD's lead NRF-2 activator molecules has also been shown to significantly inhibit the disease score in a pre-clinical model of IBD in a dose-dependent manner.

The Company has received non-binding term sheets for SCD and IBD indications and is currently under CDA for PAH, however, progression into IND enabling studies is now considered to be required in order to increase value and further differentiate from competitor molecules.



Progressing towards commercialisation

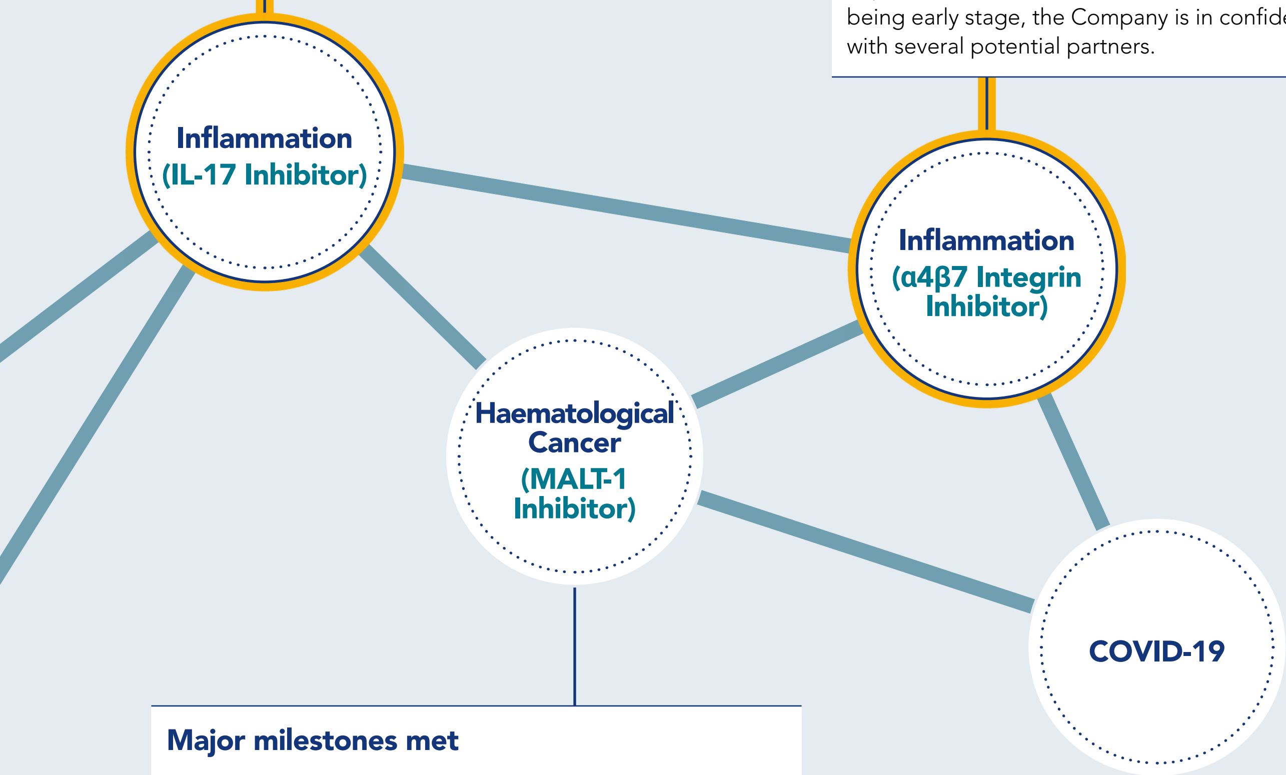
In October 2019, C4XD announced it had identified small molecules in its oral IL-17 inhibitor programme that can selectively block IL-17 activity whilst maintaining molecular size of the molecule in the traditional "drug-like" range.

A novel, potent oral series of IL-17 inhibitors that significantly reduce IL-17 induced inflammation *in vivo* is being optimised towards candidate shortlist. A recently filed IND by a pharmaceutical company for the first oral IL-17 inhibitor has intensified the Company's commercial discussions with potential partners. The oral IL-17 inhibitor programme is a significant opportunity across multiple indications.

Exciting early progress

In August 2020, the Company announced that significant progress has been made on C4XD's early oral inhibitor programme targeting α4β7 integrin for the treatment of IBD. Effective antibody therapy against this target is already approved, removing the clinical target risk, but effective oral therapy remains highly sought after. C4XD has identified a second series of novel, potent and selective inhibitors providing a further competitive edge for this programme. This reaffirms the capability of C4XD's Conformetrix technology to discover novel chemical scaffolds for high value challenging drug targets.

Both series have recently demonstrated oral bioavailability in PK studies with the current focus on improving PK properties to demonstrate functional inhibition of α4β7 integrin *in vivo* following oral dosing. The Company is currently generating improved molecules to move to *in vivo* studies and, despite being early stage, the Company is in confidential discussions with several potential partners.



Major milestones met

In November 2018, C4XD entered into a discovery collaboration with LifeArc®, a UK medical research charity, to progress medicinal chemistry efforts on a MALT-1 inhibitor programme with applicability across oncology and inflammation indications. Despite being impacted by COVID-19, the collaboration continues to progress well with the initial phase successfully completed. We note that Johnson & Johnson has progressed its small molecule MALT-1 inhibitor into Phase 1 clinical trials for chronic lymphocytic leukaemia and non-Hodgkin's lymphoma, with potential to provide the first clinical validation for MALT-1 as a target in oncology.

Three novel series have been identified by harnessing C4XD's Conformetrix technology and data obtained in 2020 has demonstrated functional cell activity and oral bioavailability. Optimisation studies continue to increase cellular potency with the aim of showing *in vivo* inhibition of the target for a prototype molecule.

Applying Taxonomy3® to understand the genetics of COVID-19

In August 2020, C4XD announced that it had entered a new collaboration with the GEN-COVID consortium, a network of more than 20 hospitals in Italy led by Professor Alessandra Renieri of the University of Siena. The collaboration will use the unique mathematical genetic analysis methodology of Taxonomy3® to investigate the role genetics plays in the widely varied disease susceptibility, severity and prognosis observed between individuals with COVID-19.

CEO's statement continued

Outlook and summary

Overall, we have made significant headway across the portfolio. Our focus for the coming year is to drive our key Drug Discovery programmes, particularly those in our inflammation franchise, to the next milestone. We will continue to build out our network of partnerships and progress our pipeline of proprietary and partnered projects to a strong commercial position.

With robust finances now in place, we can continue to advance our portfolio and deliver shareholder value through the generation of high quality data packages that will be commercially attractive to future partners in the pharmaceutical industry. We remain confident that through the delivery of the next generation of high quality out-licensing opportunities, we can deliver significant value for all our shareholders.

Clive Dix
Chief Executive Officer
9 December 2020

Orexin-1 case study

Indivior's announcement that the first subject has now been dosed with C4XD's novel selective Orexin-1 antagonist, C4X_3256, represents a major milestone for the Company in delivering on our aim to create world-leading medicines for the benefit of patients.

Right target

The substance use disorder ("SUD") market remains chronically underserved, with approximately 1.2 billion potential SUD patients that could benefit from novel treatment. Selective inhibition of Orexin-1 offers the opportunity to meet this significant outstanding need, with efficacy across multiple SUDs, proven safety for chronic dosing and a restricted competitive landscape. In addition, competitor small molecules in the public domain were highly amenable to analysis by C4XD's Conformetrix technology, offering a competitive edge in molecular design.

Right data

C4XD had demonstrated that C4X_3256 attenuated cocaine-induced brain dopamine elevation and reinstatement following cocaine-induced dependence, supporting its potential in this important therapeutic area and adding to the compelling pre-clinical efficacy data already achieved in nicotine addiction showing reductions in self-administration and reinstatement.

Right time

The nascent sate of the addictive disorders market in 2018 and limited clinical pipeline for Orexin-1 specific inhibitors meant that it was important to take the programme into IND-enabling studies to attract interest from the right partners and demonstrate that C4X_3256 had the right balance of properties as a potential first in class treatment for addictive disorders.

Right partner

Prior to our successful out-licensing deal with Indivior, C4XD ran a rigorous commercial process to identify the right partner to take the programme forward. Indivior is a world leader in advancing treatments for opioid use disorders, and its success in securing a highly competitive NIH HEAL grant to progress C4X_3256 into Phase 1 demonstrates both its commitment and capability to drive the programme through clinical studies and ultimately deliver a much-needed treatment for patients.

Financial review
Brad Hoy, Chief Financial Officer

Continued support from our investors to execute our strategy

The strong support from our shareholders will enable us to drive forward our portfolio of proprietary assets and to ultimately deliver shareholder value through partnerships and out-licensing opportunities.

Revenue for the 12 months ended 31 July 2020 was £nil (2019: £nil). 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 decreased by 35% to £6.9 million for the year ended 31 July 2020 (2019: £10.6m). This reflects focused investment in key Drug Discovery programmes as outlined in the Non-Executive Chairman's and CEO's Statements.

Administrative expenses reduced during the year to £2.7 million (2019: £3.0m).

The loss after tax for the year ended 31 July 2020 was £7.8 million or 8.10 pence per share (2019: £10.9m or 18.82 pence per share).

The Group had net assets at 31 July 2019 of £8.1 million (2019: £7.0m) and cash and cash equivalents of £5.6 million (2019: £2.4m).

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. In May 2020, Polar Capital and other shareholders increased their investment in the business by £1.6 million before expenses through a Placing of ordinary shares at 15 pence each. Post-period, in October 2020, the Company raised £15.0 million before expenses on the issue of ordinary shares at 14 pence each via a placing. In total, the Company has raised £24.2 million (before expenses) this year including the post-period fundraise.

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

Net assets (£m)

£8.1m

Net cash at year end (£m)

£5.6m

Cash at 30 November 2020 (£m)

£17.3m

Loss after tax (£m)

£7.8m

Principal risks and uncertainties

Understanding and managing risk

The Group remains committed to understanding, analysing and addressing risk and has developed a robust risk management framework to facilitate this process.

Business risks are monitored and updated on a regular basis, together with appropriate controls and plans for mitigation. Conducting open and robust reviews ensures that mitigations remain appropriate and activities continue to be aligned to the risk appetite agreed by the Board.

C4XD has strong corporate governance principles that focus specifically on risk management; the ability to understand and control risk enables the Group to be more confident in business decisions, enabling us to meet business objectives.

The Board is ultimately responsible for the Group's internal controls, but the philosophy of risk management is embedded throughout every level of the business. 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.

As with all businesses, the Group is affected by a number of risks and uncertainties, some of which are beyond our control. The table below highlights the principal risks and uncertainties which could impact the Group. This is not an exhaustive list and there may be risks and uncertainties of which the Board is not aware, or which are believed to be immaterial, which could have an adverse effect on the Group.

Risk management structure

Board

Read about corporate governance from page 24

Overall responsibility for the Group's risk management.

Sets strategic objectives and risk appetite.

Accountable for the effectiveness of the Group's internal control and risk management processes.

Audit Committee

Find the Audit Committee Report on page 25

Delegated responsibility from the Board to oversee the risk management processes and evaluate the effectiveness of the internal controls.

Assess the performance of the external auditor.

Executive Directors

Find the Board of Directors on pages 18 and 19

Implement the Board's policies on risk and control and provide assurance on compliance with these policies.

Support management and project teams to identify and review business risks, the controls needed to minimise those risks and the effectiveness of controls in place.

Risk	Management	Trend vs previous year
Scientific risks		
Drug Discovery success		
There is a risk that the Group may fail to successfully identify viable potential drug candidates from our Drug Discovery programmes – potential drug candidates can fail due to a variety of reasons including lack of efficacy, potency, selectivity, insurmountable challenges in medicinal chemistry, or unacceptable safety/toxicology results.	Drug Discovery programmes are carefully selected; they are evaluated from both a commercial and a scientific perspective to ensure resource is only deployed when a robust business case exists. Lack of efficacy can be mitigated by choosing pre-clinically or clinically validated targets or by choosing genetically validated drug targets, e.g. identified by Taxonomy3®. Issues with potency, selectivity or 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. Target-based toxicology can be de-risked by working on clinically validated or precedented targets. Off-target toxicology can be de-risked by examining this at various stages in the programme and by using Conformetrix technology to maximise selectivity, reducing "off-target" liabilities. In addition, surrogates for safety assessment are actively utilised as the programmes progress for early detection of unexpected specific risks.	NONE

Risk	Management	Trend vs previous year
Scientific risks continued		
Technology		
There is an inherent risk that C4XD's technologies will not enable its scientists to obtain the results required to generate meaningful value in its internal Drug Discovery programmes. The Group cannot guarantee in advance that its technologies will meet internal demands or those of its partners. External technological advances could overtake the technologies being developed by the Group.	The Group works closely with its collaborators and partners to ensure that the potential of C4XD's output continues to meet their expectations. The C4XD technical development team continues to develop and improve the core technology in terms of functionality and efficiency of output. C4XD reviews the commercial landscape to assess competitor technologies, and know-how and intellectual property are protected. C4XD believes this strategy to be effective based upon the progression of its programmes and partnerships.	NONE
Timing		
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.	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, C4XD has developed a proactive commercial function to ensure that only programmes with sufficient commercial opportunity to warrant partner interest are initiated and executed. C4XD regularly takes part in multiple partnering conferences each year to present and discuss its Drug Discovery programmes to assess and confirm future customer interest. 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.	NONE
Intellectual property		
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.	C4XD has developed a robust IP strategy which, to date, has provided adequate protection for its portfolio of technologies and discovery programmes. Several patents have been filed during the year to protect the novel composition of matter on our key discovery programmes. The external IP landscape is continually monitored, such that when new patents are published, the project teams can actively assess the relevance to ongoing projects. External IP counsel is sought when required.	NONE
Commercialisation risks		
Market and competition		
Alternative competing technologies and products could emerge that might displace the market opportunity for drug candidates discovered by the Group.	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.	NONE
Commercial delivery		
Business resources may not be appropriately deployed, or strategies may be inadequately planned; failure to identify partnering opportunities leads to no revenue-generating deals.	A strategic review is performed regularly to establish plans for revenue generation. Performance is tracked against the plan and appropriate action is taken. Drug Discovery programmes are continually assessed for commercial appetite which is regularly reviewed at Executive and Board level. In addition, the commercial team actively works with the discovery teams to ensure full alignment. The business is focusing on the most impactful allocation of resources.	NONE

Principal risks and uncertainties continued

Risk	Management	Trend vs previous year
Commercialisation risks continued		
Future revenue streams		
C4XD's out-licensing agreements are structured with milestones that the programme must reach to trigger further payments to C4XD. There is a risk that partners will not reach these milestones and C4XD will not therefore receive further revenue payments.	An alliance manager is assigned to all out-licensed programmes to liaise with the partner and co-ordinate support and expertise from C4XD as required. Partners are required to provide C4XD with regular reports summarising the progress and planned activities for the programme. The Executive Team reviews these reports to ensure that partners are using commercially reasonable efforts to progress C4XD programmes as required in the out-licensing agreement and regularly monitors any changes in the financial or strategic position of our partners.	NONE
Finance and operations		
Raising capital		
The Group aims to execute revenue-generating deals to sustain the business; to achieve this, reliance falls on investors or potential M&A opportunities. The Group may not be able to raise sufficient capital to be able to achieve the strategic objectives.	The Group has prepared a detailed budget and performance forecasts covering several scenarios over a period covering >12 months from the date of the approval of these financial statements. Costs are carefully controlled across all activities to ensure the resources are deployed optimally to facilitate delivery of the commercial goals. Following the year end a share placing raised ~£15 million of gross proceeds. We maintain close relationships with our principal and potential providers of finance and continue to review the need for additional or alternative funding.	DECREASE
Talent retention		
A high degree of dependence on key personnel, or the inability to recruit and retain employees with the required skill sets at an acceptable cost.	The Directors believe that the Executive Team is appropriately structured for the size of C4XD and is not overly dependent on any one individual. Training and incentive plans are in place, with the introduction of C4XD Total Rewards, to ensure that the Group can attract and retain talent. Total Rewards focuses on the culture and core values in C4XD, as well as development pathways and short, medium and long-term financial rewards, to provide a full incentives package.	NONE
Cybersecurity		
Cyberattacks could threaten the integrity of our core technology or IP and lead to a misappropriation of our data. The Group is increasingly exposed to cybersecurity risks as the profile of the Company increases and by the increasing sophistication of cyber criminals.	The Group has a comprehensive cybersecurity risk assessment in place, as well as 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. There have been no significant incidents and no cyber breaches during the year.	INCREASE
Data breach confidentiality		
Confidential information may leak from the business. Threats arise not only from hackers, malware or known third parties, but can unfortunately also arise from employees, whether intentional or not.	Significant IP and know-how are legally protected. Furthermore, confidentiality is explicitly detailed in employees' contracts, and additional training is provided to staff to mitigate the risk of inadvertent data leaks.	NONE

Risk	Management	Trend vs previous year
External factors		
Brexit		
The ability of the Company to quickly adapt to Brexit may impact the delivery of our strategic goals and financial targets.	The Executive Team carefully monitors the situation, particularly regarding drug approval regulations and patent law, and devises and implements mitigating strategies. The risk is perceived to be minimal. The Operations and HR teams continue to review the potential impact on existing staff and planned recruitment caused by any changes in immigration legislation, and foreign exchange cost implications. From a project perspective, key operational actions are being addressed including planning for additional inventory stock for scale-up campaigns and screening cascades, and reviewing shipping processes to consider potential customs tariffs.	NONE
COVID-19		
The worldwide spread of COVID-19 has resulted in public health responses including travel bans and restrictions and social distancing requirements. This could lead to a global slowdown of economic activity that could negatively affect the business's operations and financial performance.	The situation is rapidly changing and difficult to predict. However, our priority is the safety of our employees and we have already successfully invoked a working from home policy in line with our business continuity management framework. All business travel has been cancelled, and all meetings are being held virtually. There was a strict review of non-essential expenditure. The Board, however, does not consider there to be a material uncertainty for the next 12 months, with a significant fundraise post-year end. Certain scientific activities have been delayed due to the closure of lab facilities at third parties. However, deployment of resources to prioritise project-critical activities has minimised the impact of any time delays.	INCREASE

Section 172(1) Companies Act 2006

The Directors confirm that they have acted in good faith in the way they consider what would be most likely to promote the success of the Company for the benefit of its members as a whole. In doing so they have considered, among other matters, those set out in section 172(1) (a) to (f) of the Companies Act 2006: the likely consequences of any decision in the long term; the interests of the Company's employees; the need to foster the Company's business relationships with suppliers, customers and others; the impact of the Company's operations on the community and the environment; the desirability of the Company maintaining a reputation for high standards of business conduct; and the need to act fairly as between members of the Company. This statement applies equally to the Directors individually and when acting collectively as the Board.

The Directors have considered points a to f:

a) the interests of the Company's employees;
b) the need to foster the Company's business relationships with suppliers, customers and others;
c) the impact of the Company's business relationships with suppliers, customers and others;
d) the impact of the company's operations on the community and the environment;
e) the desirability of the Company maintaining a reputation for high standards of business conduct; and
f) the need to act fairly between members of the Company.

For further information, see page 19 of the Corporate Governance Report which considers of each of the points above in greater detail.

By order of the Board

Brad Hoy
Chief Financial Officer
9 December 2020

Clive Dix
Chief Executive Officer
9 December 2020

Board of Directors

C4XD is guided by a Board with extensive expertise

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 and member of the dermatology commission of Almirall, and 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, a recent past Chairman of the BioIndustry Association, is currently Non-Executive Chairman of Centauri Ltd and a Non-Executive Board member of the Medicines Discovery Catapult. Clive was appointed Deputy Chair of the UK Vaccines taskforce in June 2020, the group set up by the Government to tackle the COVID-19 pandemic.

Craig Fox PhD
Chief Scientific Officer

Experience and qualifications

Craig is an experienced biologist and NIH funded Principal Investigator who has 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 C4XD 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.

External appointments

Natalie is currently General Counsel to Oxford Biomedica plc, a FTSE 250 gene and cell therapy company. Prior to joining Oxford Biomedica, Natalie was an Equity Partner at Covington & Burling LLP advising Boards on a range of strategic, transactional and general corporate finance matters, with particular expertise in advising on deals in the life sciences sector. 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. Natalie was a Board member of RSA (Holdings) Limited until March 2020.

Committee membership

- A Audit Committee
- N Nomination Committee
- R Remuneration Committee
- Committee Chair

How the Board communicates with key stakeholders

Maintaining a dialogue with key stakeholders

Partners

Partners play a key role in the development, growth and commercial strategy of our business. We seek strategic collaborations that allow us to access the right technologies and resources to efficiently identify the right targets to progress into Drug Discovery. Alongside our internal programmes, we also work with partners to unlock challenging chemistry for their high value targets and expand our portfolio through risk-share arrangements, and we identify market-leading partners to license our programmes and progress them into clinical studies and beyond.

- Direct feedback via our commercial team
- Regular meetings and conference calls
- Industry events
- Promoting C4XD through our Drug Discovery Network, headed by Robin Carr
- All employees play an important role as ambassadors

People

The C4XD team are our biggest asset. Without their hard work we would not be able to drive our Drug Discovery programmes and we are committed to providing the environment to allow them to succeed.

We have a culture of open communication, transparency, teamwork, accountability and innovation. C4XD actively engages its employees through communication of Company news and information in a variety of formats. Management encourages feedback from all employees and engages in dialogue across all levels of the business through an open door policy for all staff.

- Direct access to key management
- Monthly all-staff meetings
- Quarterly newsletter
- Scientific meetings
- Events and socials

Shareholders

Shareholder support is critical to the success of our business. They are the ultimate owners of C4XD and provide the investment needed as we build our portfolio of Drug Discovery programmes for out-licensing.

We believe it is important to maintain regular and transparent dialogues with shareholders to ensure they understand the strategic objectives, financial and operational performance governance of the Company and ultimately the value of what we do.

- The CEO and CSO meet with major institutional investors twice a year
- Financial results twice a year
- Annual General Meeting
- Regular business updates as C4XD programmes progress
- CEO interviews via Proactive Investor to talk about latest news
- Social media updates

Communities

We aim to have a positive impact in healthcare, beyond our scientific innovation, by engaging with local communities, caring for the environment and improving access to and the reputation of the healthcare industry.

We believe that by behaving as a good corporate citizen we can reflect our values and aspirations in our working environment which will not only position C4XD as a good company to work for, and with, but will ultimately drive value for our business as a whole.

- Practising reduce, recycle and reuse
- Social and charitable events such as working with local schools
- Promoting the C4XD positive culture to our associates within our communities
- Fundraising for local communities and charities

COVID-19

Operating during a global pandemic

In addressing the COVID-19 pandemic, C4XD is proactively monitoring and assessing potential impacts, and working to avoid or minimise any interruption or delay in our plans. The health and safety of our employees is paramount and we intend to do everything reasonably possible to reduce potential exposure to the virus causing COVID-19. Employees who need to maintain facility-dependent research are reporting to work under strict protocols designed to ensure they remain healthy and, where possible, we have enabled employees to work remotely. C4XD has suspended all international business and non-essential domestic business travel.

To date, C4XD has not seen a material impact on its business and the overall context of the business and the landscape in which we operate has not materially changed. However, C4XD works on a partnership model and with the duration of the outbreak unknown, its impact on C4XD's partners' working situation and the prospects of additional development of the Drug Discovery portfolio remain unclear.

COVID-19 has caused some disruption to business development activities with scientific conferences cancelled and travel restricted. However, as the duration of the pandemic prolongs, the industry is finding new ways of creating a virtual space for these important networking events and partners have demonstrated ongoing commitment to progressing discussions virtually. We remain confident with industry licensing deals continuing to progress throughout 2020.

The C4XD team

An inspirational team – founded on science, working together to succeed

At C4XD we are committed to recruiting, developing, retaining and rewarding highly motivated people who are talented, creative and focused on delivering excellence.

Our values

Individually our values may seem obvious. But bring them together and we create the C4XD culture. Our values are part of who we are, what we stand for and how we act. For all our stakeholders – our investors, partners and staff alike – we embrace the highest ethics and morals to deliver professional, open and transparent relationships to drive excellence, responsibility and integrity in all that we do.

Building a talented team

At C4XD, we recognise that our most important resource is our employees and we are committed to the development of the entire workforce to enable everyone to reach their full potential. We believe in an inclusive culture and aim to create an organisation where everyone belongs, and together, we aim to build a culture of creativity and innovation, where we value trust and flexibility to optimise work-life balance.

We recognise that diverse teams achieve greater performance, so we look to celebrate and support our differences, so that all our employees can contribute in their own right. We want to ensure that every single employee feels appreciated and is fairly rewarded.

We truly believe that C4XD is a great place to work and we feel proud of the contribution the C4XD team makes to diverse scientific programmes that will ensure the long-term growth of the Company.

Our environmental and social commitments

Our purpose is to provide world-leading medicines of the future in a responsible and efficient manner.

We aspire to apply sustainability management standards equal to our business ambitions and we expect the same values of those we choose as our suppliers. At C4XD, we are committed to the conservation principles of reduce, reuse and recycle, as seen by our latest move to supply information digitally.

Every day we strive to make a difference in the communities in which we operate by maintaining sound business practices, acting as a good corporate citizen and a valued employer.

Creating space for our highly skilled workforce to innovate and create

Fostering an inclusive culture

Encouraging diversity and inclusion is fundamental to the culture at C4XD. We aim to maintain a secure environment that enables us to attract and support highly talented people from all backgrounds.

Empowering flexible working

We proactively encourage flexible working for our staff, empowering them to deliver exceptional innovation without compromising on their personal goals.

Rewarding with compelling incentives

To motivate and reward our people, C4XD has built both a financial incentives package that enables employees to share in the Company's financial success, and a professional development framework that promotes long-term career progression.

Talking business development in a virtual world

with Bhavna Hunjan
Head of Corporate Strategy and Development

Q What is your role at C4XD? What does it incorporate?

My overall responsibility at C4XD is to seek out external opportunities that will make a positive, and material, impact to the Company. That could be financial impact to the balance sheet or P&L statement via deals or financing, or operational impact of adding exciting technologies or capabilities through strategic partnerships or M&A. These opportunities are aligned with our Company strategy, which I also have a hand in crafting as part of the Executive Team.

Q How did you come to work at C4XD and how has your role evolved since you first joined?

I grew up in a close, business-minded family and always wanted to combine my passion for business with my love for the life sciences. I studied Biochemistry at Oxford University where I achieved a First – the experience was challenging but formative, and it sparked a lifelong interest in the life sciences. Over my almost 15 year career, I have been driven to gain the experience, skills and knowledge that form the foundation of the type of role I'm in at C4XD.

My first job was at Lehman Brothers on the fixed income trading floor. This was a baptism of fire – I leaped from my day-to-day language focusing on glycosphingolipids and nucleocapsids to swaptions and Basel II! I lived through the bank's insolvency (an experience in itself) prior to joining Nomura Plc (who acquired Lehman Brothers Europe). My experience in banking greatly influenced me. I learnt to thrive in high pressure situations, build productive business relationships, negotiate, and execute bespoke transactions. I also experienced fast-paced city life, which drove me to a proactive, impact-led mindset.

Subsequently, I worked in strategic advisory at PwC and then in-house at Cancer Research UK. I delivered a huge variety of projects from new product launch, regulatory affairs, digital investment NHS reform, precision medicine and clinical research. Here I learnt how to be solution, rather than problem, focused, the importance of a well-informed point of view, and how to utilise the resources around me to explore options and identify a route forward.

Together these experiences have proved to be vital to my role at C4XD.

Q Has COVID-19 affected business development?

Since March 2020, I have witnessed business development activities continuing, albeit digitally. Companies on the hunt for innovation have made efforts to ensure their needs are heard. Some fantastic deals have been signed during this period, and I hope this trend continues.

Q How are you currently communicating with potential partners during this time? What has worked well?

The biotechnology and pharmaceutical sectors are truly global businesses. Prior to the pandemic, numerous business interactions already took place via digital conferencing. Face-to-face meetings were particularly helpful for building rapport quickly so the well-established partnering conferences have historically been invaluable to licensors and licensees alike.

Since the pandemic, these conferences have taken place digitally and I have been pleased to see the positive spirit and engagement within the sector. Despite some of the inevitable initial glitches, business development communication continues close to normal.

Q What are the main challenges that businesses are facing during this time and are there any activities that are impossible in a virtual world?

Finance and liquidity, crisis management and protection of business growth are likely to be challenges felt across businesses both within our sector and other industries. Personally, I believe a long-term transformative challenge is the way in which companies will need to adapt interactions with their workforces. The pandemic has forced companies to consider how to protect their people with a renewed level of empathy. Getting it right now is likely to have a hugely positive impact on future generations.

In terms of "impossible virtual activities", I tend to think positively, so I don't believe there are any. Business interactions continue, licences executed, financing rounds and IPOs completed, and successful recruitment continues. Technology, coupled with more human patience and adaptation, has enabled this.

Q What do you think the lasting effects will be to business development in the future?

Business development is long-term strategy for growth. For example, if a company in-licenses a pre-clinical asset, it is committing to multi-million pound spend for multiple years before it may start to reap returns. It's a risky business. In a scenario of repeated lockdowns and a continuously stagnating or declining economy, companies may shrink back from these higher risk activities. In an alternate scenario of an effective vaccine being made available quickly and risk appetite returning, there may be material uplift in licensing activities as positive investment sentiment drives sector buoyancy. It's not possible to predict right now.

Q What advice do you have for those who are working in strategic decision making and business development at this time?

Firstly, protect your workforce and your clients. Their health and wellbeing supersedes the bottom line, but it is likely to also drive greater loyalty long term.

Secondly, focus on long-term competitive positioning and building future shareholder value. This includes continuing to invest in R&D, keeping an eye on acquisition opportunities, and prudently managing current cash to maintain the Company's financial health.

Finally, communicate with your loyal investors clearly and reassure them of your long-term growth, revenue potential and market positioning. In these volatile times, being transparent and honest is likely to generate longer-term trust and allow investors to make more fact-based decisions on their own portfolios.

Corporate governance statement

C4XD's Directors believe that strong Corporate Governance is fundamental to the medium and long-term success of the business and have adopted the Quoted Companies Alliance Corporate Governance Code (the "QCA Code"), to establish a robust and effective governance framework. The QCA Code identifies ten principles to be followed to enable companies to deliver growth in long-term shareholder value; the following link sets out how C4XD complies with these principles:

https://www.c4xdiscovery.com/investors/governance.html

The Directors are responsible for ensuring that the strategy, operations, financial reporting and risk management are all underpinned by robust processes, and promote a culture of openness, transparency and responsibility throughout all levels of the organisation.

The Board

The Group is controlled through its Board of Directors, comprising 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, skills, experience and any other directorships are set out on pages 18 and 19. All Directors are subject to election by the shareholders at the general meeting immediately following their appointment to the Board and to re-election at intervals of not more than three years. The contracts of the Non-Executive Directors are available for inspection by shareholders at the AGM.

Roles and responsibilities

The division of responsibilities is clearly defined:

The Chairman leads the Board in the determination of its strategy and in the achievement of its objectives, with responsibility for organising the business of the Board, ensuring its effectiveness, and setting its agenda. The Chairman also facilitates the effective contribution of Non-Executive Directors and constructive relations between Executive and Non-Executive Directors. They also facilitate 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 Non-Executive Directors constructively challenge and help develop proposals on strategy and bring strong, independent judgement, knowledge and experience to the Board's deliberations.

The Company Secretary reports to the Board. The principal role of the Company Secretary is to liaise with the Group's legal advisers and registrars in connection with the maintenance of the statutory registers, the filing of statutory forms and financial statements, the provision of notice of meetings to members and the auditors, and the filing of copies of resolutions and agreements with the registrar. This role is now fulfilled by the Chief Financial Officer.

Board of Directors

Responsible for the long-term success of the Company, agreeing the overall strategy, implementation plan and risk management. Matters reserved for the Board also include budget approval, acquisitions and disposals, major capital expenditure, legal and insurance issues, Board structure and the appointment of advisers. It provides leadership and is responsible for the overall corporate governance of the Company.

Executive Team

Operates under the direction and authority of the CEO, CSO and CFO. Additional members include the Head of Corporate Strategy and Development, and the VP Operations. The Executive Team is responsible for the day-to-day management of the Group's operations and making recommendations to the Board on strategy and subsequent implementation.

Audit Committee

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 auditors relating to the Group's accounting and internal controls.

Remuneration Committee

Responsible for reviewing and amending the remuneration of Executive Directors and the senior leadership team, as well as reviewing proposals and making recommendations for the grants of options under the Long Term Incentive Plan.

Nomination Committee

Responsible for reviewing the size and composition of the Board and considering succession planning, making recommendations for Board appointments as and when they arise.

Independence

The Board considers that two Non-Executive Directors, Harry Finch and Natalie Walter, together with the Non-Executive Chairman, Eva-Lotta Allan, bring an independent judgement to bear. 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 Board is aware of the other commitments of its Directors and changes to these commitments must be reported to the Board. The Group has effective procedures in place to deal with conflicts of interest; the Directors are not permitted to participate in any vote in which they have a conflict of interest, and in most cases, they should not contribute to discussions involving such interests.

Also under procedure, 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. All share purchases, sales and grant of options are disclosed in the Shareholding RNS releases and are published in the Directors' Remuneration Report on pages 28 to 30 of the Annual Report.

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.

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.

Board Committees

In accordance with best practice, the Group has established Audit, Remuneration and Nomination Committees with written terms of reference for each which deal with their authorities and duties.

Audit Committee

The Audit Committee is chaired by Alex Stevenson with Natalie Walter as an additional member. The Committee normally meets twice a year and is responsible for reviewing and monitoring:

- The Annual Report and Accounts, 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; and
  - the auditor's plan for the year-end audit.
- The formal engagement terms, performance, objectivity and independence of the auditors, including the extent of non-audit work undertaken by the auditors; and
- The audit and non-audit fees of the auditors. These are set out in note 5 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 auditors be put to the shareholders at the AGM.

C4XD prides itself on honesty, integrity and high professional standards, and a framework of internal policies and procedures has been established to clarify these standards. The Audit Committee is responsible for ensuring that any concerns raised through the Company's Whistleblowing Policy are followed up in an effective and timely manner, to address any areas where conduct or activities fall short of expectation.

Corporate governance statement continued

Board Committees continued

Nomination Committee

The Nomination 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. The Committee meets as required; other Directors may attend the meetings at the Committee's invitation and third-party advice may be sought where appropriate.

Succession planning is regarded by the Board as vitally important for the future success of the business. The Nomination 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.

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. Meetings are held at least twice a year.

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 managers, as well as reviewing the performance of the Executive Directors of the Group. 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.

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, pension contributions and the award of share options.

The Board as a whole is responsible for approving the recommendations made by the Remuneration Committee. No Director may be involved in any discussion relating to their own remuneration.

Board meetings

The Board meets at least six times a year, with Audit, Remuneration and Nomination Committee meetings being held as required.

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

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. From time to time, these papers are supplemented by information specifically requested by the Directors. Any Director may challenge Group proposals and decisions are taken democratically after discussion. Any Director who feels that a concern remains unresolved 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. Minutes of Board and Committee meetings are circulated to all Board members.

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

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. A performance evaluation questionnaire is completed by each member of the Board to explore whether:

- the Board is suitably equipped to explore strategic, financial performance, operational and governance matters;
- sufficient challenge is given to the Executive Directors in their leadership of the Company; and
- Board and Committee meetings were conducted and administrated effectively.

	Full Board	Audit Committee	Nomination Committee	Remuneration Committee
Number of meetings in year	6	2	0	4
Executive Directors				
Clive Dix	6	—	—	—
Brad Hoy	6	—	—	—
Craig Fox	6	—	—	—
Non-Executive Directors				
Eva-Lotta Allan	6	—	0	—
Harry Finch	6	—	—	4
Alex Stevenson	6	2	0	—
Natalie Walter	6	2	—	4

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 take place; 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.

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 Directors is to implement the Board's policies on risk and control and provide assurance on compliance with these policies.

Listed below are some key features of the internal control system:

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

ii) monthly management accounts information is 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.

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

Business risks are monitored and updated on a regular basis. Insurance is in place where appropriate.

Details of the Group's financial risk management objectives and policies are disclosed in note 26 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 £5.6 million at 31 July 2020 (2019: £2.4m). 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.

Investor relations

The Board believes that maintaining regular and transparent dialogue with shareholders is important in order to ensure that there is a clear understanding of strategic objectives, financial and operational performance and governance of the Group.

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. Information is provided regarding our business, results and financial performance, investor news and copies of our Annual Reports and Accounts.

Annual General Meeting ("AGM")

The Board actively encourages participation at the AGM, which is the principal forum for dialogue with shareholders. The Notice of AGM and Form of Proxy are issued with the Annual Report and are made available on the Company website. 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.

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.

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 20 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 30.

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 (2019: £1,500 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' shareholdings

Directors' interests in the shares of the Group, including family and beneficial interests, at 31 July 2020 were:

	Ordinary shares of 1p each			
	31 July 2020 Number	**31 July 2020 %**	31 July 2019 Number	31 July 2019 %
Eva-Lotta Allan	**—**	**—**	—	—
Clive Dix	**1,588,920**	**1.30%**	1,455,586	2.52%
Brad Hoy	**—**	**—**	—	—
Craig Fox	**14,538**	**0.01%**	7,183	0.01%
Harry Finch	**388,098**	**0.30%**	321,425	0.56%
Alex Stevenson*	**485,403**	**0.40%**	485,403	0.84%
Natalie Walter	**66,666**	**0.10%**	—	—

* 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 2020, is as follows:

Table 1	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	162	—	—	—	—	—	**162**
Brad Hoy	152	—	—	1	—	—	**153**
Craig Fox	129	—	—	16	2	—	**147**
Non-Executive Directors							
Eva-Lotta Allan	80	—	—	1	—	—	**81**
Harry Finch*	30	—	—	—	—	—	**30**
Alex Stevenson**	16	—	—	—	—	—	**16**
Natalie Walter	30	—	—	1	—	—	**31**
	599	—	—	19	2	—	**620**

31 July 2019 comparative

Table 2	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

* 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' remuneration report continued

Directors' share options

Directors' interests in share options to acquire ordinary shares of 1 pence in the Group as at 31 July 2020 were:

Share options	Date granted	Exercise price	At 31 July 2019	Exercised during the year	Replaced during the year	Granted during the year	At 31 July 2020
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)	—	—
	29 Nov 2019	£0.162	—	—	—	250,000	**250,000**
	28 Jul 2020	£0.16	—	—	195,000	—	**195,000**
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)	—	—
	29 Nov 2019	£0.162	—	—	—	250,000	**250,000**
	28 Jul 2020	£0.16	—	—	350,000	—	**350,000**
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)	—	—
	29 Nov 2019	£0.162	—	—	—	250,000	**250,000**
	28 Jul 2020	£0.16	—	—	250,000	—	**250,000**

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

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

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

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

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

The options granted on 29 November 2019 are exercisable at any time between three years and 10 years of them being granted.

The options granted on 28 July 2020 are exercisable at any time between three years and 10 years of them being granted.

On 28 July 2020, a number of unexpired existing share options were cancelled and reissued to staff and Directors. The regrant brought the strike price of the share options into line with the current market price of the Company's shares and should now deliver a viable incentive and reward package to the employees and Directors of the Company.

The market price for C4XD shares as at 31 July 2020 was 18.5 pence per share; the highest and lowest prices during the year were 47.0 pence and 8.0 pence respectively.

No options were granted during the year below market value.

Natalie Walter
Chair of the Remuneration Committee
9 December 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 2020.

Financial instruments

Details of the Group's financial risk management objectives and policies are disclosed in note 26 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 8 to 12.

Total research and development spend was £6,858,000 (2019: £10,585,000). No development expenditure was capitalised in the period (2019: £nil) for the reasons provided in note 3(f) to the accounts.

Dividends

The Directors do not recommend payment of an ordinary dividend (2019: £nil).

Share capital and funding

As at 31 July 2020 share capital comprised 119.2 million ordinary shares of 1p each (2019: 57.8 million ordinary shares) and 2.0 million deferred shares of £1 each (2019: 2.0 million shares). Full details of the Group's and Company's share capital movements during the period are given in note 19 to the financial statements.

During November 2020, £15.0m (before expenses) was raised via a placing of 99,169,286 ordinary shares and an open offer for 7,973,572 ordinary shares at 14 pence each.

Details of shares under option are provided in note 20 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 18 and 19.

Details of Directors' remuneration and interests in the share capital of the Group are shown in the Directors' Remuneration Report on pages 28 to 30.

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 2020 and following the placing and open offer on 11 November 2020 respectively:

	30 Nov 2020 No shares*	%	31 Jul 2020 No shares	%
Mr Richard I Griffiths (Guernsey)	41,044,547	18.1	—	—
Polar Capital (London)	35,000,000	15.5	16,000,000	13.4
Lombard Odier Asset Mgt (London)	22,610,411	10.0	—	—
Baillie Gifford & Co (Edinburgh)	14,314,028	6.3	5,028,328	4.2
Calculus Capital (London)	9,510,331	4.2	9,510,331	8.0
Octopus Investments (London)	9,300,000	4.1	10,000,000	8.4
Canaccord Genuity Wealth Mgt (Jersey)	8,173,171	3.6	4,888,888	4.1
Canaccord Genuity Wealth Mgt (London)	7,501,521	3.3	7,501,521	6.3
Aquarius Equity Partners (Manchester)	7,156,161	3.2	8,772,672	7.4

* This includes notifications of major interests in shares received by 9 December 2020.

Directors' report continued

Donations

No charitable or political donations were made in the year (2019: £nil).

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 24 to 27.

Going concern

The Chairman's and CEO's Statements on pages 8 to 12 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 12 along with details of its cash flow and liquidity. Note 26 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
- 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 AGM.

AGM notice

The AGM of the Company will be held on 19 January 2021. The notice convening the AGM which will confirm the details of the AGM format, 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
9 December 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 2020 which comprise the Consolidated statement of comprehensive income, the Consolidated 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 1.

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 2020 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	£75,000 (2019: £73,000) 0.8% (2019: 0.5%) of total expenses	
Coverage	100% (2019: 100%) of total expenses	
Key audit matters		**vs 2019**
Recurring risks	Going concern	▼
	Recoverability of group goodwill and intangible assets and the parent's investment in and loans to subsidiaries	◄►

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

Key audit matters are those matters that, in our professional judgment, 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. 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. In arriving at our audit opinion above, the key audit matters, in decreasing order of significance, were as follows:

	The risk	Our response
Going Concern *Refer to page 44 (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; and • The value and timing of receipts from research and development tax credits. There are also less predictable but realistic second order impacts, such as the impact of COVID which could result in a reduction of available financial resources. 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. The risk has reduced compared to prior year as a result of the funds raised post year end providing larger cash headroom compared to the prior year.	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. The key inputs included the forecast level of overhead expenses and the value and timing of receipt of research and development tax credits. • **Sensitivity analysis:** Considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of severe but plausible downside sensitivities that could arise including a delay to the receipt of the research and development tax credit receipt. • **Our sector experience:** Used our experience of the sector to challenge management's assumptions over these key inputs. • **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.

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 continued

	The risk	Our response
Recoverability of group goodwill and intangibles assets and the parent's investment in and loans to subsidiaries (Group £1.4m; 2019: £1.5m) (Parent £36.2m; 2019: £2.6m) *Refer to page 50 (financial disclosures).*	**Forecast based assessment:** Goodwill and intangible assets in the group and the parent's investment in and loans to subsidiaries 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. The effect of these matters is that, as part of our risk assessment, we determined that the value in use of goodwill and intangible assets and the parent's investment in and loans to subsidiaries has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (notes 11-13) disclose the sensitivity estimated by the Group/Parent Company.	Our procedures included: • **Our sector experience:** Critically assessed the reasonableness of the key assumptions being timing of signing future license deals, upfront and milestone licence payments 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, upfront and milestone licence payments 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 and loans to subsidiaries.

We continue to perform procedures over the impact of uncertainties due to Brexit. However, following further analysis of the impact on Brexit on the Group we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

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 £75,000 (2019: £73,000, 2018: £73,000), determined with reference to a benchmark of total expenses (of which it represents 0.8% (2019: 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 £42,000 (2019: £60,000) representing component materiality. In 2020, this is lower than the materiality we would otherwise have determined by reference to parent company total assets, and represents 0.1% (2019: 2.3%) of the Company's total assets.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £3,750, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the group's two (2019: two) reporting components, one of which is the parent company, we subjected two (2019: two) to full scope audits for group purposes using component materialities that ranged from £42,000 to £70,000 (2019: £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

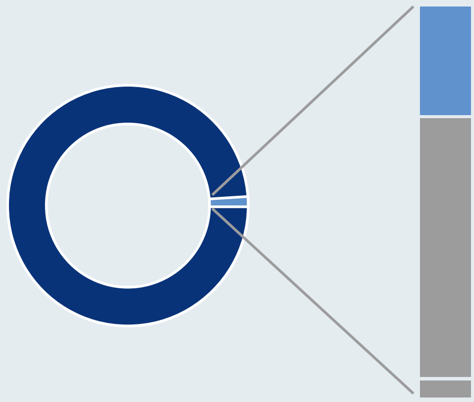
£9.6m

(2019: £13.6m)

Group Materiality

£75,000

(2019: £73,000)



£75,000
Whole financial statements materiality (2019: £73,000)

£70,000
Range of materiality at two components (£42,000–£70,000) (2019: £60,000–£70,000)

£3,750
Misstatements reported to the audit committee (2019: £3,650)

Total expenses

Group materiality

Group total expenses

Group loss before tax

Group total assets

Full scope for group audit purposes 2020

Full scope for group audit purposes 2019

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

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 Company or the Group or to cease their operations, and as they have concluded that the 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 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 33, 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.

Anna Barrell
(Senior Statutory Auditor)
for and on behalf of KPMG LLP,
Statutory Auditor
Chartered Accountants
One Snowhill
Snowhill Queensway
Birmingham
B4 6GH
9 December 2020

Consolidated statement of comprehensive income
for the year ended 31 July 2020

	Notes	2020 £000	2019 £000
Revenue	4	—	—
Cost of sales		—	—
Gross profit		—	—
Research and development expenses		(6,858)	(10,585)
Administrative expenses		(2,708)	(3,052)
Operating loss	5	(9,566)	(13,637)
Finance income	7	5	15
Finance costs	7	(18)	—
Loss before taxation		(9,579)	(13,622)
Taxation	8	1,790	2,710
Loss for the year and total comprehensive loss for the year		(7,789)	(10,912)
Loss per share			
Basic and diluted loss for the year	9	(8.10)p	(18.82)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 (2019: £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 44 to 68 form an integral part of these financial statements.

Consolidated statement of changes in equity
for the year ended 31 July 2020

	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 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
Impact of change in accounting policy	—	—	—	—	—	(28)	(28)
At 31 July 2019 adjusted	2,602	32,256	736	920	195	(29,724)	6,985
Loss for the year and total comprehensive loss for the year	—	—	—	—	—	(7,789)	(7,789)
Issue of share capital	614	8,598	—	—	—	—	9,212
Expenses of placing	—	(547)	—	—	—	—	(547)
Share-based payments	—	—	206	—	—	—	206
Transactions with owners	614	8,051	206	—	—	—	8,871
At 31 July 2020	**3,216**	**40,306**	**942**	**920**	**195**	**(37,513)**	**8,066**

The notes on pages 44 to 68 form an integral part of these financial statements.

Company statement of changes in equity
for the year ended 31 July 2020

	Issued equity capital £000	Share premium £000	Share-based payment reserve £000	Revenue reserve £000	Total £000
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
Impact of change in accounting policy	—	—	—	—	—
At 31 July 2019 adjusted	2,602	32,256	707	(32,987)	2,578
Profit for the year and total comprehensive profit for the year	—	—	—	24,752	24,752
Issue of share capital	614	8,598	—	—	9,211
Expenses of placing	—	(547)	—	—	(547)
Share-based payments	—	—	206	—	206
Transactions with owners	614	8,051	206	—	8,871
At 31 July 2020	**3,216**	**40,306**	**913**	**(8,235)**	**36,200**

The notes on pages 44 to 68 form an integral part of these financial statements.

Statements of financial position
at 31 July 2020

	Notes	31 July 2020 Group £000	31 July 2020 Company £000	31 July 2019 Group £000	31 July 2019 Company £000
Assets					
Non-current assets					
Tangible fixed assets	10	**424**	**—**	78	—
Intangible assets	11	**157**	**—**	295	—
Goodwill	12	**1,192**	**—**	1,192	—
Investments in and loans to subsidiaries	13	**—**	**36,200**	—	2,578
		1,773	**36,200**	1,565	2,578
Current assets					
Trade and other receivables	14	**438**	**—**	641	—
Income tax asset	15	**1,780**	**—**	4,076	—
Cash and cash equivalents	16	**5,648**	**—**	2,383	—
		7,866	**—**	7,100	—
Total assets		**9,639**	**36,200**	8,665	2,578
Liabilities					
Current liabilities					
Trade and other liabilities	17	**1,166**	**—**	1,652	—
Lease liabilities	18	**189**	**—**	—	—
		1,355	**—**	1,652	—
Non-current liabilities					
Lease liabilities	18	**218**	**—**	—	—
		218	**—**	—	—
Total liabilities		**1,573**	**—**	1,652	—
Net assets		**8,066**	**36,200**	7,013	2,578
Capital and reserves					
Issued equity capital	19	**3,216**	**3,216**	2,602	2,602
Share premium	19	**40,306**	**40,306**	32,256	32,256
Share-based payment reserve	20	**942**	**913**	736	707
Merger reserve	21	**920**	**—**	920	—
Capital contribution reserve	22	**195**	**—**	195	—
Revenue reserve	23	**(37,513)**	**(8,235)**	(29,696)	(32,987)
Total equity		**8,066**	**36,200**	7,013	2,578

Approved by the Board and authorised for issue on 9 December 2020.

The notes on pages 44 to 68 form an integral part of these financial statements.

Clive Dix
Chief Executive Officer
9 December 2020

Registered number: 09134041

Cash flow statements
for the year ended 31 July 2020

	Notes	31 July 2020 Group £000	31 July 2020 Company £000	31 July 2019 Group £000	31 July 2019 Company £000
(Loss)/profit after interest and tax		**(7,789)**	**24,752**	(10,912)	(32,987)
Adjustments for:					
Depreciation of tangible fixed assets	10	**45**	**—**	53	—
Depreciation of right-of-use assets	10	**302**	**—**	—	—
Amortisation of intangible assets	11	**138**	**—**	138	—
Reversal of impairment of investments in and loans to subsidiaries		**—**	**(24,752)**	—	32,987
Share-based payments	19	**206**	**—**	227	—
Finance income	7	**(5)**	**—**	(15)	—
Finance costs	24	**18**	**—**	—	—
Taxation		**(1,790)**	**—**	(2,710)	—
Changes in working capital:					
(Increase)/decrease in trade and other receivables	14	**203**	**—**	(253)	(9,525)
Increase/(decrease) in trade and other payables	17	**(486)**	**—**	786	—
Cash outflow from operating activities		**(9,158)**	**—**	(12,686)	(9,525)
Research and development tax credit received		**4,086**	**—**	—	—
Net cash outflow from operating activities		**(5,072)**		(12,686)	(9,525)
Cash flows from investing activities					
Increase in investment in and loans to subsidiaries			**(8,664)**		
Purchases of tangible fixed assets	10	**(14)**	**—**	(48)	—
Finance income	7	**5**	**—**	15	—
Net cash outflow from investing activities		**(9)**	**—**	(33)	—
Cash flows from financing activities					
Payment of lease liabilities	24	**(319)**	**—**	—	—
Proceeds from issues of ordinary share capital	19	**9,212**	**9,211**	10,090	10,090
Expenses of share capital issue	19	**(547)**	**(547)**	(566)	(566)
Net cash inflow from financing activities		**8,346**	**8,664**	9,524	9,524
Decrease in cash and cash equivalents		**3,265**	**—**	(3,195)	(1)
Cash and cash equivalents at the start of the year		**2,383**	**—**	5,578	1
Cash and cash equivalents at the end of the year		**5,648**	**—**	2,383	—
Cash, cash equivalents and deposits at the end of the year	16	**5,648**	**—**	2,383	—

The notes on pages 44 to 68 form an integral part of these financial statements.

Notes to the financial statements
for the year ended 31 July 2020

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 2020.

The financial statements of the Company and the Group for the year ended 31 July 2020 were authorised for issue by the Board of Directors on 9 December 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 profit for the year ended 31 July 2020 was £24,752,000 (2019: loss of £32,987,000).

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 2020.

(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 2020 of £9.6 million (2019: £13.6 million), revenues of £nil (2019: £nil) and net cash used in operating activities of £5.1 million (2019: £12.7 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 prepared cash flow forecasts for the period to 31 July 2022, being 19 months from the date of signing the financial statements, including consideration of a severe but plausible downside scenario which takes into consideration the anticipated impact of COVID-19. The downside sensitivity considered reflects a delay of six months in the receipt of forecast research and development tax credits from HMRC.

The Group completed a £14.5 million fundraising with new and existing investors in November 2020. The base case and sensitised cash flow forecasts, which include this fundraise but assume no revenue generation during the forecast period, show that the Group and Company have sufficient cash resources to meet their liabilities as they fall due during the forecast period.

The Board have a reasonable expectation they will be able to raise further equity or debt financing to support their ongoing research activities if required. The Board also have a reasonable expectation that a new licencing deal will be signed 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 or sensitised cash flow forecasts.

The Group has cash and cash equivalents at 31 July 2020 of £5.6 million (2019: £2.4 million) and at 30 November 2020 had cash resources of £17.3 million. In the event that a cash shortfall arises in the forecast period, the Board consider they are 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 and Company to continue to operate within its existing cash resources during the forecast period without the need for additional funding.

The Directors have considered the potential impact of Brexit and consider the risk to be minimal.

Based on the above factors the Board are satisfied that the Group and Company have adequate resources to enable the Group and Company to continue discharging their liabilities and realising their assets for at least 12 months from the date of approval of these financial statements. Accordingly, they continue 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.

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. In particular, judgement is required over whether technical viability is proven and whether economic benefits will flow to the entity. The Directors consider that these factors are uncertain until such time as commercial supply agreements are considered 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 giving rise to the estimation uncertainty for the Group are the achievement of milestones by the licensee as set out within the licence agreement and described in note 4. The Group has fulfilled all performance obligations under the licenced Orexin-1 receptor antagonist. 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 a value in use model. 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.

Investments in and loans to subsidiaries

The recoverable amount of investments in subsidiaries are tested for impairment when indicators of impairment arise. The potential recoverable amounts have been determined based on a value in use model. 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 and related sensitivity analysis in these calculations are included in note 13.

Loans to subsidiaries are tested for impairment using an expected credit loss model. This requires estimation of the probability of default, the exposure at default and the loss given default in order to calculate the expected credit loss of the loans to subsidiaries.

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.

Notes to the financial statements continued
for the year ended 31 July 2020

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 intragroup 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 has no revenues in either the current or prior year.

Revenues received from development programmes are 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.

(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
- expenditure attributable to the product can be reliably measured.

3. Significant accounting policies continued

(f) Research and development continued

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

The Group utilises the government's R&D tax credit scheme for all qualifying UK R&D expenditure. The credits are accounted for under IAS 12, and presented in the profit and loss as a deduction from current tax expense to the extent that the entity is entitled to claim the credit in the current reporting period.

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

The Group has adopted IFRS 16 Leases from 1 August 2019.

IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies, however, the Group does not act as a lessor.

As a lessee

The Group initially applied IFRS 16 Leases from 1 August 2019. The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 August 2019. Accordingly, the comparative information presented for 2019 is not restated and continues to be reported under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 August 2019.

As a lessee, the Group leases assets including property and IT equipment. The Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most of these leases. At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price. However, for leases of property the Group has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Leases classified as operating leases under IAS 17

Previously, the Group classified property leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 August 2019.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date; and
- Lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

Notes to the financial statements continued
for the year ended 31 July 2020

3. Significant accounting policies continued

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

Leases classified as operating leases under IAS 17 continued

Right-of-use assets are measured at either: their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the Group's incremental borrowing rate at the date of initial application – the Group applied this approach to its largest property lease; or an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments – the Group applied this approach to all other leases. The Group has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

Short-term leases and leases of low-value assets

The Group used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group did not recognise right-of-use assets and liabilities for leases of low value assets (e.g. IT equipment); excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and used hindsight when determining the lease term.

Impacts on transition

On transition to IFRS 16, the Group recognised right-of-use assets and lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below.

	1 August 2019
Right-of-use assets – property, plant and equipment	432
Lease liabilities	(460)
Retained earnings	(28)

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 August 2019. The weighted average rate applied is 4.25%.

	1 August 2019
Operating lease commitments	668
Discounted lease payments	(236)
Right-of-use assets	432

(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 reporting 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 are uncertain.

3. Significant accounting policies continued

(j) Tangible fixed assets

Owned 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.

Leased assets

Policy applicable before 1 August 2019

Assets funded through finance leases and similar hire purchase contracts are capitalised as tangible fixed assets where the Group assumes substantially all of the risks and rewards of ownership. Upon initial recognition, the leased asset is measured at the lower of its fair value and the present value of the minimum lease payments. Future instalments under such leases, net of financing costs, are included within interest bearing loans and borrowings. Rental payments are apportioned between the finance element, which is included in finance costs, and the capital element, which reduces the outstanding obligation for future instalments so as to give a constant charge on the outstanding obligation. All other leases are accounted for as operating leases and the rental charges are charged to the profit and loss account on a straight-line basis over the life of the lease. Lease incentives are credited to the profit and loss account on a straight-line basis over the life of the lease.

Legal fees and other costs associated with the acquisition of a leasehold interest are capitalised as other assets within fixed assets. These costs are amortised over the life of the lease.

Policy applicable from 1 August 2019

Assets funded through finance leases and similar hire purchase contracts and those previously classified as operating leases are now recognised in the consolidated statement of financial position under IFRS 16 Leases as a right-of-use asset. Note (g) illustrates the recognition and subsequent measurement of leased assets under IFRS 16.

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
Right-of-use assets	–	straight-line from the commencement date to the end of the lease term

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.

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.

Notes to the financial statements continued
for the year ended 31 July 2020

3. Significant accounting policies continued

(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 are 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's 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 measured at amortised cost. Loss allowances for trade receivables are measured at an amount equal to a lifetime expected credit loss ("ECL"). Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the receivables. ECLs are a probability weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls. The gross carrying amount of trade receivables are written off to the extent that there is no realistic prospect of recovery.

(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.

(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 2020 (2019: £nil).

3. Significant accounting policies continued

(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 (2019: £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.

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 (2019: £nil).

(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.

Notes to the financial statements continued
for the year ended 31 July 2020

3. Significant accounting policies continued

(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 2020 or ending 31 July 2021 or thereafter and have not been applied in preparing these consolidated financial statements and those 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
Amendments to IFRS 3 Business Combinations	1 January 2020
Amendments to IFRS 9, IAS 39 and IFRS 17: Interest Rate Benchmark Reform (issued on 26 September 2019)	1 January 2020
Amendments to IAS 1 and IAS 8: Definition of Material	1 January 2020
Amendments to References to the Conceptual Framework in IFRS Standards (issued on 29 March 2018)	1 January 2020

(x) 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

	2020 £000	2019 £000
Revenue recognised at a point in time		
– Right-to-use licence revenue	**—**	—
– Joint development agreements	**—**	—
Revenue recognised over time	**—**	—
Total revenue	**—**	—

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

	2020 £000	2019 £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 (2019: £nil).

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 (2019: £nil).

5. Operating loss

The Group	31 July 2020 £000	31 July 2019 £000
Operating loss is stated after charging/(crediting):		
Depreciation of property, plant and equipment (see note 10)	**45**	53
Depreciation on right-of-use assets (see note 10)	**302**	—
Amortisation of tangible assets (see note 11)	**138**	138
Interest on lease liabilities	**18**	—
Research and development expense*	**6,858**	10,585
Grant income	**(34)**	(443)
Rentals payable under non-cancellable operating leases for:		
Land and buildings	**—**	142
Auditor's remuneration		
Audit services:		
– Fees payable to Company auditor for the audit of the parent and the consolidated accounts	**52**	50
Fees payable in respect of the audit of subsidiary companies:		
– Auditing the accounts of subsidiaries pursuant to legislation	**26**	25
– Other services	**22**	6
Total auditor's remuneration	**100**	81

* Included within research and development expense are staff costs totalling £2,335,000 (2019: £2,685,000) also included in note 6.

6. Staff costs and numbers

	31 July 2020 £000	31 July 2019 £000
Wages and salaries	**2,725**	3,273
Social security costs	**304**	411
Pension contributions	**428**	394
Share-based payments	**206**	227
	3,665	4,305
Directors' remuneration (including benefits in kind) included in the aggregate remuneration above comprised:		
Emoluments for qualifying services	**620**	627

Directors' emoluments (excluding social security costs, but including benefits in kind) disclosed above include £162,000 paid to the highest paid Director (2019: £160,000).

Retirement benefits are accruing to two Directors (2019: two Directors).

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

The Group	31 July 2020 Number	31 July 2019 Number
Directors	**7**	7
Technological staff	**32**	34
Administrative staff	**7**	7
	46	48

Additional information on the emoluments and compensation, including cash or non-cash benefits, of the Directors, together with information regarding the share options of the Directors, and details of contributions paid to a pension scheme on their behalf, is included within Tables 1 and 2 on page 29, which forms part of these audited financial statements.

Notes to the financial statements continued
for the year ended 31 July 2020

7. Finance income and costs

The Group	31 July 2020 £000	31 July 2019 £000
Finance income		
Bank interest receivable	**5**	15
	5	15
Interest on lease liabilities	**18**	—
	18	—

8. Income tax

The tax credit is made up as follows:

The Group	31 July 2020 £000	31 July 2019 £000
Current income tax		
UK corporation tax on losses in the year		
Research and development income tax credit receivable	**(1,780)**	(2,700)
Adjustment in respect of prior years	**(10)**	(10)
Total current income tax	**(1,790)**	(2,710)

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

The Group	31 July 2020 £000	31 July 2019 £000
Loss before taxation	**(9,459)**	(13,622)
Tax at standard rate of 19% (2019: 19%)	**(1,797)**	(2,588)
Effects of:		
Expenses not deductible for tax purposes	**1**	4
Movement in unprovided net deferred tax asset	**69**	(7)
Research and development tax credit receivable, net of R&D relief surrendered	**(760)**	(1,165)
Share options exercised (CTA 2009 Pt 12 deduction)	**—**	(4)
Tax losses carried forward/(utilised) for which no deferred tax asset is recognised	**707**	1,060
Adjustment in respect of prior years	**(10)**	(10)
Tax credit in income statement	**(1,790)**	(2,710)

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 19% (2019: 17%) is £3,265,000 (2019: £2,287,000), of which £nil (2019: £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 19% (2019: 17%) is £24,000 (2019: £49,000).

The Group has a deferred tax asset for share-based payments, for which the tax, measured at a standard rate of 19% (2019: 17%), is £179,000 (2019: £125,000).

The net deferred tax asset of £155,000 (2019: £76,000) has not been recognised.

9. Earnings per share

The Group	**31 July 2020 £000**	31 July 2019 £000
Loss for the financial year attributable to equity shareholders	**(7,790)**	(10,912)
Weighted average number of shares		
Ordinary shares in issue	**96,123,309**	57,978,890
Basic loss per share (pence)	**(8.10)**	(18.82)

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

10. Tangible fixed assets

The Group	Office equipment, fixtures and fittings £000	Building improvements £000	Right-of-use assets £000	Total £000
Cost				
At 31 July 2018	188	38	—	226
Additions	48	—	—	48
Disposals	—	—	—	—
At 31 July 2019	236	38	—	274
Recognition of right-of-use assets	—	—	432	730
Adjusted balance at 31 July 2019	236	38	432	706
Additions	13	—	248	261
Disposals	—	—	(137)	(137)
At 31 July 2020	**249**	**38**	**543**	**830**
Depreciation				
At 31 July 2018	117	26	—	143
Provided during the year	46	7	—	53
Eliminated on disposal	—	—	—	—
At 31 July 2019	163	33	—	196
Recognition of right-of-use assets	—	—	—	—
Adjusted balance at 31 July 2019	163	33	—	196
Provided during the year	40	5	302	347
Eliminated on disposal	—	—	(137)	(137)
At 31 July 2020	**203**	**38**	**165**	**406**
Net book value				
At 31 July 2020	**46**	**—**	**378**	**424**
At 31 July 2019	73	5	—	78

The Company has no property, plant and equipment.

The Company adopted IFRS 16 as at 1 August 2019 and therefore now recognises right-of-use assets with respect to its property leases.

Notes to the financial statements continued
for the year ended 31 July 2020

11. Intangible assets

The Group	Patents £000	IP assets £000	Software £000	Total £000
Cost				
At 31 July 2018	138	600	50	788
Additions	—	—	—	—
At 31 July 2019	138	600	50	788
Additions	—	—	—	—
At 31 July 2020	**138**	**600**	**50**	**788**
Amortisation				
At 31 July 2018	45	290	20	355
Provided during the year	8	120	10	138
At 31 July 2019	53	410	30	493
Provided during the year	8	120	10	138
At 31 July 2020	**61**	**530**	**40**	**631**
Net book value				
At 31 July 2020	**77**	**70**	**10**	**157**
At 31 July 2019	85	190	20	295

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 are 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 are determined by a value in use calculation. This calculation takes into account cash flows from expected future licence agreements at each expected contract milestone, 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 2034 which reflects the early stage of a number of the research programmes and the time period over which cash inflows are expected to occur. The model includes expected licence agreements in relation to the Group's four core research programmes, with initial payments assumed for prudent modelling purposes by FY23 along with additional milestone payments on the Orexin-1 licence agreement.

The key assumptions used in the net present value calculation are the timing of signing future licence agreements, the upfront and milestone licence payments 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 model does not assume any future royalties are received.

The recoverable amount exceeds the carrying value of the combined intangible assets and goodwill by £34.9 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 and milestone licence payments. The sensitivity analysis shows that all licensing opportunities could slip by 10 years before an impairment is triggered and all except one of the Group's licensing opportunities could fail compared to the base case before an impairment would be triggered. No impairment charge was recorded during the period.

The Company has no intangible assets.

12. Goodwill

The Group	Purchased goodwill £000	Total £000
Cost		
At 31 July 2018, 31 July 2019 & 31 July 2020	**1,192**	**1,192**
Impairment		
At 31 July 2018	—	—
Provided during the year	—	—
At 31 July 2019	—	—
Provided during the year	—	—
At 31 July 2020	**—**	**—**
Net book value		
At 31 July 2020	**1,192**	**1,192**
At 31 July 2019	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 are determined by a value in use calculation. This calculation takes into account cash flows from expected future licence agreements at each expected contract milestone, 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 2034 which reflects the early stage of a number of the research programmes and the time period over which cash inflows are expected to occur. The model includes expected licence agreements in relation to the Group's four core research programmes, with initial payments assumed for prudent modelling purposes by FY23 along with additional milestone payments on the Orexin-1 licence agreement.

The key assumptions used in the net present value calculation are the timing of signing future licence agreements, the upfront and milestone licence payments 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 model does not assume any future royalties are received.

The recoverable amount exceeds the carrying value of the combined intangible assets and goodwill by £34.9 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 and milestone licence payments. The sensitivity analysis shows that all licensing opportunities could slip by 10 years before an impairment is triggered and all except one of the Group's licensing opportunities could fail compared to the base case before an impairment would be triggered. No impairment charge was recorded during the period.

The Company has no goodwill.

13. Investment in and loans to subsidiaries

The Company	Total £000
At 31 July 2019	2,578
Cash advance to subsidiary	8,664
(Impairment charge)/reversal of past impairments	24,752
Increase in respect of share-based payments	206
At 31 July 2020	**36,200**

By subsidiary	
C4X Discovery Limited	36,200
C4X Drug Discovery Limited	—
Adorial Limited	—
At 31 July 2020	**36,200**

Notes to the financial statements continued
for the year ended 31 July 2020

13. Investment in and loans to subsidiaries continued

Subsidiary undertakings	Country of incorporation	Principal activity	Class of shares held	31 July 2020
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.

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 however the Directors do not expect this amount to be settled within the next 12 months therefore have classified this as a non-current receivable.

The recoverable amount of investments in subsidiaries in the parent company financial statements are determined by a value in use calculation. This calculation takes into account cash flows from expected future licence agreements at each expected contract milestone, 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 2034 which reflects the early stage of a number of the research programmes and the time period over which cash inflows are expected to occur. The model includes expected licence agreements in relation to the Group's four core research programmes, with initial payments assumed for prudent modelling purposes by FY23 along with additional milestone payments on the Orexin-1 licence agreement.

The key assumptions used in the value in use calculation are the timing of signing future licence agreements, the upfront and milestone licence payments and the discount rate used. These assumptions have been benchmarked against the Company's own experience of such deals and external sources of information within the industry. The model does not assume any future royalties are received.

The recoverable amount of loans to subsidiaries is determined by using an expected credit loss model which takes into account the probability of default, the exposure at default and the loss given default. The Directors have also considered the value in use of the Group. The model demonstrates that the combined recoverable amount of the investments in and loans to subsidiaries is £36.2m which has resulted in a net impairment reversal of £24.8m. The carrying amount of the investment in and loans to subsidiaries is sensitive to assumptions about the future.

The gross amounts granted to the subsidiary, before impairment, are £2.8m of investment and £41.7m of loans.

14. Trade and other receivables

	31 July 2020 Group £000	**31 July 2020 Company £000**	31 July 2019 Group £000	31 July 2019 Company £000
Trade receivables	**14**	**—**	31	—
Prepayments	**329**	**—**	377	—
Inter-company short-term loan to subsidiary	**—**	**—**	—	—
VAT receivables	**95**	**—**	233	—
	438	**—**	641	—

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 (2019: £nil).

All trade receivables are denominated in Sterling.

15. Income tax asset

	31 July 2020 Group £000	**31 July 2020 Company £000**	31 July 2019 Group £000	31 July 2019 Company £000
Research and development income tax credit receivable	**1,780**	**—**	4,076	—
	1,780	**—**	4,076	—

16. Cash, cash equivalents and deposits

	31 July 2020 Group £000	31 July 2020 Company £000	31 July 2019 Group £000	31 July 2019 Company £000
Cash and cash equivalents	**5,648**	**—**	2,383	—
	5,648	**—**	2,383	—

Cash and cash equivalents at 31 July 2020 include deposits with original maturity of three months or less of £nil (2019: £nil).

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

17. Trade and other payables

	31 July 2020 Group £000	31 July 2020 Company £000	31 July 2019 Group £000	31 July 2019 Company £000
Current payables	**558**	**—**	671	—
Other payables	**134**	**—**	88	—
Accruals	**474**	**—**	893	—
	1,166	**—**	1,652	—

18. Lease liabilities

	31 July 2020 Group £000	31 July 2020 Company £000	31 July 2019 Group £000	31 July 2019 Company £000
Current liabilities				
Lease liabilities	**189**	**—**	—	—
	189	**—**	—	—
Non-current liabilities				
Lease liabilities	**218**	**—**	—	—
	218	**—**	—	—

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 August 2019. The weighted average rate applied is 4.25%.

	£000
At 31 July 2019	—
Operating lease commitments	668
Adoption of IFRS 16	(208)
Cash outflow	(319)
New leases	248
Fair value movement recorded in finance costs	18
At 31 July 2020	**407**

Notes to the financial statements continued
for the year ended 31 July 2020

19. 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 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
At 31 July 2019	2,025,000	57,792,636	577	2,025	32,256	34,858
Issue of share capital on placing	—	57,303,367	573	—	8,022	8,595
Issue of share capital on open offer	—	3,907,141	39	—	547	586
Issue of share capital on subscription by Directors	—	200,000	2	—	28	30
Expenses of placing, open offer and subscription by Directors	—	—	—	—	(547)	(547)
Ordinary and deferred shares at 31 July 2020	**2,025,000**	**119,203,144**	**1,191**	**2,025**	**40,306**	**43,522**

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 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
At 31 July 2019	577	2,025	32,256	34,858
Issue of share capital on placing	573	—	8,022	8,595
Issue of share capital on open offer	39	—	547	586
Issue of share capital on subscription by Directors	2	—	28	30
Expenses of placing, open offer and subscription by Directors	—	—	(547)	(547)
Ordinary and deferred shares at 31 July 2020	**1,191**	**2,025**	**40,306**	**43,522**

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.

During November 2020 £15.0 million (before expenses) was raised via a placing of 99,169,286 ordinary shares and an open offer for 7,973,572 ordinary shares at 14 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.

20. Share-based payment reserve

The Group	£000
At 31 July 2018	509
Share-based payments	227
At 31 July 2019	736
Share-based payments	206
At 31 July 2020	**942**

The Company	£000
At 31 July 2018	480
Share-based payments	227
At 31 July 2019	707
Share-based payments	206
At 31 July 2020	**913**

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 £206,000 has been recognised in the statement of comprehensive income for the year (2019: £227,000). This includes £427 of incremental fair value on replacement of options, £152,508 relating to the original options which were replaced, with the balance of the charge in respect of new options issued during the year.

On 28 July 2020, a number of unexpired existing share options were cancelled and reissued to staff and Directors. The regrant brought the strike price of the share options into line with the current market price of the Company's shares and should now deliver a viable incentive and reward package to the employees and Directors of the Company. The fair value of the replacement options is greater than the value of the existing options at the date of grant and therefore the incremental fair value at date of modification will be recognised over the modified vesting period. 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 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.

Notes to the financial statements continued
for the year ended 31 July 2020

20. Share-based payment reserve continued

Share option schemes continued

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

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.

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 three 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. Options which had not been cancelled or lapsed were replaced on 28 July 2020.

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 three 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. Options which had not been cancelled or lapsed were replaced on 28 July 2020.

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 three 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. Options which had not been cancelled or lapsed were replaced on 28 July 2020.

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 three 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. Options which had not been cancelled or lapsed were replaced on 28 July 2020.

Grant in May 2017

Share options were granted to staff on 17 May 2017. The options granted are exercisable, at any time between three 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. Options which had not been cancelled or lapsed were replaced on 28 July 2020.

Grant in September 2017

Share options were granted to staff on 26 September 2017. The options granted are exercisable, at any time between three 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 three 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 16 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. Options which had not been cancelled or lapsed were replaced on 28 July 2020.

20. Share-based payment reserve continued

Share option schemes continued

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

Grant in November 2019

Share options were granted to staff and Directors on 29 November 2019 pursuant to the EMI 2014 Plan. The options granted are exercisable, at any time between three years and 10 years of them being granted. The exercise price was set at 16.2 pence, being the average five day volume weighted average price of the ordinary shares to 29 November 2019. 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 2019

Share options were granted to staff on 1 December 2019 pursuant to the EMI 2014 Plan. The options granted are exercisable, at any time between three years and 10 years of them being granted. The exercise price was set at 42.0 pence, based on the last 200 day moving average prior to 1 December 2019. 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 2020

Share options were granted to staff on 10 February 2020 pursuant to the EMI 2014 Plan. The options granted are exercisable, at any time between three years and 10 years of them being granted. The exercise price was set at 27.8 pence, based on the last 200 day moving average prior to 10 February 2020. 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 June 2020

Share options were granted to staff on 2 June 2020 pursuant to the EMI 2014 Plan. The options granted are exercisable, at any time between three years and 10 years of them being granted. The exercise price was set at 15.5 pence, based on the last 200 day moving average prior to 2 June 2020. 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.

Cancellation and regrant of existing options in July 2020

A number of unvested share options were cancelled and reissued to staff and Directors on 28 July 2020. The regrant brings the strike price of the share options into line with the current market price of the Company's shares and should now deliver a viable incentive and reward package to the employees and Directors of the Company. The regrant options have an exercise price of 16 pence, being the closing price of the Ordinary Shares on 28 July 2020. The options can be exercised at any time between three years and 10 years of them being granted. 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.

The Group designated the new equity instruments as replacements for the cancelled equity instruments and as such, modification accounting has been applied. As the new options have an increased fair value compared to the previous awards, the incremental fair value of £154,571 is recognised over the modified three year vesting period, in addition to the amount recognised based on the grant date fair value of the original instruments, which continues to be recognised over the remainder of the original vesting period. The charge in the current year on the new options amounted to £427.

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.

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

The Group and Company	2020 Number	2019 Number
Outstanding at 1 August	**3,786,853**	3,185,414
Granted during the year	**6,387,447**	960,000
Exercised during the year	**—**	(26,875)
Lapsed/cancelled	**(3,116,778)**	(331,686)
Outstanding at 31 July	**7,057,522**	3,786,853
Exercisable at 31 July	**795,075**	1,282,075

During the year ended 31 July 2020, no options were exercised (2019: 26,875).

Notes to the financial statements continued
for the year ended 31 July 2020

20. Share-based payment reserve continued

Weighted average exercise price of options

The Group and Company	2020 Pence	2019 Pence
Outstanding at 1 August	**76.58**	75.67
Granted during the year	**18.53**	89.20
Exercised during the year	**—**	5.58
Outstanding at 31 July	**17.34**	76.58

A total of 6,387,447 share options were granted during the year (2019: 960,000). These included 2,714,298 of replacement options (2019: nil). The range of exercise prices for options outstanding at the end of the year was 2.05 pence–83.50 pence (2019: 2.05 pence–105.00 pence).

For the share options outstanding as at 31 July 2020, the weighted average remaining contractual life is 8.8 years (2019: 6.8 years).

The following table lists the inputs to the models used for the years ended 31 July 2020 and 31 July 2019.

The Group and Company	2020	2019
Expected volatility (%)	**52.5%**	52.5%
Risk-free interest rate (%)	**0.35%–1.00%**	0.50%–1.00%
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)	**18.53**	89.20

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.

21. Merger reserve

The Group	£000
At 31 July 2018, 31 July 2019 and 31 July 2020	**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).

22. Capital contribution reserve

The Group	£000
At 31 July 2018, 31 July 2019 and 31 July 2020	**195**

23. Revenue reserve

The Group	£000
At 31 July 2018	(18,784)
Loss for the year	(10,912)
At 31 July 2019	(29,696)
Impact of change in accounting policy	(28)
At 31 July 2019 adjusted	(29,724)
Loss for the year	(7,789)
At 31 July 2020	**(37,513)**

23. Revenue reserve continued

The Company	£000
At 31 July 2018	—
Loss for the year	(32,987)
At 31 July 2019	(32,987)
Loss for the year	(8,664)
At 31 July 2020	**(41,651)**

24. Leases

Leases as lessee (IFRS 16)

The Group leases premises under non-cancellable operating lease agreements.

Right-of-use assets related to leased properties that do not meet the definition of investment property are presented as property, plant and equipment (note 10).

	Land and Buildings Group £000	Total Group £000
31 July 2020		
Recognition of right-of-use assets	432	432
Depreciation charge for the year	(302)	(302)
Additions to right-of-use assets	248	248
Derecognition of right-of-use assets	—	—
	378	378

Amounts recognised in income statement

31 July 2020		
Interest on lease liabilities	18	18
	18	18

Amounts recognised in statement of cash flows

31 July 2020		
Lease payments	319	319
	319	319

25. Commitments

At 31 July 2020, the Group had capital commitments amounting to £nil in respect of orders placed for capital expenditure (2019: £nil).

26. 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 19 to 23 and in the Group statement of changes in equity. Total equity was £8,066,000 at 31 July 2020 (£7,013,000 at 31 July 2019).

Notes to the financial statements continued
for the year ended 31 July 2020

26. Financial risk management continued

Capital risk management continued

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.

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 2020				
Trade receivables	**14**	**—**	**14**	**—**
Inter-company short-term loan to subsidiary	**—**	**—**	**—**	**—**
Cash, cash equivalents and deposits	**5,648**	**—**	**5,648**	**—**
Trade and other payables*	**—**	**(692)**	**(692)**	**—**
	5,662	**(692)**	**4,970**	**—**

Financial assets/(liabilities)	Loans and receivables £000	Financial liabilities £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	—

* 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.

26. Financial risk management continued

Foreign currency risk continued

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 2020 or at 31 July 2019 and the Group did not enter into any such contracts during 2020 or 2020.

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	**2020 Total £000**	GBP £000	USD £000	EUR £000	2019 Total £000
Cash, cash equivalents and deposits	5,623	16	9	**5,648**	2,219	125	39	2,383
Trade receivables	14	—	—	**14**	31	—	—	31
Trade payables	(654)	(3)	(35)	**(692)**	(645)	—	(26)	(671)
	4,983	13	(26)	**4,970**	1,605	125	13	1,743

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 2020			31 July 2019		
The Group	**Fixed rate £000**	**Floating rate £000**	**Total £000**	Fixed rate £000	Floating rate £000	Total £000
Cash, cash equivalents and deposits	**—**	**5,648**	**5,648**	—	2,383	2,383
The Company						
Cash, cash equivalents and deposits	**—**	**—**	**—**	—	—	—

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 2020 based on contractual undiscounted payments including contractual interest.

2020	**Less than one year £000**	**One to five years £000**	**Total £000**
Financial liabilities			
Trade and other payables*	**692**	**—**	**692**
Lease liabilities	**189**	**218**	**407**
	881	**218**	**1,099**

2019	Less than one year £000	One to five years £000	Total £000
Financial liabilities			
Trade and other payables*	759	—	759
	759	—	759

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

Notes to the financial statements continued
for the year ended 31 July 2020

26. Financial risk management continued

Maturity profile continued

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.

27. Related party transactions

During the year there was a subscription by Directors for 200,000 ordinary shares at 15 pence each (2019: £nil).

During the year, shareholder Aquarius Equity Partners Limited charged the Group £15,450 (2019: £15,450) for monitoring fees and was owed £nil at 31 July 2020 (2019: £1,288).

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 (2019: £2,025,000).

During the year, Director Harry Finch charged the Group £nil (2019: £2,200) for services which he provided as a technical consultant and was owed £nil at 31 July 2020 (2019: £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 2020 £000	31 July 2019 £000
Short-term loans owed to C4X Discovery Holdings plc by:			
C4X Discovery Limited	14	—	—
C4X Drug Discovery Limited		—	—
Adorial Limited		—	—
		—	—

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.

28. Compensation of key management personnel (including Directors)

	2020 £000	2019 £000
Short-term employee benefits	1,199	1,296
Pension costs	164	141
Benefits in kind	2	2
Share-based payments	100	121
	1,465	1,560

29. Post-balance sheet events

On 11 November 2020, the Company raised £15.0m before expenses via a placing of 99,169,286 ordinary shares and an open offer for 7,973,572 ordinary shares at 14 pence each.

Following the issue of these shares, the Company's ordinary share capital increased to 228,371,002 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 B Hoy

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