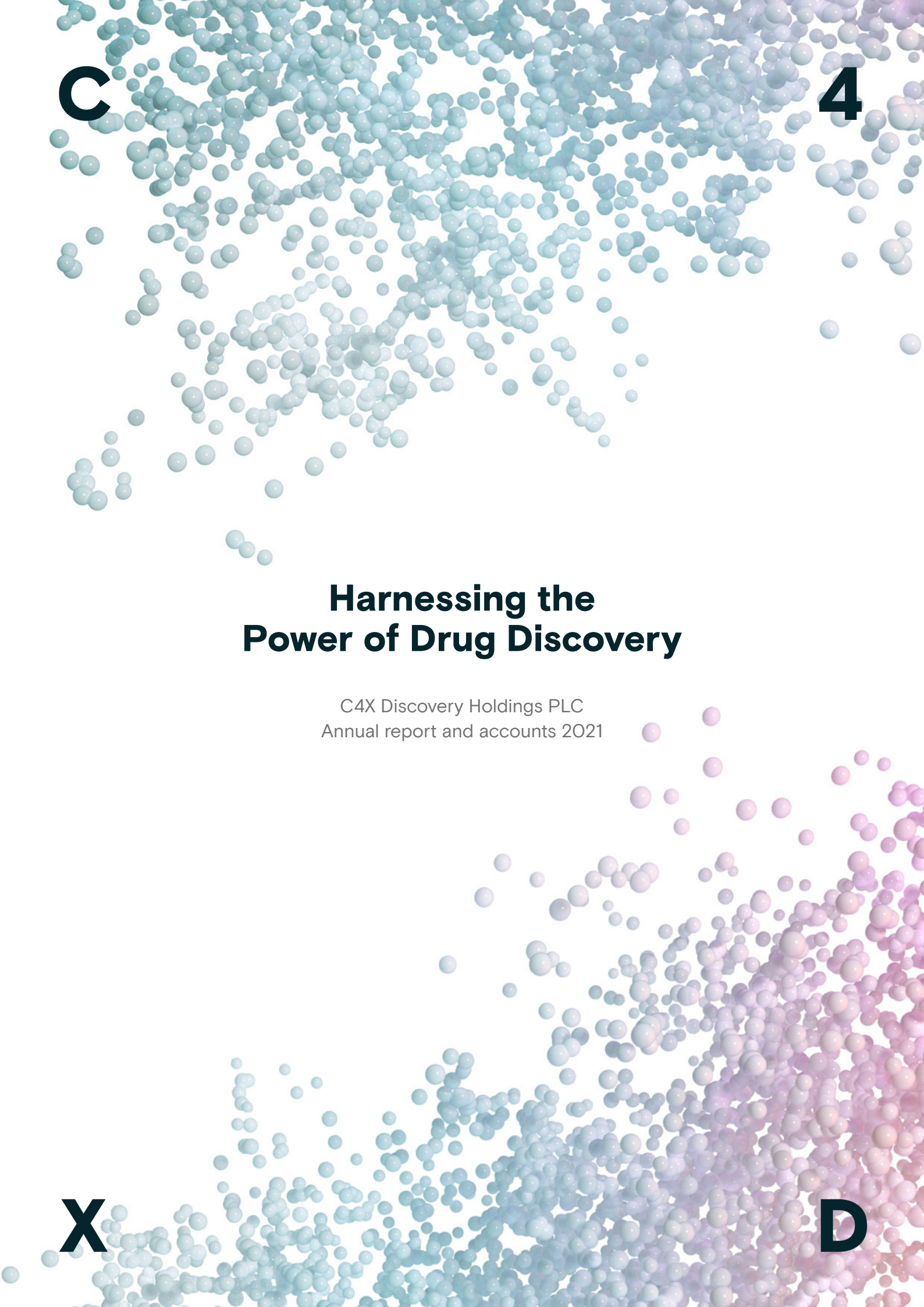


Harnessing the Power of Drug Discovery

C4X Discovery Holdings PLC
Annual report and accounts 2021

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

Strategic report

Corporate governance

Financial statements

Highlights

A Year of Progress Across Key Drug Discovery Programmes

Operational Highlights (including post-period events)

- Exclusive worldwide licensing agreement with Sanofi for C4XD's IL-17A oral inhibitor programme worth up to €414 million including:
  - €7 million upfront
  - €407 million in potential development, regulatory and commercialisation milestones, of which €11 million is in pre-clinical milestones
- Potential for single-digit royalties
- Indivior's Phase 1 with C4X_3256 progressing. Single ascending dose study in healthy volunteers successfully completed in April 2021 and preparation for multiple ascending dose study underway in parallel with the conduct of an FDA requested additional 28-day toxicology study due to toxicological findings observed with a competitor molecule
- NRF2 pre-candidate nomination and preliminary safety studies continue, and poster presented at the virtual European Crohn's and Colitis Organisation (ECCO) conference showing efficacy in a disease model
- α4β7 integrin inhibitor programme for the treatment of inflammatory bowel disease ("IBD") generated multiple chemical series showing significant selectivity vs α4β1 *in vitro* and oral bioavailability in PK studies. *In vivo* investigation of functional inhibition following oral dosing is underway
- C4XD has now taken on the leadership of the MALT-1 programme from LifeArc to drive it towards the later stages of drug discovery and deliver a commercial deal – three novel series identified, *in vivo* studies initiated
- Screening of Taxonomy3®-identified novel genes for Parkinson's disease recently completed by collaboration partner Phoremost with validation underway. Analysis of Ulcerative Colitis genetic dataset recently completed and evaluation of identified novel genes being formulated
- Collaboration with GEN-COVID Consortium to investigate the role genetics plays in the susceptibility, severity and prognosis between different individuals with COVID-19 completed
- Conformetrix technology patent was granted in the USA
- Board changes with appointment of Simon Harford and Dr Mario Polywka as Non-Executive Directors and resignation of Craig Fox as Chief Scientific Officer and Dr Harry Finch as Non-Executive Director

Financial Highlights

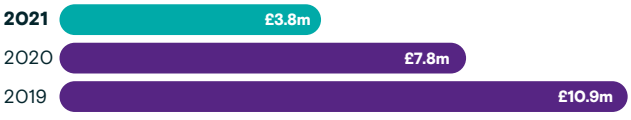
- Revenue was £5.6 million (2020: £nil)
- Total loss after tax of £3.8 million or 1.96 pence per share (2020: £7.8m or 8.10 pence per share)
- R&D expenses increased by 20% to £8.3 million (2020: £6.9m), reflecting focused investment in key Drug Discovery programmes
- Net assets of £19.3 million (2020: £8.1m)
- Successful £15.0 million fundraise (before expenses) with a total of 107,142,858 Placing Shares and 99,169,286 Warrants issued to new and existing shareholders
- Net cash as at 31 July 2021: £17.1 million (31 July 2020: £5.6m)

Revenue (£m)

£5.6m

Loss for the year (£m)

£3.8m



Net cash at year end (£m)

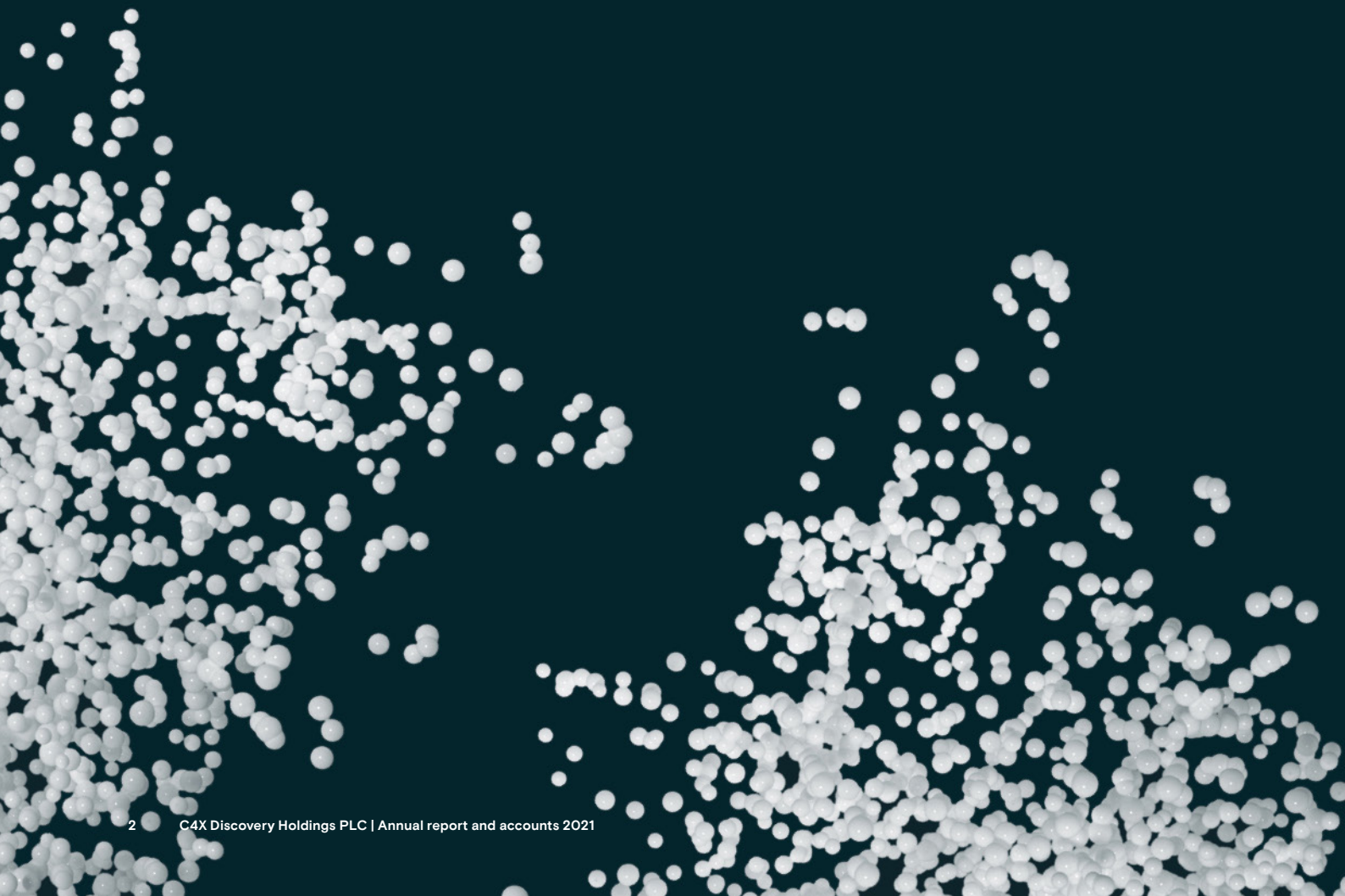
£17.1m

Investment in year

£15m

Strategic report

Strategic report



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 from biotechs 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 7

2

Commercially Attractive Portfolio

- Two partnered products with one in Phase 1 clinical trials
- Total deal value to date worth up to $800 million
- High value data packages building across the portfolio

Read more about our portfolio on page 12

3

Leadership Team

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

Find our Board of Directors on page 22

4

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 6

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 4

6

Targeting high value indications

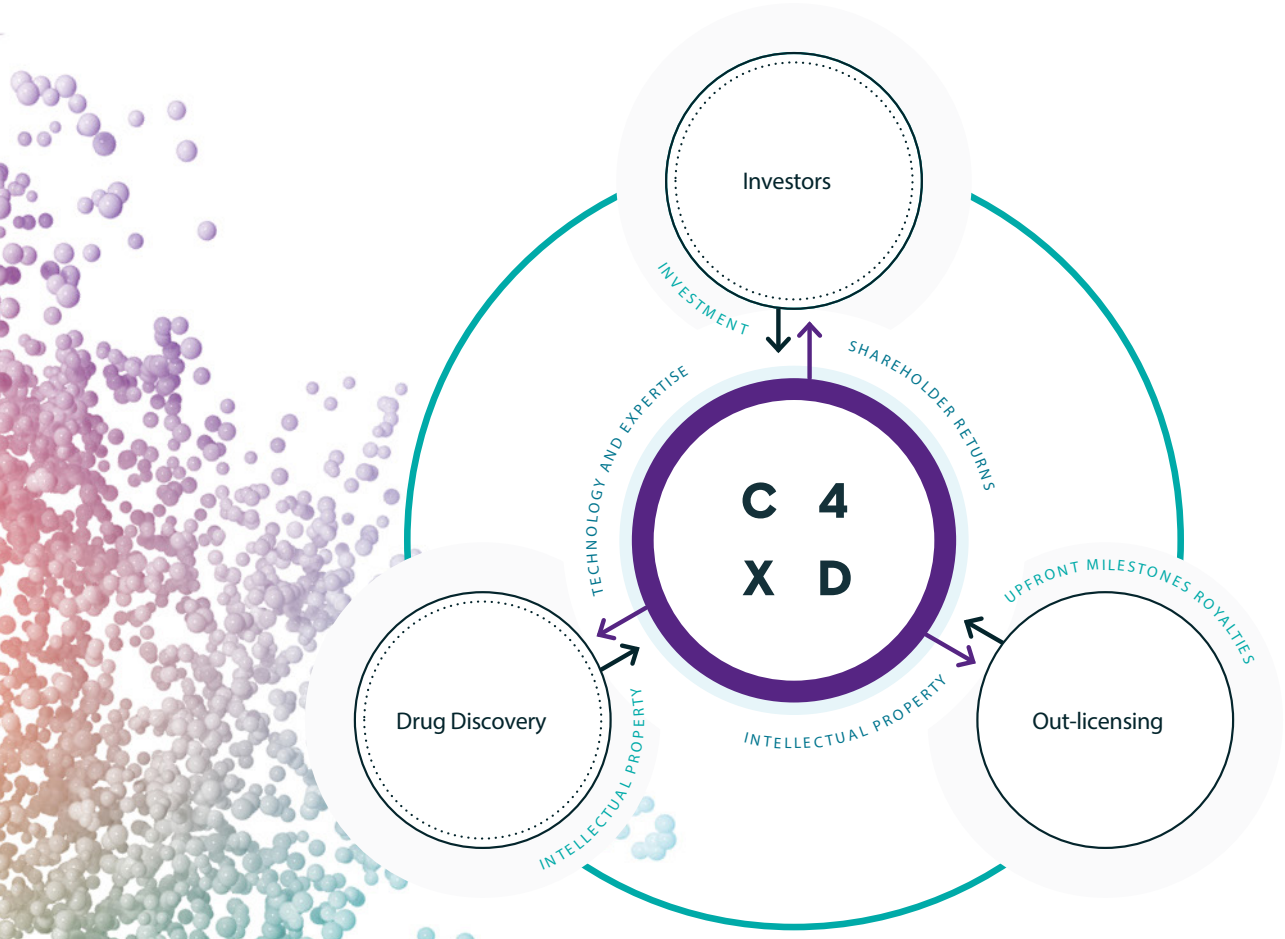
- Efforts focused on high value indications where the C4XD approach can bring real benefit – truly novel, small molecule drugs in inflammation, oncology and neurology

Read more about our portfolio on page 12

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	Drug Discovery studies			IND enabling	Clinical studies	Partners
		Target ID & Validation	Hit to Lead	Lead Optimisation			
Orexin-1 antagonist	Neuroscience						INDIVIOR
IL-17 inhibitor	Inflammation						SANOFI
NRF2 activator	Inflammation						
MALT-1 inhibitor	Oncology						
α4β7 integrin inhibitor	Inflammation						

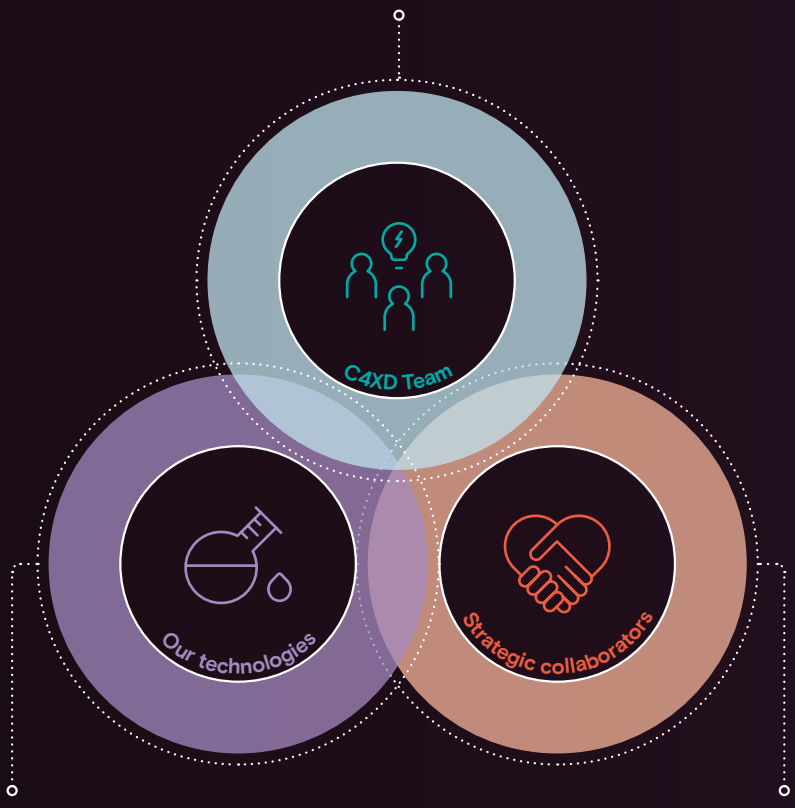
Our discovery expertise

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 through two licensing deals worth up to c.$800 million with Indivior for our Orexin-1 programme and Sanofi for our IL-17A inhibitor programme.

Chairman's Statement

Eva-Lotta Allan
Non-Executive Chairman

Expanding our portfolio and collaborator network

"Entering into our small molecule IL-17A collaboration is a major milestone for C4X Discovery and we are delighted to be working with Sanofi to create an oral, convenient therapy."

We generated considerable momentum during the financial year ended 31 July 2021, expanding and advancing our proprietary portfolio of pre-clinical programmes and entering into our second significant collaboration. Our new collaboration with Sanofi around our oral IL-17A programme, not only validates the strength of our portfolio but also our strategy to drive shareholder value through early-stage revenue generating deals. The deal marks a major milestone for C4X Discovery.

It is our belief that our IL-17A small molecule programme has the potential to create a high value, efficacious and convenient, oral IL-17A therapeutic and when combined with Sanofi's development capabilities, our programme can address additional indications beyond psoriasis. We are delighted to be working with Sanofi and look forward to seeing this programme advancing towards the clinic.

We continue to advance a solid portfolio of novel, pre-clinical, small molecule programmes applying our cutting-edge Drug Discovery technologies which are able to deliver high quality, differentiated drug candidates for development by pharma and biotech. While our proprietary portfolio is predominantly focused in the area of inflammation, we are actively pursuing other therapeutic areas including oncology and neurology. Potential partner discussions are ongoing across our portfolio so that we can identify the right opportunities for out-licensing our other lead programmes.

In October 2020, we completed a £15 million financing which was supported by our key existing shareholders as well as new shareholders. Importantly, this has enabled the Company to accelerate and broaden our proprietary portfolio of unique assets to near term inflection points and to strengthen the balance sheet as partnering discussions and strategic collaborations progress.

We continue to bring new skills and capabilities to our already diverse Board. In April, we welcomed Simon Harford as a Non-Executive Director and Chair of the Audit Committee. Simon has more than 30 years of financial and investor relations expertise in global pharmaceutical companies, including GSK and Lilly, and is currently the CFO at NASDAQ-listed Albireo Pharma. In November, we welcomed Dr Mario Polywka as Non-Executive Director and successor to Dr Harry Finch who has announced his retirement from the Board. Mario brings industry expertise from key leadership and board roles within the sector including 12 years as COO of Evotec SE. Together, Simon and Mario's understanding of the global healthcare industry will be invaluable as we continue to grow C4XD.

We also announced the resignation of Craig Fox, our Chief Scientific Officer, in November. Craig will remain with C4XD until the end of March. He has provided excellent guidance and leadership to the scientific team for six years, and both he and Harry will be sorely missed. A search is underway for Craig's successor and we will announce the new appointment in due course.

I would like to thank all of C4XD's employees and our partners for their dedication, hard work and contributions during the year and our shareholders for their continued support and belief in our vision.

Eva-Lotta Allan
Non-Executive Chairman
10 December 2021

Orexin-1 case study

The completion of the first-in-human clinical single ascending dose study by Indivior 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 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 state 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.

CEO's Statement

Clive Dix
Chief Executive Officer

€414m agreement with Sanofi demonstrates value and quality of C4XD portfolio

"This has been a tremendous year of progress across our entire portfolio, culminating in our second high-value deal with Sanofi. The £15 million raised allows us to advance and broaden our portfolio as we look to build value for shareholders."

We have made incredibly strong progress this year. In autumn 2020, we raised £15 million, and advanced each of our key programmes, resulting in a €414 million licensing agreement with Sanofi for our IL-17A oral inhibitor programme, demonstrating the value of C4XD's Drug Discovery expertise and our business model. The psoriasis market alone is estimated to be worth c.$24 billion per annum by 2027[1], and when combined with Sanofi's development capabilities, our programme has the potential to address additional indications beyond psoriasis. With Sanofi now leading this programme, our team continues to work with them on the earlier Drug Discovery work and we are excited to see how this programme develops.

Indivior has also continued to make excellent progress on C4XD's oral Orexin-1 receptor antagonist C4X_3256, also known as INDV-2000, for the treatment of addiction, which we out-licensed to them in 2018 for $294 million. With the Phase 1 single ascending dose clinical trial completed, preparation for the multiple ascending dose study is now underway.

Additional important milestones were met during the year and C4XD is now working to progress the rest of the portfolio including our NRF2 programme for inflammatory diseases, the α4β7 integrin inhibitor programme for Inflammatory Bowel Disease ("IBD") and our MALT-1 inhibitor programme for oncology and inflammation indications, where we have recently taken the lead in the development programme from LifeArc. Whilst there is much Drug Discovery work still to be done, we are reaching a stage where industry players are closely monitoring the status of each programme.

It will be important over the coming year to assess and augment our portfolio with the appropriate new target candidates, either through our own Drug Discovery techniques or potentially through work with partners. With two programmes now successfully partnered, a robust but carefully managed financial base and a roadmap of potential cash milestones over the next 24 months, the Board believes that C4XD has shown how we can deliver significant value for shareholders and we anticipate the coming year to continue apace.

In September we rebranded our website and corporate materials, resulting in a more contemporary look which we feel reflects the real us – where we are today, the pioneering scientific work that we do and the quality of companies that we partner with - a new image to take us forward in line with our vision.

Post-period, we announced the departure of our CSO, Craig Fox and retirement of Harry Finch, Non-Executive Director. We thank them for their hard work, commitment and inspiration, and we wish them well in their future endeavors. We also welcomed our two new Non-Executive Directors, Simon Harford and Mario Polywka, who bring valuable expertise which will be critical as we look to expand our portfolio and expedite new deals.

On behalf of the Board, I would like to thank our incredibly hard-working employees. They have advanced key programmes across our portfolio and without their commitment, we would not be where we are today. I am proud to be working with such talented people.

Outlook and summary

Following the €414 million agreement with Sanofi for our IL-17A oral Inhibitor programme, C4XD is focused on driving forward its portfolio towards future out-licensing opportunities, including NRF-2 where there is significant partnering interest. Over the next 12-24 months we will look to advance and augment our portfolio to deliver the next generation of high value, commercially attractive candidates to secure strategic collaborations with high quality partners and deliver value for our shareholders.

Clive Dix
Chief Executive Officer
10 December 2021

1. Plaque Psoriasis: Global Drug Forecast and Market Analysis to 2027, GlobalData, December 2018

IL-17A Inhibitor case study

Our second partnered programme, licensed to Sanofi in 2021, represents further validation of C4XD's drug discovery platform and an opportunity to bring a much-needed oral therapy to patients.

Right Target

The IL-17 family of cytokines are strong inducers of inflammation and are implicated in a variety of autoimmune diseases including psoriasis, psoriatic arthritis and ankylosing spondylitis. Current treatments targeting IL-17 are monoclonal antibodies administered *via* an injection. There is an urgent need for safe and efficacious oral small molecule therapies to increase the number of patients able to access IL-17 targeted drugs and expand availability into new inflammatory disease indications.

Right Data

C4XD demonstrated that multiple molecules from our small molecule IL-17A inhibitor programme can selectively block IL-17 activity *in vivo* whilst maintaining molecular size of the molecule in the traditional "drug-like" range suitable for oral administration.

Right Time

Multiple competitor patents for IL-17A small molecule inhibitors published in 2020/2021, restricting the available chemical space, and driving increased demand from partners for high potential programmes with a strong IP position that secured freedom-to-operate. C4XD's Conformetrix-led design strategy moved our programme into novel patentable chemical space creating novel IP and patents were filed, creating an attractive proposition for partners.

Right Partner

Sanofi has deep capabilities across inflammatory disease, exemplified by its market leading Dupixent franchise and strong pipeline across multiple disease areas. The Sanofi research team are continuing to work with the C4XD team to access our unique know-how and proprietary 4D Conformetrix technology, as the discovery programme advances towards the clinic.

Portfolio Review

Two partnered products with strong pipeline of Drug Discovery programmes

C4XD saw progress across its drug discovery portfolio, with a number of programmes making significant advances, particularly in inflammation with the announcement post period of a €414 million exclusive, worldwide out-licensing agreement with Sanofi for our IL-17A inhibitor programme. Together with advancements in early innovation projects and partnered collaborations, C4XD continues to focus on building a sustainable pipeline of potential future out-licensing opportunities.

Addictive disorders (Orexin-1 Antagonist)

Phase 1 clinical trial progressing

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. This patent family is now granted in the main commercially relevant territories of the US, Europe, Japan and China.

INDV-2000 has recently completed a Phase I first in human single ascending dose clinical trial showing encouraging safety and pharmacokinetics in healthy volunteers. Indivior has been requested to perform an additional 28-day repeat-dose toxicology study by the FDA following non-clinical findings from a competitor molecule. Preparation for the initiation of a multiple ascending dose study to be conducted by Indivior is underway in parallel. > To find out more information, please follow this link.

Inflammation (NRF2 Activator)

Multiple therapeutic opportunities

The Company has identified a series of novel potent activators of the NRF2 pathway for the treatment of a variety of inflammatory diseases. These keap-1 inhibitors in our oral NRF2 activator programme, which have been found to significantly activate NRF2 following oral dosing, providing anti-inflammatory and anti-oxidant activity. In C4XD studies, multiple lead compounds show greater than 12-hour duration of action following low oral dosing on activation of NRF2 in key tissues such as the lung, the liver and in blood.

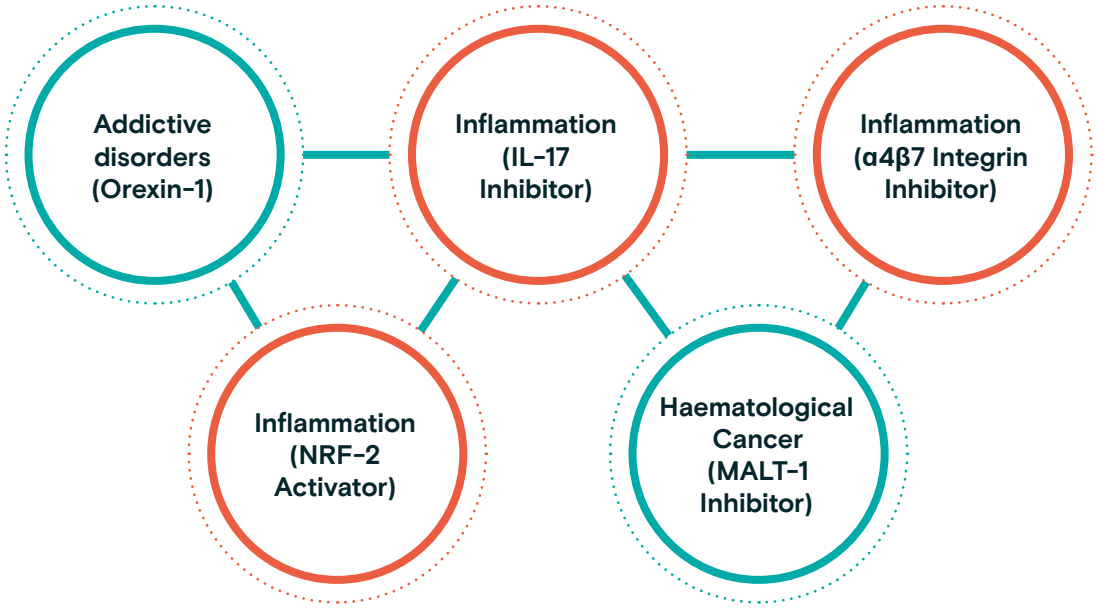
There is significant partnering interest in this programme based on a limited number of potent NRF2 activators with described oral bioavailability. Interest in this therapeutic approach covers multiple therapeutic areas including Chronic Obstructive Pulmonary Disease ("COPD"), IBD, Pulmonary Arterial Hypertension ("PAH") and Sickle Cell Disease ("SCD"). Material Transfer Agreement (MTA) studies are underway where C4X molecules are examined by potential partners in their in-house biological assays and models linked to their preferred disease indication.

The Company recently presented a poster at the virtual ECCO conference demonstrating efficacy and antioxidant activity in an IBD model > Read more here. Pre-candidate nomination studies and preliminary safety studies continue including significant drug substance scale-up to support longer-term studies.

Inflammation (IL-17A Inhibitor)

Partnered with Sanofi for €414 million

C4XD has identified small molecules in its oral IL-17A 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-17A inhibitors that significantly reduce IL-17 induced inflammation *in vivo* is being optimised towards candidate shortlist. In April 2021, C4XD announced an out-licensing agreement with Sanofi for its IL-17A inhibitor programme for up to €414 million. The Company has received an upfront payment of €7 million and could receive up to a further €407 million in potential development, regulatory and commercialisation milestones, of which €11 million is in pre-clinical milestones, in addition to single digit royalties. Sanofi will take control of the programme but will continue to work with C4XD in the next discovery phase to utilise our Conformetrix technology and expertise as the programme progresses towards the clinic.



Haematological Cancer (MALT-1 Inhibitor)

C4XD has now taken the leadership role in the LifeArc collaboration

In November 2018, C4XD entered into a risk-share 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, with a primary focus on haematological cancers. 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 have now delivered molecules with at least equivalent potency to J&J's clinical candidate JNJ-67856633 and recently molecules with good oral PK profiles have been synthesised. These will shortly be tested *in vivo* to show equivalent inhibition to that achieved with JNJ-67856633. C4XD is now taking on leadership of the MALT-1 programme from LifeArc to drive it towards the later stages of drug discovery and deliver a commercial deal.

Inflammation (α4β7 Integrin Inhibitor)

Significant progress

C4XD's oral α4β7 integrin inhibitor programme has identified novel, potent and selective α4β7 integrin inhibitors for the treatment of IBD. 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.

During 2021, Morphic Therapeutic, which has the most advanced oral small molecule α4β7 Integrin Inhibitor programme, completed the Phase 1 clinical study of its lead molecule MORF-057. High target occupancy was demonstrated in blood at developable doses but with a twice daily profile. This leaves the opportunity for a once-a-day profile to be a key competitive differentiator which C4XD is aiming for in its programme. Both series have demonstrated oral bioavailability in PK studies and there is particular focus on improving PK properties to achieve a good oral half-life. A prototype molecule has recently shown a signal in functionally inhibiting α4β7 integrin *in vivo* following oral dosing and this is currently being repeated to confirm activity. External interest in this programme remains significant and discussions should gain significant traction if the Company can demonstrate robust activity *in vivo* after oral dosing when accompanied by a good oral half-life potentially indicating a once-daily profile.

Portfolio Review continued

New Discovery Evaluation Stage Programmes

Following the completion of the transaction with Sanofi on the IL-17A programme, several new evaluation stage programmes were initiated to establish whether applying the Company's ligand design capabilities to a selection of new targets could result in novel chemical series leading to additional programmes in the pipeline. Updates on these evaluations will be provided in the future once robust data has been generated exemplifying novel chemical matter.

Taxonomy3®

C4XD continues to progress the validation of its proprietary Taxonomy3®-derived novel targets for Parkinson's disease (PD), utilising a diversified strategic approach with internal efforts in addition to a key collaborative partner, Phoremost. Almost all genetic variation between patients with and without Parkinson's is in the non-coding region of DNA where these variants can affect expression of specific genes in a cell specific manner. C4XD has focused on the impact of novel genes identified from this analysis in phenotypic assays based on neuronal and microglial cells; two key cell types identified in the pathophysiology in PD, with studies continuing.

Very recently, screening of 338 PD genes identified by Taxonomy3® using Phoremost's Siteseeker technology has been completed in a neuroinflammation microglial assay where peptides targeting a specific subset of these genes have been found to inhibit the inflammatory signal. Follow-up studies are underway to provide existing validation to these potential exciting novel targets.

A new analysis of an ulcerative colitis patient genetic dataset has recently been completed using Taxonomy3® and novel genetic variants have been identified with investigation into these novel genes initiated. A subset of these novel genes will be examined in key phenotypic cells assays relating to IBD.

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 used 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. In contrast to other public domain genetic analysis, the GEN-COVID study enabled the comparison of moderate to severe COVID-19 patients, removing any genetic influence on the propensity to be infected with COVID-19. Following completion of the analysis, whilst Taxonomy3® was able to separate moderate and severe patients based on the overall genetic signature (suggesting there is a genetic as well as environmental influence on disease severity), none of the individual genes had a signal that was statistically significant.

Financial review

Brad Hoy
Chief Financial Officer

Continued support from shareholders

"We thank our shareholders for their continued support. The partnership with Sanofi demonstrates our ability to deliver shareholder value and with a sound financial base, we are focused on driving forward our portfolio of proprietary assets to future out-licensing opportunities."

Revenue for the 12 months ended 31 July 2021 was £5.6 million (2020: £nil). The revenue recognised in the current year is part of the €7 million upfront payment from Sanofi on the signing of the IL-17A licence agreement.

R&D expenses, which comprise invoiced material costs, payroll costs and software costs, have increased by 20% to £8.3 million for the year ended 31 July 2021 (2020: £6.9m). This reflects focused investment in key Drug Discovery programmes as outlined in the Non-Executive Chairman's and CEO's Statements.

Administrative expenses increased during the year to £3.2 million (2020: £2.7m) as a result of the continued investment in people and infrastructure.

This year the R&D income tax credit receivable is £2.1 million (2020: £1.8m) and is reflective of the additional investment in R&D costs over the last 12 months.

The loss after tax for the year ended 31 July 2021 was £3.8 million (2020: £7.8m). This equates to a basic loss per share of 1.96 pence per share (2020: 8.10 pence per share) and diluted loss per share of 1.82 pence per share (2020: 8.10 pence per share).

A successful fundraise in November 2020 saw the Group raise £15.0 million (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. In addition, 99,169,286 warrants were issued over ordinary shares, exercisable at 28p per share with an exercise period of 5 years.

The Group had net assets at 31 July 2021 of £19.3 million (2020: £8.1m) and cash and cash equivalents of £17.1 million (2020: £5.6m).

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

These financial statements have been prepared on a going concern basis, notwithstanding a consolidated operating loss for the year ended 31 July 2021 of £5.9 million (2020: £9.6m), revenues of £5.6 million (2020: £nil) and net cash used in operating activities of £3.1 million (2020: £5.1m). The Directors consider this to be appropriate for the following reasons:

The Board has prepared cash flow forecasts for the period to 31 July 2023, being 21 months from the date of signing the financial statements, including consideration of severe but plausible downside scenarios which takes into account the delayed receipt of forecast R&D tax credits from HMRC and the impact of price increases from its suppliers.

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.

Brad Hoy
Chief Financial Officer
10 December 2021

Q&A with Eva-Lotta Allan

Non-Executive Chairman

Why diversity is key to successful Boards

What does Board diversity mean to you?

Board diversity is important. The meaning of diversity can differ but it includes both social diversity such as age, race and gender, and professional diversity such as expertise and skills. For me, it is particularly essential to have a professionally diverse Board to support the management team in all aspects of a company's vision, strategy and tactics.

How has the demand for more diverse Boards and leadership teams in the life sciences changed in the past five years? What have been the key drivers for this?

Social diversity, in particular more women on Boards, is changing. Over the last five years, as I have been expanding my portfolio of Board positions, I have seen an increase in the number of women joining Boards as independent directors, investor directors as well as Chair of the Board. Some countries require the Board to have a balance between male and female. However, this isn't the case in our industry, where Boards remain very male dominated. Other social diversity elements such as age and race, are also lagging behind.

What should companies be doing to encourage a more diverse Board?

The Chair and Nomination Committee should continuously review whether the Board has the right skills and expertise, add new Board Directors as required and if possible, when replacing a retiring Board Director, ensure that social diversity is also taken into consideration.

By expanding the Board selection criteria and recruitment channels, diversity should increase over time. In my opinion, one should select the new members of the Board based on their professional skills rather than social skills. However, in order to obtain social diversity, we need to work harder to identify the right potential candidates who have the professional skills required but also fit the social diversity gap.

How can implementing Board diversity bring success?

I believe better Board diversity can improve decision making and corporate governance. It can also help to attract and retain top talent. In some cases, a more diverse Board can help brand building, corporate performance and support the company to better achieve its vision.

What are the potential risks to companies not taking Board equality seriously?

A Board which isn't diverse risks making the wrong decisions by only looking at issues from one perspective. If Board directors have the same professional expertise and also social background it is more likely the Board is incapable of supporting the company in all aspects going forward.

How is C4XD working towards building a more diverse Board?

In 2018 when I joined the C4XD Board, together with Natalie Walter, the gender diversity was dramatically improved but more importantly the professional diversity altered by bringing in expertise which was lacking on the Board and filling that gap. Since then, we have also added additional expertise by appointing Simon Harford earlier this year to strengthen our financial expertise on the Board. We continuously look to improve our Board diversity.

How do you think diversity within C4XD's Board has helped the Company achieve its goals?

By having a professionally very diverse Board, I believe the Board has been able to support the Company with all other aspects beyond strategic planning and implementation. This includes financial, legal, business development and HR as well as scientific support. I believe the Board is always ready to help as and when required and individual Board members continue to build relationships with the Executives and the rest of the C4XD team.

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.

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.

Executive Directors

Find the Board of Directors on pages 22 and 23

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.

Audit Committee

Read about Audit Committee on pages 29 and 30

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.

Board

Read about corporate governance from page 21

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.

Principal risks and uncertainties

Trend key

Increasing Risk | Decreasing Risk | Unchanged

Risk Category/description	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.	⇔
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.	⇔
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 to enable progression, and they are monitored and actively 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 success of its Indivior and Sanofi partnered programmes and ongoing progress and commercial interest with its other programmes.	⇔
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.	⇔
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.	⇔

Risk Category/description	Management	Trend vs previous year
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.	
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	
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. The year-end cash position is strong (~£17m), and costs are carefully controlled across all activities to ensure the resources are deployed optimally to facilitate delivery of the commercial goals. We maintain close relationships with our principal and potential providers of finance and continue to review the need for additional or alternative funding. There is also more optimism in the markets, with capital now being deployed at a greater rate in the Biotech area.	
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 to ensure that the Group can attract and retain talent. C4XD 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.	
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.	
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.	

Principal risks and uncertainties

Trend key

Increasing Risk | Decreasing Risk | Unchanged

Risk Category/description	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.	⇔
COVID-19		
The worldwide spread of COVID-19 has resulted in public health responses including travel bans, restrictions and social distancing requirements. This could lead to a global slowdown of economic activity that could negatively affect the Company's operations and financial performance.	The situation continues to change rapidly and can be difficult to predict. However, our priority is the safety of our employees, and we are fully supporting a hybrid working arrangement, enabling employees to balance their time in the office with home working, in line with our business continuity management framework. All business travel is discouraged, with meetings being held virtually where possible. 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 during the financial year, and a partnering deal with Sanofi. Certain scientific activities were initially 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.	⇔

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 29 of the Corporate Governance Report which considers of each of the points above in greater detail.

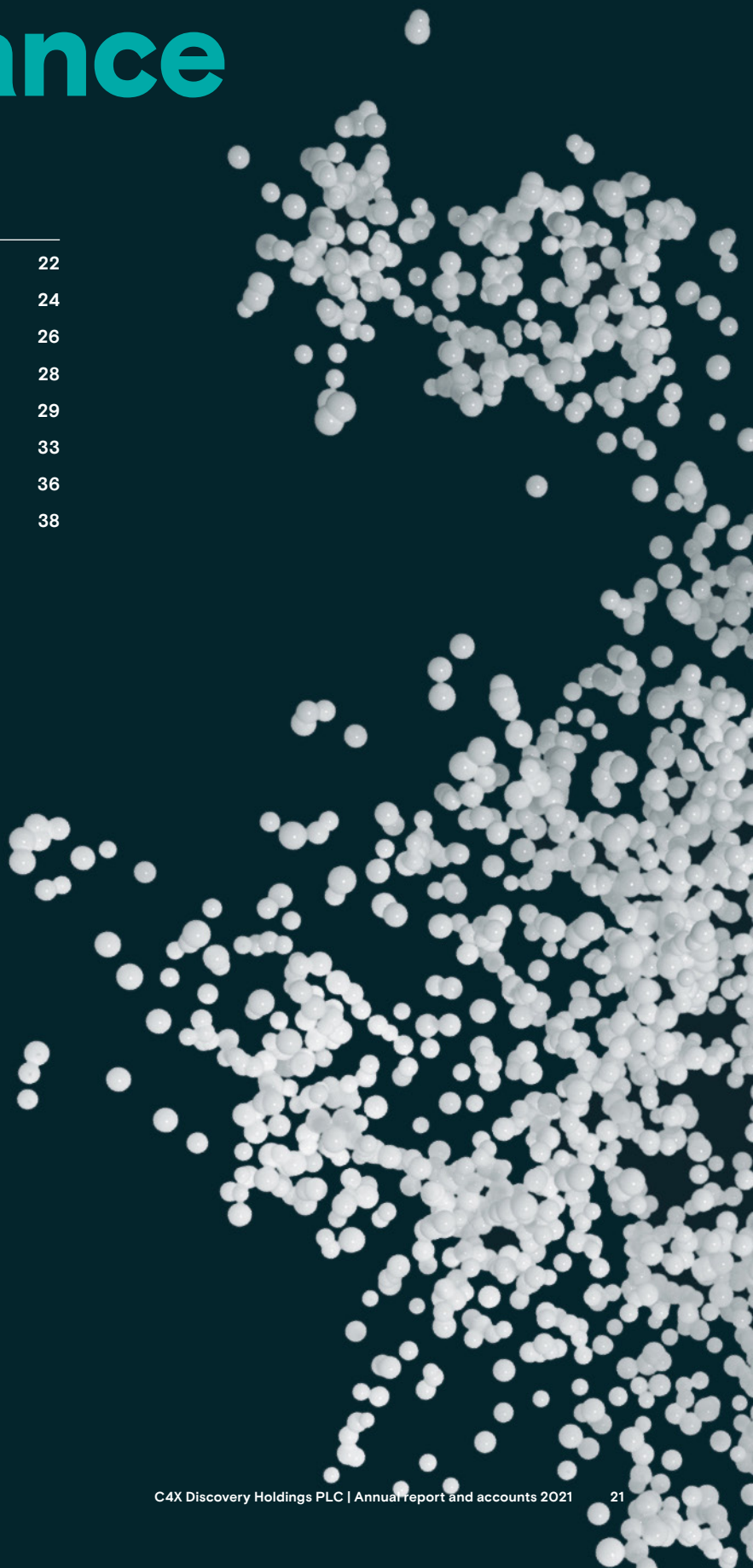
By order of the Board

Brad Hoy
Chief Financial Officer
10 December 2021

Clive Dix
Chief Executive Officer
10 December 2021

Corporate Governance

Strategic report



Board of Directors

Eva-Lotta Allan

Non-Executive Chairman

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.

Eva-Lotta currently serves as Chair of Draupnir Bio, Non-Executive Director and member of the Corporate Governance Committee and the R&D Sub-Committee of Oslo listed company, Targovax ASA, Non-Executive Director and member of the Nomination and Remuneration commission of Almirall, and Non-Executive Director of Crescendo Biologics and Aleta Biotherapeutics. Eva-Lotta was a Board member of the UK BioIndustry Association (BIA).

Clive Dix PhD

Chief Executive Officer

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

Clive was Co-Founder and CEO of Convergence Pharmaceuticals Ltd, acquired by Biogen, and Co-Founder and CEO of PowderMed Ltd, acquired by Pfizer. Previously, he was SVP, Research and Development and a Board member of PowderJect Pharmaceuticals plc, acquired by Chiron Vaccines. Clive began his career in industry at Ciba-Geigy and GlaxoWellcome.

Clive is currently Non-Executive Chairman of Centauri Ltd and a NonExecutive Board member of the Medicines Discovery Catapult. He was Chairman of the BioIndustry Association and recently was interim Chair of the UK Vaccines taskforce, the group set up by the Government to tackle the COVID-19 pandemic and oversee the supply of one of the most successful vaccine rollout programmes in the world.

Craig Fox PhD

Chief Scientific Officer

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. 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 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.

Brad Hoy

Chief Financial Officer

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.

Harry Finch PhD

Non-Executive Director

Harry has significant experience within the pharmaceutical industry, specialising in medicinal chemistry, drug discovery and development. Currently he is an independent consultant working with a variety of small biotech companies and investors, many of which are in the oncology arena.

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. More recently Harry has created a new start-up in the protein degradation arena from funds raised with BII Innovation.

Alex Stevenson PhD

Non-Executive Director

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, 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. 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

Natalie is a corporate finance lawyer with more than 20 years of experience advising on international equity capital markets transactions in the healthcare sector. 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.

Simon Harford

Non-Executive Director

Simon's career spans more than 30 years with significant financial and investor relations expertise in global pharmaceutical companies. Simon is currently CFO at Albireo Pharma Inc., a NASDAQ-listed biotech company where he has raised more than $200 million in equity financing and was previously CFO of Parexel International Inc., a global clinical research organisation, which was acquired by private equity in 2017. Prior to this, Simon held various financial leadership roles at GSK, including SVP Finance, Global Pharmaceuticals. During his tenure, he was responsible for finance in all pharmaceutical markets globally and was a member of the Global Pharmaceutical Operations Committee. Simon also held key financial management roles at Eli Lilly and Company over two decades including Vice President and Controller, CFO and Executive Director Finance for Europe, Middle East and Africa (EMEA) and led the global investor relations function as Executive Director of Investor Relations. He also received the Lilly, Chairman's Ovation Award 2004 for outstanding achievement to Lilly. Simon has an MBA from the Darden School of Business at the University of Virginia.

How the Board communicates 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

With the COVID-19 pandemic remaining an ongoing problem across the globe and the situation continuing to change rapidly, making it difficult to predict, our priority is the safety of our employees and reducing their exposure to the virus. We fully support a hybrid working arrangement, enabling employees to balance their time in the office with home working, in line with our business continuity management framework.

All business travel continues to be discouraged, with meetings being held virtually where possible. Certain scientific activities were initially 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. A strict review of non-essential expenditure was conducted and following a significant fundraise during the financial year and a partnering deal with Sanofi, the Board does not consider there to be a material uncertainty for the next 12 months. We remain confident with continued progress towards industry licensing deals throughout the coming year.

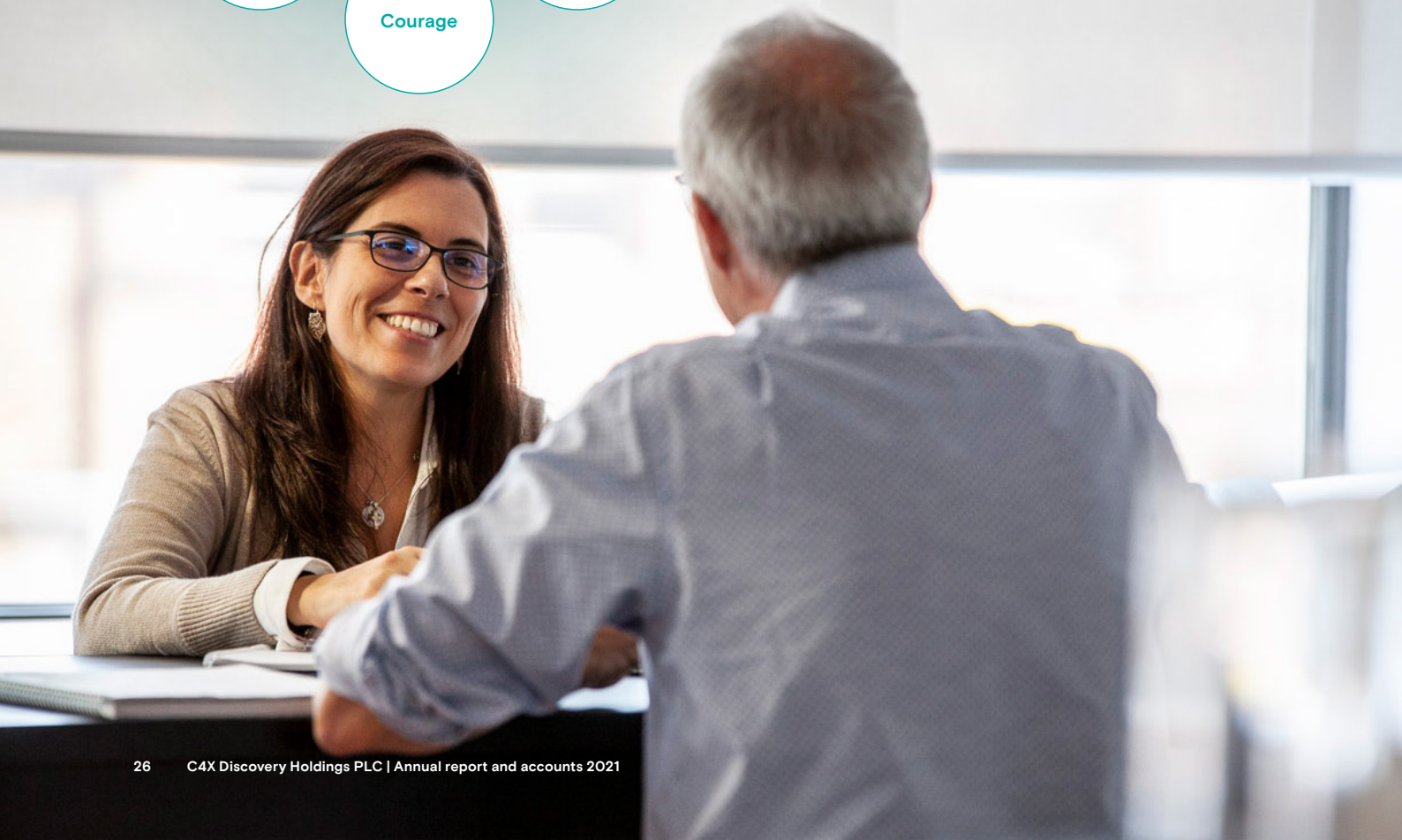
The C4XD Team

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 environment 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.

Q&A with Clare Murray

VP Biology

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

I am VP Biology at C4XD. This involves leading the team of biologists who support the Drug Discovery and Taxonomy3® projects. I am also project leader for the NRF2 activator project.

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

I was recruited to join C4XD after working at AstraZeneca for over 20 years. Initially I joined as project manager for the Pre-clinical Development phase of the Orexin-1 project and led that until it was successfully partnered with Indivior. Subsequently my role has broadened to include line management of the biology team as well as providing support for a range of projects across the portfolio.

What are the main challenges you face in your role?

The main challenge in my role is that, as a virtual organisation, I work with multiple CROs providing the experimental support for the projects. This provides us with a high level of flexibility to access the best capabilities for each project, but it can be difficult to maintain good communication and coordinate the work with so many different companies.

What is the best aspect of it?

The best aspect is that working in a small company provides a lot of variety and exposure to all aspects of the business. We can also be very agile in moving projects forward with minimal bureaucracy.

Why is working in Drug Discover so challenging?

Drug Discovery is challenging as there are always lots of problems to overcome within each project. These can be very different depending on the stage of the project - ranging from how to set up the optimal assay for initial screening to generating a compelling data package to support partnering discussions.

Why do you like working at C4XD?

C4XD is an exciting company to work for as the science is underpinned by unique technologies (Conformetrix and Taxonomy3®) that allow us to progress projects that are really challenging such as the IL-17A inhibitor project where we identified small molecule Protein Interaction inhibitors. The Company has also been really supportive during the last year and organised activities to keep everyone interacting and engaged whilst we were working remotely.

What do you like to do to relax?

I enjoy puzzles and Escape Rooms as well as walking in the Cheshire countryside near to my home.

What is your favourite film, and why?

My favourite film is The Greatest Showman - I love a good musical!

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:

Corporate Governance Section on website

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 22-23. The current Directors served throughout the period under review, with the exception of Simon Harford, who joined the Board on 20th April 2021. 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 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.

Corporate Governance Statement continued

Independence

The Board considers that all the Non-Executive Directors, together with the Non-Executive Chairman, Eva-Lotta Allan, bring an independent judgement to bear. 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 Director's Remuneration Report section 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. In particular, during this period, members of the remuneration committee have attended webinars and briefings (Deloitte Academy) relating to corporate governance aimed specifically at remuneration committee members of life science companies.

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 now chaired by Simon Harford (formerly 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.

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.

	Full Board	Audit Committee	Nomination Committee	Remuneration Committee
Number of meetings in year	6	3	1	4
Executive Directors				
Clive Dix	6	-	-	-
Brad Hoy	6	-	-	-
Craig Fox	6	-	-	-
Non-Executive Directors				
Eva-Lotta Allan	6	-	1	2
Harry Finch	6	-	-	4
Alex Stevenson	6	3	1	2
Natalie Walter	6	3	-	4
Simon Harford	2	1	-	-

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.

The Chairman consolidates the responses, highlighting significant improvements or deteriorations in any area, leading to actions being agreed for any areas requiring improvement. Following this year's evaluation, further information and feedback has been requested from the Company broker, and investor relations, to be included in the Board pack. Additionally, Simon Harford was hired as a Non-Executive Director, to bring complementary skill and experience to the Board, addressing an identified skills gap.

Corporate Governance Statement continued

In addition to the questionnaire, 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 27 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 £17.1 million at 31 July 2021 (2020: £5.6m). 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, 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.

Director's 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 35.

The Remuneration Committee acknowledge the importance of properly incentivising employees. During the year, the Remuneration Committee, with the assistance of external advisers, Deloitte, undertook a review of the current remuneration and benefits package for employees. Following the review, minor amendments to the current remuneration and benefits package were implemented, notably the introduction of additional LTIP awards for exceptional performance.

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.

Letters of Appointment

Eva-Lotta Allan (Non-Executive Chairman) entered into a letter of appointment with the Group on 4 July 2018. The appointment was for an initial term of three years (subject to re-election by shareholders as required by the Articles) and is terminable thereafter 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 was for an initial period of three years from admission to the AIM market (subject to re-election by shareholders as required by the Articles) and is terminable thereafter 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 (2020: £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 was for an initial period of three years from admission to the AIM market (subject to re-election by shareholders as required by the Articles) and is terminable 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 was for an initial period of three years (subject to re-election by shareholders as required by the Articles) and is terminable by the Group in various specified circumstances and in any event by either party on three months' notice.

Simon Hartford (Non-Executive Director) entered into a letter of appointment with the Group on 20 April 2021. 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 by the Group in various specified circumstances and in any event by either party on three months' notice.

Director's Remuneration Report continued

Directors' shareholdings

Directors' interests in the shares of the Group, including family and beneficial interests, at 31 July 2021 were:

	Ordinary shares of 1p each			
	31 July 2021 Number	**31 July 2021 %**	31 July 2020 Number	31 July 2020 %
Eva-Lotta Allan	**–**	**–**	–	–
Clive Dix	**1,588,920**	**0.70%**	1,588,920	1.30%
Brad Hoy	**–**	**–**	–	–
Craig Fox	**14,538**	**0.01%**	14,538	0.01%
Harry Finch	**388,098**	**0.17%**	388,098	0.30%
Alex Stevenson*	**485,403**	**0.21%**	485,403	0.40%
Natalie Walter	**66,666**	**0.03%**	66,666	0.10%
Simon Harford	**–**	**–**	–	–

* Alex Stevenson's interest in the prior year was 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. These shares are now held personally rather than through the funds.

Directors' remuneration (audited information)

The remuneration of the Directors, who served on the Board of C4X Discovery Holdings plc during the year to 31 July 2021, 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	166	–	28	–	–	–	**194**
Brad Hoy	167	–	28	1	–	–	**196**
Craig Fox	138	–	28	18	2	–	**186**
Non-Executive Directors							
Eva-Lotta Allan	80	–	–	1	–	–	**81**
Harry Finch*	30	–	–	–	–	–	**30**
Simon Harford	8	–	–	–	–	–	**8**
Alex Stevenson**	19	–	–	–	–	–	**19**
Natalie Walter	30	–	–	1	–	–	**31**
	638	–	84	21	2	–	**745**

31 July 2020 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	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**

* Harry Finch's other earnings comprise remuneration in connection with the services he provided as a technical consultant.
** Alex Stevenson's remuneration took the form of monitoring fees paid to Aquarius Equity Partners Limited until April 2021. Remuneration is now via payroll.

Directors' share options (audited information)

Directors' interests in share options to acquire ordinary shares of 1 pence in the Group as at 31 July 2021 were:

Share options	Date granted	Exercise price	At 31 July 2020	Exercised during the year	Replaced during the year	Granted during the year	At 31 July 2021
Clive Dix	29 Nov 2019	£0.162	250,000	–	–	–	**250,000**
	28 Jul 2020	£0.16	195,000	–	–	–	**195,000**
	14 Dec 2020	£0.20	–	–	–	200,000	**200,000**
Harry Finch	8 Jun 2015	£1.00	20,000	–	–	–	**20,000**
Brad Hoy	29 Nov 2019	£0.162	250,000	–	–	–	**250,000**
	28 Jul 2020	£0.16	350,000	–	–	–	**350,000**
	14 Dec 2020	£0.20	–	–	–	200,000	**200,000**
Craig Fox	29 Nov 2019	£0.162	250,000	–	–	–	**250,000**
	28 Jul 2020	£0.16	250,000	–	–	–	**250,000**
	14 Dec 2020	£0.20	–	–	–	200,000	**200,000**

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 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 options granted on 14 December 2020 are exercisable at any time between three years and 10 years of them being granted.

The market price for C4XD shares as at 31 July 2021 was 31.5 pence per share; the highest and lowest prices during the year were 45.0 pence and 15.5 pence respectively.

No options were granted during the year below market value.

Natalie Walter
Chair of the Remuneration Committee
10 December 2021

Director's report

The Directors present their report and the audited financial statements for the Group and parent company for the year ended 31 July 2021.

Financial instruments

Details of the Group's financial risk management objectives and policies are disclosed in note 27 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 14.

Total research and development spend was £8,263,000 (2020: £6,858,000). No development expenditure was capitalised in the period (2020: £nil) for the reasons provided in note 3 to the accounts.

Dividends

The Directors do not recommend payment of an ordinary dividend (2020: £nil).

Share capital and funding

As at 31 July 2021 share capital comprised 227.8 million ordinary shares of 1p each (2020: 119.2m ordinary shares), 2.0 million deferred shares of £1 each (2020: 2.0m shares) and 97.9 million warrants over ordinary shares of 1p each (2020: nil). Full details of the Group's and Company's share capital movements during the period are given in note 19 to the financial statements.

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
Simon Harford*
Dr Clive Dix
Mr Brad Hoy
Dr Craig Fox

* Simon Harford joined the Board of Directors on 20 April 2021

Biographies of the Directors can be found on pages 22 to 23.

Details of Directors' remuneration and interests in the share capital of the Group are shown in the Directors' Remuneration Report on pages 36 to 37.

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 2021:

	31 Jul2021 No. shares	%
Mr Richard I Griffiths (Guernsey)	55,982,802	24.6
Polar Capital (London)	30,000,000	13.2
Lombard Odier Asset Mgt (London)	29,937,579	13.1
Baillie Gifford & Co (Edinburgh)	14,314,028	6.3
Calculus Capital (London)	9,435,593	4.1
Octopus Investments (London)	9,300,000	4.1
Canaccord Genuity Wealth Mgt (Jersey)	8,950,301	3.9

Donations

No charitable or political donations were made in the year (2020: £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, Equality, Diversity and Inclusion, 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.

Going concern

The Chairman's and CEO's Statements on pages 8 to 10 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 15 along with details of its cash flow and liquidity. Note 27 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 2.

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 18 January 2022. 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
10 December 2021

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 that law they are required to prepare the Group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law and 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 the Group's 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 international accounting standards in conformity with the requirements of the Companies Act 2006;
- 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.

Responsibility statement of the directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the strategic report/directors' report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy.

Financial statements

Financial statements

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

for the year ended 31 July 2021

1. Our opinion is unmodified

We have audited the financial statements of C4X Discovery Holdings Plc ("the Company") for the year ended 31 July 2021 which comprise the Consolidated statement of comprehensive income, the Consolidated and Company statement of changes in equity, the Consolidated and Company statements of financial position, the Consolidated statements of cash flows, and the related notes, including the accounting policies in note 3.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 July 2021 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the parent Company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006

Basis for opinion

We conducted our audit in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. 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	£100,000 (2020:£75,000) 0.87% (2020: 0.87%) of total expenses	
Coverage	100% (2020:100%) of group loss before tax	
Key audit matters	vs 2020	
Recurring risks	Going Concern	
	Recoverability of group goodwill and intangible assets and the parent's investment in and loans to subsidiaries	
New risk	Revenue recognition	

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

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. 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 audit significance, were as follows (revenue is a new key audit matter in 2021):

	The risk	Our response
Revenue recognition (2021: £5.6m, 2020: Nil) *Refer to pages 54-58 (financial disclosures).*	**Accounting treatment** Revenue recognition for license agreements requires significant judgement due to the non-standard nature of the agreements. Judgement is required in assessing the implications of the terms of the agreements, including identification of distinct performance obligations; determination of the transaction price; allocation of the transaction price to each performance obligation; and consideration as to whether revenue should recognised as over time or at a point in time in relation to the appropriate revenue recognition policy.	Our procedures included: • **Accounting analysis:** We read the key agreements relating to the Sanofi contract to consider the Group's assessment of the revenue contract, including the Group's determination of distinct performance obligations contained within the contract. We have compared the Group's calculated constrained transaction price against the terms of the contract. We considered the assumptions used in the allocation between performance obligations against internal and external data sources. • **Testing application:** We have tested the Sanofi contract and ensured that the Group's contract revenue accounting policy has been applied to the contract appropriately. • **Assessing transparency:** We have assessed the adequacy of the Group's disclosures in relation to the IFRS 15 contract revenue recognition accounting policies adopted.

Auditor's report continued

	The risk	Our response
Going concern See Note 1 to the Group financial statements. *Refer to page 53 (financial disclosures)*	**Disclosure quality:** The financial statements explain how the Board has 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 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; • Potential delays in the receipt of R&D tax credits; and • A significant increase in operating expenses due to ongoing economic uncertainty caused by the COVID-19 pandemic and associated inflationary pressures. The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.	Our procedures included: • **Assessing transparency:** Assessed the completeness and accuracy of the matters covered in the going concern disclosure by comparing the risks and uncertainties specified by the disclosure against our findings from our evaluation of the directors' assessment of going concern. • **Key dependency assessment:** Assessed the Group's cash flow forecasts to identify whether the timing and extent of cost and receipts was realistic. The key inputs included in the forecast were the level of operating costs and the value and timing of receipt of research and development tax credits. • **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. • **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 and increase in operating expenses. • **Our sector experience:** Used our experience of the sector to challenge management's assumptions over these key inputs.

	The risk	Our response
Recoverability of group goodwill and intangible assets and the parent's investment in and loans to subsidiaries (Group Goodwill and Intangibles - £1.3m; 2020: £1.4m) (Parent: Loans - £51.3m; 2020: £36.2m Investment - £3.0m; 2020: £2.8m) *Refer to pages 58-60 (financial disclosures).*	**Forecast based assessment:** Goodwill and other intangible assets in the Group and parent's investment in and loans to subsidiaries are at significant risk of impairment due to the current loss making position of the group. **Goodwill, intangible assets and the parent's investment** The estimated recoverable amount of the CGU used for goodwill and other intangibles is the higher of value in use (VIU) and fair value less costs of disposal. VIU uses a valuation model which is subjective due to the inherent uncertainty in predicting future cash flows and estimation uncertainty in assessing an appropriate discount rate. The effect of these matters is that, as part of our risk assessment for audit planning purposes, we determined that the VIU had 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. In conducting our final audit work, the Group reassessed their estimate of the recoverable amount of the CGU using fair value less cost of disposal. The result of this is that we determined that the Group's estimation of the recoverable amount of goodwill would not be expected to result in material impairment. The estimated recoverable amount of the parent company's investment uses a discounted cash flow model, which is subjective due to the inherent uncertainty in predicting future cash flows and estimation uncertainty in assessing an appropriate discount rate. The effect of these matters is that, as part of our risk assessment, we determined that valuation of the parent company's investment 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 (note 13) disclose the sensitivity estimated by the Company. **Loan to subsidiary** The recoverable amount of loans to subsidiaries is determined using an expected credit loss model under IFRS 9 which takes into account the probability of default, the exposure at default and the loss given default at the year end. The recoverability of the loan to subsidiary is subject to significant judgement. This is because the calculation takes into account estimated future cashflows and probability of default on the loan. The effect of these matters is that, as part of our risk assessment, we determined that the expected credit loss of loan receivable 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 (note 13) disclose the sensitivity estimated by the Company.	**Goodwill, intangible assets and the parent's investment** Our procedures included: • **Comparing valuations:** Compared the carrying amount of the CGU to the recoverable amount which is based on fair value less costs to sell derived from the Group's market capitalisation to assess whether an impairment is required. • **Challenging forecast cash flows:** Critically assessed the reasonableness of the key assumptions being the timing of signing future licence, upfront and milestone licence payments and discount rate in comparison to external and internal evidence • **Sensitivity analysis:** Performed breakeven analysis on the Group's market capitalisation to determine what the share price would have to fall to for a goodwill impairment to be booked. • **Assessing transparency:** Assessed whether the Group's disclosures describing the sensitivity of the impairment assessment to changes in key assumptions accurately reflects the risk inherent in the Group's estimate of the recoverable amount of goodwill, intangible assets and the parent company investment. • **Loans to subsidiaries** Our procedures included: • **Our sector experience:** Critically assessed the reasonableness of the key assumptions being the timing of signing future licence, upfront and milestone licence payments and the probability of success percentages applied in comparison to external and internal evidence. • **Sensitivity analysis:** Performed breakeven analysis on each of the key assumptions being timing of signing of future licence deals, upfront and milestone licence payments and probability percentages. • **Assessing transparency:** Assessed whether the Group's disclosures describing the sensitivity of the impairment assessment to changes in key assumptions accurately reflects the risk inherent in the group's valuation of goodwill and intangible assets and the parent company's valuation of investment in and loans to subsidiaries.

Auditor's report continued

We continue to perform procedures over uncertainties due to Brexit. However, following further analysis of the impact of 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 £100,000 (2020: £75,000), determined with reference to a benchmark of total expenses, of which it represents 0.87% (2020: 0.87%). 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 £55,000 (2020: £42,000), determined with reference to a benchmark of company total assets, of which it represents 2% (2020: 0.1%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

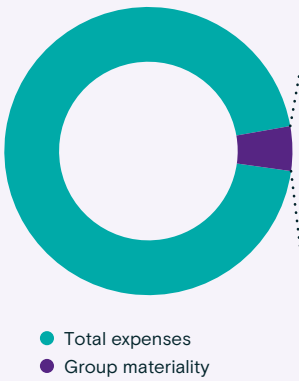
Performance materiality was set at 75% (2020: 75%) of materiality for the financial statements as a whole, which equates to £75,000 (2020: £56,000) for the group and £41,250 (2020: £31,500) for the parent company. We applied this percentage in our determination of performance materiality because our assessment of the relevant factors did not indicate an elevated level of risk.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £5,000 (2020: £3,750), in addition to other identified misstatements that warranted reporting on qualitative grounds.

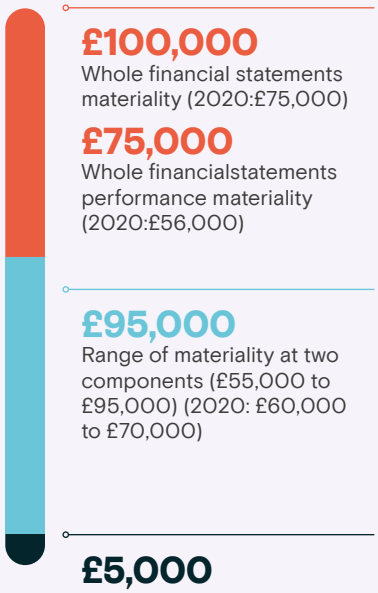
Of the group's two (2020: two) reporting components, we subjected two (2020: two) to full scope audits for group purposes. All audit work was performed by the Group audit team.

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

Total expenses
£10.5m (2020: £9.6m)



Group materiality
£100,000 (2020: £75,000)



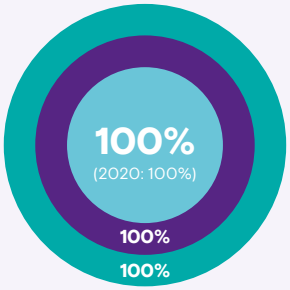
£100,000
Whole financial statements materiality (2020:£75,000)

£75,000
Whole financialstatements performance materiality (2020:£56,000)

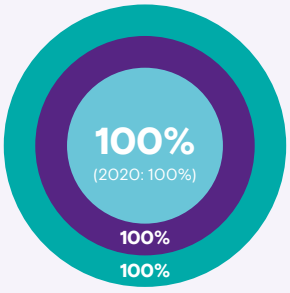
£95,000
Range of materiality at two components (£55,000 to £95,000) (2020: £60,000 to £70,000)

£5,000
Misstatements reported to the audit committee (2020: £3,750)

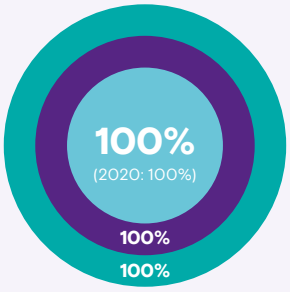
Group total expenses



Group loss before tax



Group total assets



4. Going concern basis of preparation

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group and the Company'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").

An explanation of how we evaluated director's assessment of going concern is set out in the related key audit matter in section 2 of this report.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in note 1 to be acceptable.

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 above conclusions are not a guarantee that the Group or the Company will continue in operation.

5. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors and audit committee as to the Group's policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board meeting minutes.
- Considering remuneration incentive schemes and performance targets within the share based payments work performed.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as the R&D tax credit claim.

On this audit we do not believe there is a fraud risk related to revenue recognition because revenue is derived from one contract, limiting the opportunity for management to manipulate revenue. In addition management are not incentivised on achieving revenue or profit targets.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries to test based on high risk criteria and comparing the identified entries to supporting documentation.
- Assessing significant accounting estimates for bias.

Auditor's report continued

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the directors and other management (as required by auditing standards), and discussed with the directors the policies and procedures regarding compliance with laws and regulations.

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and taxation legislation, and IFRS (UK), and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's license to operate. We identified the following areas as those most likely to have such an effect: health and safety, GDPR compliance, anti-bribery, employment law and certain aspects of company legislation recognising the nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6. 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.

7. 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.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 38, 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.

9. 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 St. Peter's Square
Manchester
M2 3AE

10 December 2021

Consolidated statement of comprehensive income

for the year ended 31 July 2021

	Notes	2021 £000	2020 £000
Revenue	4	**5,642**	–
Cost of sales		**(90)**	–
Gross profit		**5,552**	–
Research and development expenses		**(8,263)**	(6,858)
Administrative expenses		**(3,182)**	(2,708)
Operating loss	5	**(5,893)**	(9,566)
Finance income	7	**1**	5
Finance costs	7	**(15)**	(18)
Loss before taxation		**(5,907)**	(9,579)
Taxation	8	**2,063**	1,790
Loss for the year and total comprehensive loss for the year		**(3,844)**	(7,789)
Loss per share			
Basic and diluted loss for the year	9	**(1.96)p**	(8.10)p
Diluted loss for the year	9	**(1.82)p**	(8.10)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 (2020: £nil) and therefore the loss for the year is also the total comprehensive loss for the year.

Both basic and diluted loss per share are reported due to the effect of exercisable share options and warrants in issue.

The notes on pages 53 to 83 form an integral part of these financial statements.

Consolidated statement of changes in equity

for the year ended 31 July 2021

	Issued equity capital £000	Share premium £000	Warrant Reserve £000	Share-based payment reserve £000	Merger reserve £000	Capital contribution reserve £000	Revenue reserve £000	Total £000
At 31 July 2019	**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**
Loss for the year and total comprehensive loss for the year	–	–	–	–	–	–	(3,844)	(3,844)
Issue of share capital	1,071	12,937	–	–	–	–	–	14,008
Expenses of placing	–	(551)	–	–	–	–	–	(551)
Issue of warrants	–	–	992	–	–	–	–	992
Exercise of options	2	6	–	–	–	–	–	8
Exercise of warrants	13	345	(13)	–	–	–	(13)	358
Share-based payments	–	–		249	–	–	(13)	249
Transactions with owners	**1,086**	**12,737**	**979**	**249**	**–**	**–**	**–**	**15,064**
At 31 July 2021	**4,302**	**53,043**	**979**	**1,191**	**920**	**195**	**(41,344)**	**19,286**

The notes on pages 53 to 83 form an integral part of these financial statements.

Company statement of changes in equity
for the year ended 31 July 2021

	Issued equity capital £000	Share premium £000	Warrant Reserve £000	Share-based payment reserve £000	Revenue reserve £000	Total £000
At 31 July 2019	**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**
Profit for the year and total comprehensive profit for the year	–	–	–	–	8,235	8,235
Issue of share capital	1,071	12,937	–	–	–	14,008
Expenses of placing	–	(551)	–	–	–	(551)
Issue of warrants	–	–	992	–	–	992
Exercise of options	2	6	–	–	–	8
Exercise of warrants	13	345	(13)	–	(13)	358
Share-based payments	–	–	–	249	–	249
Transactions with owners	1,086	12,737	979	249	(13)	15,064
At 31 July 2021	**4,302**	**53,043**	**979**	**1,162**	**13**	**59,499**

The notes on 53 to 83 form an integral part of these financial statements.

Statements of financial position
at 31 July 2021

	Notes	31 July 2021 Group £000	31 July 2021 Company £000	31 July 2020 Group £000	31 July 2020 Company £000
Assets					
Non-current assets					
Tangible Fixed Assets	10	**33**	**–**	46	–
Right of Use Assets	10	**377**	**–**	378	–
Intangible assets	11	**69**	**–**	157	–
Goodwill	12	**1,192**	**–**	1,192	–
Investments in and loans to subsidiaries	13	**–**	**59,493**	–	36,200
		1,671	**59,493**	1,773	36,200
Current assets					
Trade and other receivables	14	**574**	**6**	438	–
Income tax asset	15	**2,053**	**–**	1,780	–
Cash and cash equivalents	16	**17,103**	**–**	5,648	–
		19,730	**6**	7,866	–
Total assets		**21,401**	**59,499**	9,639	36,200
Liabilities					
Current liabilities					
Trade and other liabilities	17	**1,647**	**–**	1,166	–
Lease liabilities	18	**217**	**–**	189	–
		1,864	**–**	1,355	–
Non-Current liabilities					
Trade and other liabilities	17	**64**	**–**	–	–
Lease liabilities	18	**187**	**–**	218	–
		251	**–**	218	–
Total liabilities		**2,115**	**–**	1,573	–
Net assets		**19,286**	**59,499**	8,066	36,200
Capital and reserves					
Issued equity capital	19	**4,302**	**4,302**	3,216	3,216
Share premium	19	**53,043**	**53,043**	40,306	40,306
Share-based payment reserve	20	**1,191**	**1,162**	942	913
Warrant reserve	21	**979**	**979**	–	–
Merger reserve	22	**920**	**–**	920	–
Capital contribution reserve	23	**195**	**–**	195	–
Retained earnings	24	**(41,344)**	**13**	(37,513)	(8,235)
Total equity		**19,286**	**59,499**	8,066	36,200

Approved by the Board and authorised for issue on 10 December 2021.

The notes on 53 to 83 form an integral part of these financial statements.

Clive Dix
Chief Executive Officer
10 December 2021

Registered number: 09134041

Cash flow statements
for the year ended 31 July 2021

	Notes	31 July 2021 Group £000	31 July 2021 Company £000	31 July 2020 Group £000	31 July 2020 Company £000
(Loss)/Profit after interest and tax		**(3,844)**	**8,235**	(7,789)	24,752
Adjustments for:					
Depreciation of tangible fixed assets	10	**33**	**–**	45	–
Depreciation of right-of-use assets	10	**254**	**–**	302	–
Amortisation of intangible assets	11	**88**	**–**	138	–
Reversal of impairment of investments in and loans to subsidiaries I		**–**	**(8,235)**	–	(24,752)
Share-based payments	19	**249**	**–**	206	–
Finance income	7	**(1)**	**–**	(5)	
Interest payments on leases	24	**15**	**–**	18	–
Taxation		**(2,063)**	**–**	(1,790)	–
Changes in working capital:					
(Increase)/decrease in trade and other receivables	14	**(136)**	**–**	203	–
Increase/(decrease) in trade and other payables	17	**545**	**–**	(486)	–
Cash outflow from operating activities		**(4,860)**	**–**	(9,158)	–
Research and development tax credit received		**1,790**	**–**	4,086	–
Net cash outflow from operating activities		**(3,070)**	**–**	(5,072)	–
Cash flows from investing activities					
Increase in investment in and loans to subsidiaries		**–**	**(14,815)**	–	(8,664)
Purchases of tangible fixed assets	10	**(20)**	**–**	(14)	–
Finance income	7	**1**	**–**	5	–
Net cash outflow from investing activities		**(19)**	**(14,815)**	(9)	(8,664)
Cash flows from financing activities					
Payment of lease liabilities	24	**(271)**	**–**	(319)	–
Proceeds from issues of ordinary share capital	19	**15,366**	**15,366**	9,212	9,211
Expenses of share capital issue	19	**(551)**	**(551)**	(547)	(547)
Net cash inflow from financing activities		**14,544**	**14,815**	8,346	8,664
Decrease in cash and cash equivalents		**11,455**	**–**	3,265	–
Cash and cash equivalents at the start of the year		**5,648**	**–**	2,383	–
Cash and cash equivalents at the end of the year		**17,103**	**–**	5,648	–
Cash, cash equivalents and deposits at the end of the year	16	**17,103**	**–**	5,648	–

The notes on pages 53 to 83 form an integral part of these financial statements.

Notes to the financial statements

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 2021.

The financial statements of the Company and the Group for the year ended 31 July 2021 were authorised for issue by the Board of Directors on 10 December 2021 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 had a profit of £8,235,000 for the year ended 31 July 2021 (2020: profit of £24,752,000) see note 13. The profit in its entirety for the current and prior years was as a result of the reversal of past impairments of the Company's investment in its subsidiary.

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

2. Basis of preparation

Statement of accounting compliance

The Group's and parent company's financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 "Adopted IFRS" as they apply to the financial statements of the Group for the period ended 31 July 2021.

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.

Going concern

Notwithstanding a consolidated operating loss for the year ended 31 July 2021 of £5.9 million (2020: £9.6m), revenues of £5.6 million (2020: £nil) and net cash used in operating activities of £3.1 million (2020: £5.1m), 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 Group completed a £14.5 million fundraising with new and existing investors in November 2020. The Group also signed a licence deal in April 2021 with Sanofi for its intellectual property rights relating to the IL-17A inhibitor compounds, where £6 million was received in an upfront payment. The Group has cash and cash equivalents at 31 July 2021 of £17.1 million (2020: £5.6m) and at 30 November 2021 had cash resources of £13.4 million.

The Board has prepared cash flow forecasts covering at least 12 months from the date of signing the financial statements, including a severe but plausible downside scenario which takes into consideration the anticipated impact of COVID-19 and inflationary costs.

The severe but plausible downside scenario considered reflects a delay of six months in the receipt of forecast research and development tax credits from HMRC and a 20% increase in Contract Research Organisations (CRO) costs. The base case and severe but plausible downside cash flow forecasts, which both assume no further fund raising and no revenue generation during the forecast period, indicate that the Group and Company have sufficient cash resources to meet their liabilities as they fall due for at least 12 months from the date of approval of these financial statements

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.

In terms of the period beyond the going concern assessment period, the severe but plausible downside scenario, indicates that existing cash resources would be exhausted in approximately quarter one 2023. However, the Board consider they are able to take reasonable mitigating actions, 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 for a significantly extended 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 another 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.

Notes to the financial statements continued

2. Basis of preparation continued

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.

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:

Revenue recognition

When determining the correct amount of revenue to be recognised. This includes making certain judgements when determining the appropriate accounting treatment of key customer contract terms in accordance with the applicable accounting standards. During the period, C4X signed an agreement with Sanofi for the worldwide licensing of C4XD's IL-17A oral inhibitor programme. Judgement was required in identifying the number of performance obligations in the contract, specifically whether the transfer of intellectual property and the delivery of research services represented different performance obligations. The Group applied the guidance in IFRS 15 by considering whether the licence was distinct from the promise to provide ongoing research services through the duration of the research work plan set out in the agreement. As such, revenue recognised from the delivery of research services is recorded over time and this resulted in £0.5 million of revenue being spread over an 18-month period from the date of signing the deal. The alternative judgement could be that the transfer of intellectual property and the delivery of research services is one performance obligation which would result in the upfront payment of £6 million being recognised over the length of the research work plan estimated at 18 months. The Group concluded that these were separate performance obligations as both the intellectual property and the research work programme could be sold separately and the customer can benefit from each on its own or together with readily available resources, so they are capable of being distinct and they are set out as separate promises in the contract.

Additional judgement was required in determining whether the transfer of intellectual property gave the customer use at a time which the licence was granted or a right to access. Management determined that the customer receives the right to the drug molecule on the date that the IP is transferred over and therefore the cash payment received constitutes handing over control of the IP to Sanofi and is not dependent on any future outcomes. The impact of this judgement resulted in recognising revenue in full of £5.5 million in the period, being the residual balance of the upfront payment after allocating revenue to the other performance obligation. Alternatively, management could have assessed the transfer of intellectual property as a right to access of the licence agreement date which would have resulted in deferring £2.75 million into next year.

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 recognition
Estimation is involved in determining the correct amount of revenue to recognise. This can be split into two components:- (i) the allocation of the transaction price between performance obligations and (ii) the timing of revenue recognition in respect of the delivery of services, particularly where there is an expectation that the customer will not fully exercise their rights to services.

Firstly, the allocation of the transaction price for the revenue relating to the ongoing research services has been calculated on a cost-plus margin basis. The existing salaries of five full time equivalents ("FTE") which are available under the terms of the contract have been combined and a commercial margin has been applied to the cost of these employees. In calculating the cost, an average FTE day rate has been taken and multiplied by the total number of days expected to be worked over an 18 month period from the date of signing the agreement which results in £0.5 million of revenue being spread over the length of the research work programme.

To arrive at the commercial margin used, management reviewed the results from comparable drug discovery services, both emerging and well-established CROs, to understand the margins that they are achieving. The Company's platform is unproven and unvalidated commercially as a stand-alone paid-for drug discovery software and consequently any paid-for commercial access to the software would, at this stage, effectively be beta-testing and therefore attract a margin at the lower range of those achieved by other providers.

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 fair value less cost of disposal, this has been calculated with reference to market capitalisation of the Group (as explained in Note 12).

The Directors are satisfied that no reasonably possible change in this estimate would result in the recognition of an impairment within the next twelve months and accordingly the carrying value of goodwill and other intangibles are not considered a significant estimate as at 31 July 2021.

Investments in and loans to subsidiaries
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. The key judgement made by management in the expected credit loss calculations is the probability assumptions of the future cashflows and the timing of the cashflows. The sensitivities are disclosed in Note 13.

The recoverable amount of the Parent's investment in subsidiary is tested for impairment when indicators of impairment (or reversal of impairment) are identified. The potential recoverable amounts have been determined based on a value in use model. The recoverable amount has been determined to be £3 million. 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 cash flows. Cash flow estimates include the timing of signing future licence agreements and the receipt of further milestone licence payments. These estimates were benchmarked against the Group's own experience of such deals and external sources of information within the industry. The assumptions and related sensitivity analysis in these calculations are included in note 13.

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.

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.

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

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

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

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.

Notes to the financial statements continued

3. Significant accounting policies continued

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.

Revenue

IFRS 15 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard establishes a five-step principle-based approach for revenue recognition and is based on the concept of recognising an amount that reflects the consideration for performance obligations only when they are satisfied and the control of goods or services is transferred.

The majority of the Group's contract revenue is generated from licenses and services.

Management reviewed the contracts where the Group received consideration in order to determine whether or not they should be accounted for in accordance with IFRS 15. To date, the Group has entered into two transactions – the second which was signed in the year - that generate revenue and meet the scope of IFRS 15. After review of the contract with Sanofi, it was determined that there were two performance obligations to be satisfied, the first being the transfer of IP and the second being the provision of research services through the "research work programme". Contract revenue is recognised at either a point-in-time or over time, depending on the nature of the services and transfer of goods.

Revenue generated from the sale of a licence may include promises to deliver other goods or services in addition to the promised licence.

Revenue generated from services agreements is determined to be recognised over time when it can be determined that the services meet one of the following: (a) the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs; (b) the entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or (c) the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

The Sanofi contract includes a separate performance obligation to deliver research services. It was determined that the services provided to Sanofi under the terms of the research work programme in the contract meets criteria (a) above on the basis that the customer receives and uses the benefit as the work on any new compounds is evolved and is therefore a separate performance obligation and revenue should be recognised over time. The allocation of the transaction price for the revenue relating to the ongoing research services has been calculated on a cost-plus margin basis. The existing salaries of five full time equivalents ("FTE") which are available under the terms of the contract have been combined and a commercial margin has been applied to the cost of these employees. In calculating the cost, an average FTE day rate has been taken and multiplied by the total number of days expected to be worked over an 18 month period from the date of signing the agreement which results in £0.5m of revenue being spread over the length of the research work programme.

Revenue generated from the sale of a licence to a customer is determined to be recognised at a point in time when a promise to provide the customer with the right to use the entity's IP is satisfied. Management determined that the customer receives the right to the drug molecule on the date that the IP is transferred over and therefore the cash payment received constitutes handing over control of the IP to Sanofi and is not dependent on any future outcomes. The general guidance is applied on performance obligations satisfied at a point in time to determine the point in time at which the licence transfers to the customer. In this scenario, the point of time was deemed to be the effective date that all of the intellectual property was transferred over to Sanofi. The allocation of the transaction price for the sale of licence was deemed to be £5.6m which is the remainder of the upfront payment received in the year after deducting for the revenue allocated to the second performance obligation.

The contract with Sanofi also includes future milestone payments which are contingent on the drug molecule passing various clinical trials testing at a future point in time. As there can be significant variability in final outcomes, the Group applies a constraint when measuring the variable element within revenue, so that revenue is recognised at a suitably cautious amount. The objective of the constraint is to ensure that it is highly probable that a significant reversal of revenue will not occur when the uncertainties are resolved. The constraint is applied by making suitably cautious estimates of the inputs and assumptions used in estimating the variable consideration. The constraints applied in recognising revenue mean that the risk of a material downward adjustment to revenue in the next financial year is low.

Royalty payments will be received by the Group when the drug is marketed and sold by Sanofi. Revenue on royalty payments is recognised when they are earned which for the Group will be when Sanofi have developed the drug and sold a set number of products. At this point, the royalty rate owed to Group is applied to the portion of the net sales made by Sanofi on royalty-bearing products that fall within the indicated range as set out in the sales agreement.

Deferred Revenue

Deferred revenue includes amounts that are receivable or have been received per contractual terms but have not been recognised as revenue since performance has not yet occurred or has not yet been completed. The Company classifies non-current deferred revenue for any transaction which is expected to be recognised beyond one year.

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.

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.

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.

Leases

The Group applies the leasing standard IFRS16, to all contracts identified as leases at their inception, unless they are considered short-term or where the asset is of a low underlying value.

The Group has lease contracts in relation to property and office equipment. At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

As a lessee

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 prices. However, for leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date, at which point the Group assesses the term for which it is reasonably certain to hold that lease. 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.

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.

Notes to the financial statements continued

3. Significant accounting policies continued

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

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;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, 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 an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in "property, plant and equipment" and lease liabilities in "loans and borrowings" in the statement of financial position. On a significant event, such as the lease reaching its expiry date or the likely exercise of a previously unrecognised break clause, the lease term is re-assessed by management as to how long we can be reasonably certain to stay in that property, and a new lease agreement or modification (if the change is made before the expiry date) is recognised for the re-assessed term.

Short-term leases and leases of low-value assets
The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. Assets which fall into this category include office equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term. The value of these leases is less than £1,000 per annum.

COVID-19-related rent concessions
The Group has applied COVID-19-Related Rent Concessions – Amendment to IFRS 16. The Group applies the practical expedient allowing it not to assess whether eligible rent concessions that are a direct consequence of the COVID-19 pandemic are lease modifications. The Group applies the practical expedient consistently to contracts with similar characteristics and in similar circumstances. For rent concessions in leases to which the Group chooses not to apply the practical expedient, or that do not qualify for the practical expedient, the Group assesses whether there is a lease modification. The total value of this was £10,462 for the year (2020: nil).

Finance income and costs

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

Finance costs comprise interest payments on right-of-use leases.

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.

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
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. The lease note 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.

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

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.

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.

Notes to the financial statements continued

3. Significant accounting policies continued

An assets recoverable amount is the higher of an assets 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 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.

Investments in subsidiaries

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

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.

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.

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.

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 2021 (2020: £nil).

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 (2020: £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 (2020: £nil).

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.

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

3. Significant accounting policies continued

Warrant reserve

Proceeds from issuance of warrants, net of issue costs are included in the warrant reserve. The warrant reserve is distributable and will be transferred to retained reserves upon exercise or lapse of warrants

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.

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 2021 or ending 31 July 2022 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.

	UK effective date
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS16 : Interest Rate Benchmark Reform – Phase 2	1 January 2021

Research partnerships

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

4. Segmental information

The Group operated as one single operating segment for the current and prior financial years. This is the level at which operating results are reviewed by the Chief Operating Decision Market (considered to be the Board of Directors) to assess performance and make strategic decisions about the allocation of resources.

Revenue from contracts with customers

	2021 £000	2020 £000
Revenue recognised at a point in time		
– Right-to-use licence revenue	**5,540**	–
Revenue recognised over time		
– Research services revenue	**102**	–
Total revenue	**5,642**	–

Revenue in the current year is generated from a contract with a single customer which was determined to have two performance obligations. The revenue attributable to the transfer of intellectual property has been recognised at a single point in time. The revenue attributed to the delivery of research services is recognised over time and progress is measured based on costs incurred to date as compared with the total projected costs.

Contract balances

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

	2021 £000	2020 £000
Trade receivables	**–**	–

Contract liabilities represent the Group's obligation to provide services to a customer for which consideration has been received. Contract liabilities are included within deferred revenue on the Consolidated Statement of Financial Position.

	2021 £000	2020 £000
Deferred revenue – short term	**330**	–
Deferred revenue – long term	**64**	–
Total deferred revenue	**394**	–

Remaining performance obligations represent the value of partially satisfied performance obligations within contracts with an original expected contract term that is greater than one year and for which fulfilment of the contract has started as of the end of the reporting period. The total remaining consideration allocated to remaining performance obligations at July 2021 was £394,000. The Group expects to recognise the remaining performance obligations as revenue and will do so based upon costs incurred to date as compared with the total projected costs.

	Less than 1 year £000	Greater than 1 year £000	Total £000
Remaining performance obligations	330	64	394

Impairment losses recognised on receivables arising from contracts with customers are £nil (2020: £nil).

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

5. Operating loss

The Group	31 July 2021 £000	31 July 2020 £000
Operating loss is stated after charging/(crediting):		
Depreciation of property, plant and equipment (see note 10)	**33**	45
Depreciation on right-of-use assets (see note 10)	**254**	302
Amortisation of intangible assets (see note 11)	**88**	138
Research and development expense*	**8,263**	6,858
Grant income	**–**	(34)
Auditor's remuneration		
Audit services:		
– Fees payable to Company auditor for the audit of the parent and the consolidated accounts	**90**	52
Fees payable in respect of the audit of subsidiary companies:		
– Auditing the accounts of subsidiaries pursuant to legislation	**30**	26
– Other services	**36**	22
Total auditor's remuneration	**156**	100

* Included within research and development expense are staff costs totalling £2,951,000 (2020: £2,335,000) also included in note 6.

Notes to the financial statements continued

6. Staff costs and numbers

	31 July 2021 £000	31 July 2020 £000
Wages and salaries	**3,551**	2,725
Social security costs	**409**	304
Pension contributions	**442**	428
Share-based payments	**249**	206
	4,651	3,665
Directors' remuneration (including benefits-in-kind) included in the aggregate remuneration above comprised:		
Emoluments for qualifying services	**745**	620

Directors' emoluments (excluding social security costs but including benefits in kind) disclosed above include £195,000 paid to the highest paid Director (2020: £162,000).

Retirement benefits are accruing to four Directors (2020: four Directors).

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

The Group	31 July 2021 Number	31 July 2020 Number
Directors	**7**	7
Technological staff	**32**	32
Administrative staff	**7**	7
	46	46

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 34, which forms part of these audited financial statements.

7. Finance income and costs

The Group	31 July 2021 £000	31 July 2020 £000
Finance income		
Bank interest receivable	**1**	5
	1	5
Finance costs		
Interest on lease liabilities	**15**	18
	15	18

8. Income tax

The tax credit is made up as follows:

The Group	31 July 2021 £000	31 July 2020 £000
Current income tax		
UK corporation tax on losses in the year		
Research and development income tax credit receivable	**(2,053)**	(1,780)
Adjustment in respect of prior years	**(10)**	(10)
Total current income tax	**(2,063)**	(1,790)

The tax assessed for the year varies from the standard rate of corporation tax as explained below:	31 July 2021	31 July 2020
The Group	£000	£000
Loss before taxation	**(5,907)**	(9,459)
Tax at standard rate of 25.00% (2020: 19.00%)	**(1,477)**	(1,797)
Effects of:		
Expenses not deductible for tax purposes	**–**	1
Movement in unprovided net deferred tax asset	**86**	69
Research and development tax credit receivable, net of R&D relief surrendered	**(662)**	(760)
Share options exercised (CTA 2009 Pt 12 deduction)	**–**	–
Tax losses carried forward/(utilised) for which no deferred tax asset is recognised	**–**	707
Adjustment in respect of prior years	**(10)**	(10)
Tax credit in income statement	**(2,063)**	(1,790)

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 25% (2020: 19%), is £4,331,000 (2020: £3,265,000), of which £nil (2020: £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 25% (2020: 19%) is £9,000 (2020: £24,000).

The Group has a deferred tax asset for share-based payments, for which the tax, measured at a standard rate of 25% (2020: 19%), is £298,000 (2020: £179,000).

The net deferred tax asset of £289,000 (2020: £155,000) has not been recognised.

9. Earnings per share

The Group	31 July 2021 £000	31 July 2020 £000
Loss for the financial year attributable to equity shareholders	**(3,844)**	(7,790)
Weighted average number of shares		
Ordinary shares in issue for purposes of basic EPS	**196,261,295**	96,123,309
Effect of potentially dilutive ordinary shares:		
Number of exercisable share options and warrants	**14,531,129**	-
Ordinary share in issue for purposes of diluted EPS	**210,792,424**	-
Basic loss per share (pence)	**(1.96)**	(8.10)
Diluted loss per share (pence)	**(1.82)**	(8.10)

The exercisable share options and warrants are deemed to be dilutive in nature where their exercise price is less than the average share price for the period.

Notes to the financial statements continued

10. Tangible fixed assets

The Group Cost	Office equipment, fixtures and fittings £000	Building improvements £000	Right-of-use assets £000	Total £000
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
Additions	20	–	253	273
Disposals	(17)	–	(248)	(265)
At 31 July 2021	**252**	**38**	**548**	**838**
Depreciation				
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
Provided during the year	33	–	254	287
Eliminated on disposal	(17)	–	(248)	(265)
At 31 July 2021	**219**	**38**	**171**	**428**
Net book value				
At 31 July 2021	**33**	**–**	377	410
At 31 July 2020	46	–	378	424

The Company has no tangible fixed assets.

The Group recognises right-of-use assets with respect to its property leases.

11. Intangible assets

The Group Cost	Patents £000	IP assets £000	Software £000	Total £000
At 31 July 2019	**138**	**600**	**50**	**788**
Additions	–	–	–	–
At 31 July 2020	**138**	**600**	**50**	**788**
Additions	–	–	–	–
At 31 July 2021	**138**	**600**	**50**	**788**
Amortisation				
At 31 July 2019	**53**	**410**	**30**	**493**
Provided during the year	8	120	10	138
At 31 July 2020	**61**	**530**	**40**	**631**
Provided during the year	8	70	10	88
At 31 July 2021	69	600	50	719
Net book value				
At 31 July 2021	**69**	**–**	**–**	**69**
At 31 July 2020	77	70	10	157

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.

For impairment reviews see note 12.

The Company has no intangible assets.

Notes to the financial statements continued

12. Goodwill

The Group Cost	Purchased goodwill £000	Total £000
At 31 July 2019, 31 July 2020 & 31 July 2021	**1,192**	**1,192**
Impairment		
At 31 July 2019	–	–
Provided during the year	–	–
At 31 July 2020	–	–
Provided during the year	–	–
At 31 July 2021	–	–
Net book value		
At 31 July 2021	**1,192**	**1,192**
At 31 July 2020	1,192	1,192

The Group has determined that for the purposes of goodwill and other intangibles (see note 11) impairment testing, the UK Operations represents the lowest level within the entity that goodwill and other intangibles are monitored for internal management purposes. This is consistent with the one operating segment analysis within Note 4. Therefore, the Group only has one cash-generating unit ("CGU").

Management assesses goodwill and other intangibles for impairment annually at the year-end date.

For the year ended 31 July 2021 impairment reviews were performed by comparing the carrying value of the cash-generating unit with their recoverable amount.

The recoverable amount of the cash-generating units has been determined based on their fair value less costs to disposal. As there is only one CGU, the Group has determined its market capitalisation at the year-end date to be a good basis in determining the value of the underlying CGU. The market capitalisation at the year-end date was £67 million.

The assessment by the Board determined that the recoverable amount of the CGU exceeded their carrying value, and therefore no impairment was required.

The Directors are satisfied that no reasonably possible change in this estimate would result in the recognition of an impairment within the next 12 months and accordingly the carrying value of goodwill and other intangibles are not considered a significant estimate as at 31 July 2021.

For the year ended 31 July 2020, the recoverable amount of goodwill and intangible assets for the Group financial statements were determined by a value in use calculation. This calculation took 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%. The cash flows were projected until 2034 which reflected the early stage of a number of the research programmes and the time period over which cash inflows were expected to occur. The model included 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 were the timing of signing future licence agreements, the upfront and milestone licence payments and the discount rate used. These assumptions were benchmarked against the Group's own experience of such deals and external sources of information within the industry. The model did not assume any future royalties were received.

The recoverable amount exceeded 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 were those regarding the timing of signing future licence agreements and the value of up front and milestone licence payments. The sensitivity analysis showed 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 Cost	Investment in subsidiary £000	*Loans to group undertakings £000*	*Total £000*
At 31 July 2020	**2,784**	**41,651**	**44,435**
Additions	249	14,809	15,058
At 31 July 2021	**3,033**	**56,460**	**59,493**
Provision			
At 31 July 2020	**2,784**	**5,451**	**8,235**
Provided during the year	(2,784)	(5,451)	(8,235)
At 31 July 2021	**-**	**-**	**-**
Net book value			
At 31 July 2021	**3,033**	**56,460**	**59,493**
At 31 July 2020	-	36,200	36,200

By subsidiary	
C4X Discovery Limited	59,493
C4X Drug Discovery Limited	–
Adorial Limited	–
At 31 July 2021	**59,493**

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.

Investment in subsidiary

During the year, the impairment of the Parent's investment in its subsidiary from the prior year has been reversed due to changes in the assumptions in the underlying cash flows of the business that increased the estimated recoverable amount. We note that there is high estimation uncertainty and judgement involved in the preparation of the cash flow forecast and it is sensitive to changes in key assumptions - particularly around the 25% discount rate used and drug programme failure. For an impairment to arise, the discount rate would need to increase from 25% to 27% (with no change in the cash flows). Alternatively, one drug programme out of the five included in the model would need fail for an impairment to arise (with no change in the discount rate).

The amount impaired in the prior year was £2,784,000.

Loans to group undertakings

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.

For the year ended 31 July 2021, 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 at the year end.

The Company does not expect this amount to be recalled within the next 12 months and nor would the subsidiary be able to repay on demand and therefore they have considered how they expect to recover the loan receivable and the recovery period of the loan in calculating the expected credit loss.

Notes to the financial statements continued

The Company has assessed the expected credit loss by looking at the future cashflows of the subsidiary. As the loan is held at 0% interest, the effective rate of return (ERR) is deemed to be 0%.

This calculation takes into account the probability of expected cash flows from future licence agreements at each contract milestone, and the costs incurred in securing those licence agreements. 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 and IL-17A licence agreements.

The key judgement made by management in the expected credit loss calculations is the probability assumptions of the future cashflows and the timing of the cashflows.

The model demonstrates that the future cashflows amount to £65m. The ECL provision is £nil (2020: £5,451,000) as the model shows sufficient headroom when compared with the total value of the loan.

The calculation is sensitive to the key assumptions used in determining the probability assumptions included in the ECL calculation

The carrying amount of the loan receivable is sensitive to assumptions about the future. A probability weighted future cash flow model has been used with a total implied probability of 18%. In order for an impairment to arise, the total implied probability would need to fall to 15%.

For the year ended 31 July 2020, the recoverable amount of investments in subsidiaries in the parent company financial statements was determined by a value in use calculation. This calculation took 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%. The cash flows were projected until 2034 which reflected the early stage of a number of the research programmes and the time period over which cash inflows were expected to occur. The model included 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 were the timing of signing future licence agreements, the upfront and milestone licence payments and the discount rate used. These assumptions were benchmarked against the Company's own experience of such deals and external sources of information within the industry. The model did not assume any future royalties were received.

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

14. Trade and other receivables

	31 July 2021 Group £000	31 July 2021 Company £000	31 July 2020 Group £000	31 July 2020 Company £000
Trade receivables	**21**	**–**	14	–
Prepayments	**307**	**–**	329	–
Inter-company short-term loan to subsidiary	**–**	**6**	–	–
VAT receivables	**246**	**–**	95	–
	574	**6**	**438**	–

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

There were no revenue-related contract assets (2020: £nil).

All trade receivables are denominated in Pounds Sterling.

15. Income tax asset

	31 July 2021 Group £000	31 July 2021 Company £000	31 July 2020 Group £000	31 July 2020 Company £000
Research and development income tax credit receivable	**2,053**	**–**	1,780	–
	2,053	**–**	1,780	–

16. Cash, cash equivalents and deposits

	31 July 2021 Group £000	31 July 2021 Company £000	31 July 2020 Group £000	31 July 2020 Company £000
Cash and cash equivalents	17,103	–	5,648	–
	17,103	**–**	**5,648**	–

Cash and cash equivalents at 31 July 2021 include deposits with original maturity of three months or less of £nil (2020: £nil).

An analysis of cash, cash equivalents and deposits by denominated currency is given in note 27.

17. Trade and other payables

	31 July 2021 Group £000	31 July 2021 Company £000	31 July 2020 Group £000	31 July 2020 Company £000
Current Liabilities				
Current payables	**472**	**–**	558	–
Other payables	**127**	**–**	134	–
Deferred revenue	**330**	**–**	–	–
Accruals	**718**	**–**	474	–
	1,647	**–**	1,166	–
Non-Current Liabilities				
Deferred revenue	**64**	**–**	–	–
	64	**–**	–	–

Revenue-related contract liabilities are recognised as deferred revenue and allocated to the time period in which they are estimated to be recognised as revenue (2020: £nil).

Notes to the financial statements continued

18. Lease liabilities

2020	31 July 2021 Group £000	31 July 2021 Company £000	31 July 2020 Group £000	31 July Company £000
Current Liabilities				
Lease liabilities	**217**	**–**	189	–
	217	**–**	**189**	**–**
Non-Current Liabilities				
Lease liabilities	**187**	**–**	218	–
	187	**–**	**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
2021	
Balance at 1 August 2020	407
Cash outflow	(271)
New leases	253
Fair value movement recorded in finance costs	15
At 31 July 2020	**404**

	£000
2020	
Balance at 1 August 2019	460
Cash outflow	(319)
New leases	248
Fair value movement recorded in finance costs	18
At 31 July 2020	**407**

19. Issued equity capital

The Company	Deferred shares Number	Ordinary shares Number	Share capital £000	Deferred shares £000	Warrant reserve £000	Share premium £000	Total £000
Allotted, called up and fully paid ordinary shares of 1p							
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)
At 31 July 2020	**2,025,000**	**119,203,144**	**1,191**	**2,025**	**–**	**40,306**	**43,522**
Issue of share capital on placing	–	99,169,286	992	–	–	11,899	12,891
Issue of share capital on open offer	–	7,973,572	80	–	–	1,037	1,117
Issue of warrants on placing	–	–	–	–	992	–	992
Issue of share capital on exercise of share options	–	188,125	2	–	–	6	8
Issue of share capital on exercise of warrants	–	1,278,570	13	–	–	345	358
Expenses of placing, open offer and subscription by Directors	–	–	–	–	–	(551)	(551)
At 31 July 2021	**2,025,000**	**227,812,697**	**2,277**	**2,025**	**992**	**53,042**	**58,336**

The Group	Share capital £000	Deferred shares £000	Warrant reserve £000	Share premium £000	Total £000
Allotted, called up and fully paid ordinary shares of 1p					
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)
At 31 July 2020	**1,191**	**2,025**	**–**	**40,306**	**43,522**
Issue of share capital on placing	992	–	–	11,899	12,891
Issue of share capital on open offer	80	–	–	1,037	1,117
Issue of warrants on placing	–	–	992	–	992
Issue of share capital on exercise of share options	2	–	–	6	8
Issue of share capital on exercise of warrants	13	–	–	345	358
Expenses of placing, open offer and subscription by Directors	–	–	–	(551)	(551)
At 31 July 2021	**2,277**	**2,025**	**992**	**53,042**	**58,336**

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. In addition, 99,169,286 warrants were issued over ordinary shares, exercisable at 28p per share with an exercise period of 5 years.

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

Notes to the financial statements continued

20. Share-based payment reserve

The Group	£000
At 31 July 2019	**736**
Share-based payments	206
At 31 July 2020	**942**
Share-based payments	249
At 31 July 2021	**1,191**

The Company	£000
At 31 July 2019	**707**
Share-based payments	206
At 31 July 2020	**913**
Share-based payments	249
At 31 July 2021	**1,162**

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 £249,000 has been recognised in the statement of comprehensive income for the year (2020: £206,000).

This includes £46,342 (2020: £427) of incremental fair value on replacement of options.

Share option schemes

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

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

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

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

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

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.

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.

Notes to the financial statements continued

20. Share-based payment reserve continued

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 £46,342 (2020: £427).

Grant in December 2020
Share options were granted to staff and Directors on 14 December 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 20.0 pence, being the average five-day volume weighted average price of the ordinary shares to 11 December 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 May 2021
Share options were granted to staff on 05 May 2021 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 41.34 pence, being the average five-day volume weighted average price of the ordinary shares to 05 May 2021. The fair value benefit is measured using a Black Scholes model, taking into account the terms and conditions upon which the share options were issued.

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

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

The Group and Company	**2021 Number**	2020 Number
Outstanding at 1 August	**7,057,522**	3,786,853
Granted during the year	**4,019,000**	6,387,447
Exercised during the year	**(188,125)**	–
Lapsed/cancelled	**(950,650)**	(3,116,778)
Outstanding at 31 July	**9,937,747**	7,057,522
Exercisable at 31 July	**606,950**	795,075

During the year ended 31 July 2021, 188,125 were exercised (2020: nil).

Weighted average exercise price of options The Group and Company	**2021 Pence**	2020 Pence
Outstanding at 1 August	**17.34**	76.58
Granted during the year	**20.84**	18.53
Exercised during the year	**4.07**	–
Outstanding at 31 July	**18.61**	**17.34**

A total of 4,019,000 share options were granted during the year (2020: 6,387,447). These included no replacement options (2020: 2,714,298). The range of exercise prices for options outstanding at the end of the year was 5.58 pence – 100.00 pence (2019: 2.05 pence – 100.00 pence).

For the share options outstanding as at 31 July 2021, the weighted average remaining contractual life is 8.5 years (2020: 8.8 years).

The following table lists the inputs to the models used for the years ended 31 July 2021 and 31 July 2020.

The Group and Company	2021	2020
Expected volatility (%)	**52.5%**	52.5%
Risk-free interest rate (%)	**0.35%–1.00%**	0.35%–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)	**20.84**	18.53

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. Warrant reserve

The Group and Company	£000
At 31 July 2019	–
Warrant premium	–
At 31 July 2020	–
Warrant premium	992
Exercise of warrants	(13)
At 31 July 2021	979

During the year a total of 99,169,286 (2020: Nil) warrants associated with the fundraising were issued to all places, being one warrant for every share, excluding those investors seeking to claim EIS relief in relation to their investment. The value attributed to these warrants is 1p per share from the 14p per share price of the raise.

The warrants are exercisable at 28p (2020: Nil) per ordinary share and are to be exercised within 5 years of being issued.

During the year a total of 1,278,570 warrants (2020: Nil) were exercised during the year

The following tables illustrate the number and movements in, warrants during the year.

The Group and Company	2021 Number	2020 Number
Outstanding at 1 August	**–**	–
Granted during the year	**99,169,286**	–
Exercised during the year	**(1,278,570)**	–
Lapsed/cancelled	**–**	–
Outstanding at 31 July	**97,890,716**	–
Exercisable at 31 July	**97,890,716**	–

Notes to the financial statements continued

22. Merger reserve

The Group	£000
At 31 July 2019, 31 July 2020 and 31 July 2021	**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).

23. Capital contribution reserve

The Group	£000
At 31 July 2019, 31 July 2020 and 31 July 2021	**195**

24. Retained earnings

The Group	£000
At 31 July 2019	**(29,724)**
Loss for the year	(7,789)
At 31 July 2020	**(37,513)**
Loss for the year	(3,844)
Warrant reserve movement	13
At 31 July 2021	**(41,344)**

The Company	£000
At 31 July 2019	**(32,987)**
Profit for the year	24,752
At 31 July 2020	**(8,235)**
Loss for the year	8,235
Warrant reserve movement	13
At 31 July 2021	**13**

25. Leases

Leases as lessee (IFRS16)

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
2021		
Balance at 1 August 2020	378	378
Depreciation charge for the year	(254)	(254)
Additions to right-of-use assets	253	253
Derecognition of right-of-use assets	(248)	(248)
Depreciation eliminated on derecognition of right-of-use assets	248	248
	377	**377**
2020		
Balance at 1 August 2019	432	432
Depreciation charge for the year	(302)	(302)
Additions to right-of-use assets	248	248
Derecognition of right-of-use assets	–	–
Depreciation eliminated on derecognition of right-of-use assets	–	–
	378	**378**

Amounts recognised in income statement		
31 July 2021		
Interest on lease liabilities	15	15
	15	**15**
31 July 2020		
Interest on lease liabilities	18	18
	18	**18**

Amounts recognised in statement of cash flows		
31 July 2021		
Lease payments	271	271
	271	**271**
31 July 2020		
Lease payments	319	319
	319	**319**

26. Commitments

At 31 July 2021, the Group had capital commitments amounting to £nil in respect of orders placed for capital expenditure (2020: £nil).

Notes to the financial statements continued

27. 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 24 and in the Group statement of changes in equity. Total equity was £19,286,000 at 31 July 2021 (£8,066,000 at 31 July 2020).

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 2021				
Trade receivables	21	–	21	–
Inter-company short-term loan to subsidiary	–	–	–	–
Cash, cash equivalents and deposits	17,103	–	17,103	–
Trade and other payables*	–	(599)	(599)	–
Lease liabilities	–	(404)	(404)	–
	17,124	**(1,003)**	**16,121**	**–**

Financial assets/(liabilities)	Loans and receivables £000	Financial liabilities £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)	–
Lease liabilities	–	(407)	(407)	–
	5,662	**(1,099)**	**4,563**	**–**

* Excluding accruals and deferred revenue.

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

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

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

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

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

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

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

There were no open forward contracts as at 31 July 2021 or at 31 July 2020 and the Group did not enter into any such contracts during 2021 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**	**2021 Total £000**	GBP £000	USD £000	EUR £000	2020 Total £000
Cash, cash equivalents and deposits	**11,094**	**35**	**5,974**	**17,103**	5,623	16	9	5,648
Trade receivables	**21**	**–**	**–**	**21**	14	–	–	14
Trade payables	**(494)**	**(80)**	**(25)**	**(599)**	(654)	(3)	(35)	(692)
	10,621	**(45)**	**5,949**	**16,525**	4,983	13	(26)	4,970

Sensitivity analysis to movement in exchange rates
A reasonably possible strengthening (weakening) of the euro or US dollar against sterling at 31 July would have affected the measurement of financial instruments denominated in a foreign currency and affected equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases

	Profit or loss Strengthening £000	Equity Weakening £000	Strengthening £000	Weakening £000
31 July 2021				
EUR (5% movement)	313	(283)	313	(283)
USD (5% movement)	(2)	2	(2)	2
31 July 2020				
EUR (5% movement)	(3)	2	(3)	2
USD (5% movement)	2	(1)	2	(1)

Notes to the financial statements continued

27. Financial risk management continued

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 2021			31 July 2020		
The Group	**Fixed rate £000**	**Floating rate £000**	**Total £000**	Fixed rate £000	Floating rate £000	Total £000
Cash, cash equivalents and deposits	**–**	**17,103**	**17,103**	–	5,648	5,648
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 2021 based on contractual undiscounted payments including contractual interest.

2021	Less than one year £000	One to five years £000	Total £000
Financial liabilities			
Trade and other payables*	599	–	599
Lease liabilities	217	187	404
	816	**187**	**1,003**

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

* Excluding accruals and deferred revenue. Trade and other payables are due within 3 months.

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

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

28. Related party transactions

During the year there were no subscriptions by Directors for ordinary shares (2020: 200,000 ordinary shares at 15 pence each).

During the year, shareholder Aquarius Equity Partners Limited charged the Group £11,588 (2020: £15,450) for monitoring fees and was owed £nil at 31 July 2021 (2020: £nil).

During the year, The Aquarius IV Fund LLP, a fund managed by shareholder Aquarius Equity Partners Limited, held 2,025,000 deferred shares of £1 each (2020: £2,025,000).

During the year, Director Harry Finch charged the Group £nil (2020: £nil) for services which he provided as a technical consultant and was owed £nil at 31 July 2021 (2020: £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:

2020	Notes	31 July 2021 £000	31 July 2020 £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.

29. Compensation of key management personnel (including Directors)

	2021 £000	2020 £000
Short-term employee benefits	**1,476**	1,199
Pension costs	**151**	164
Benefits in kind	**2**	2
Share-based payments	**112**	100
	1,741	1,465

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)
Mr Simon Harford	(Non-Executive Director)

Secretary

Mr B Hoy

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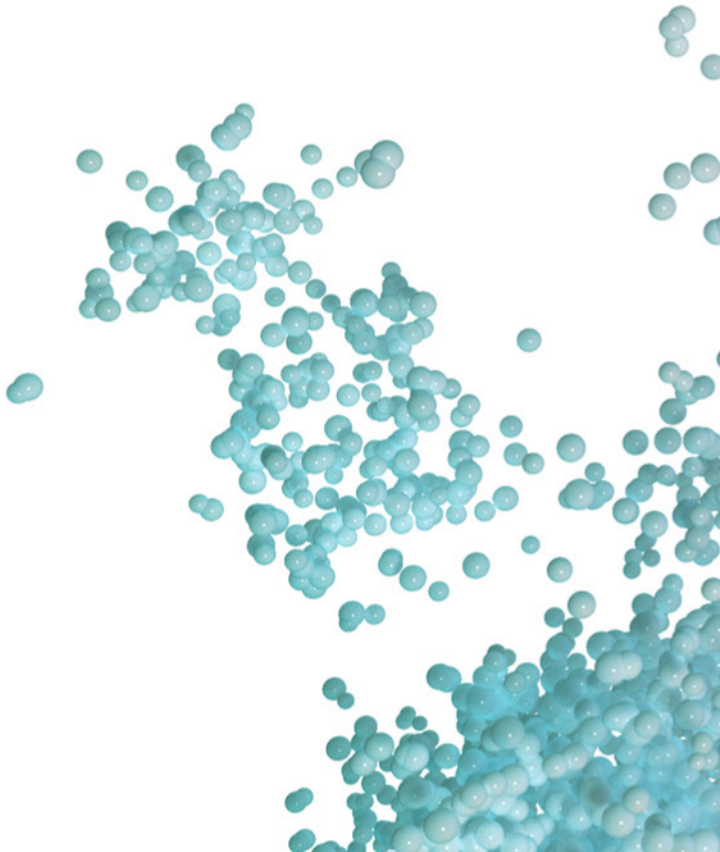

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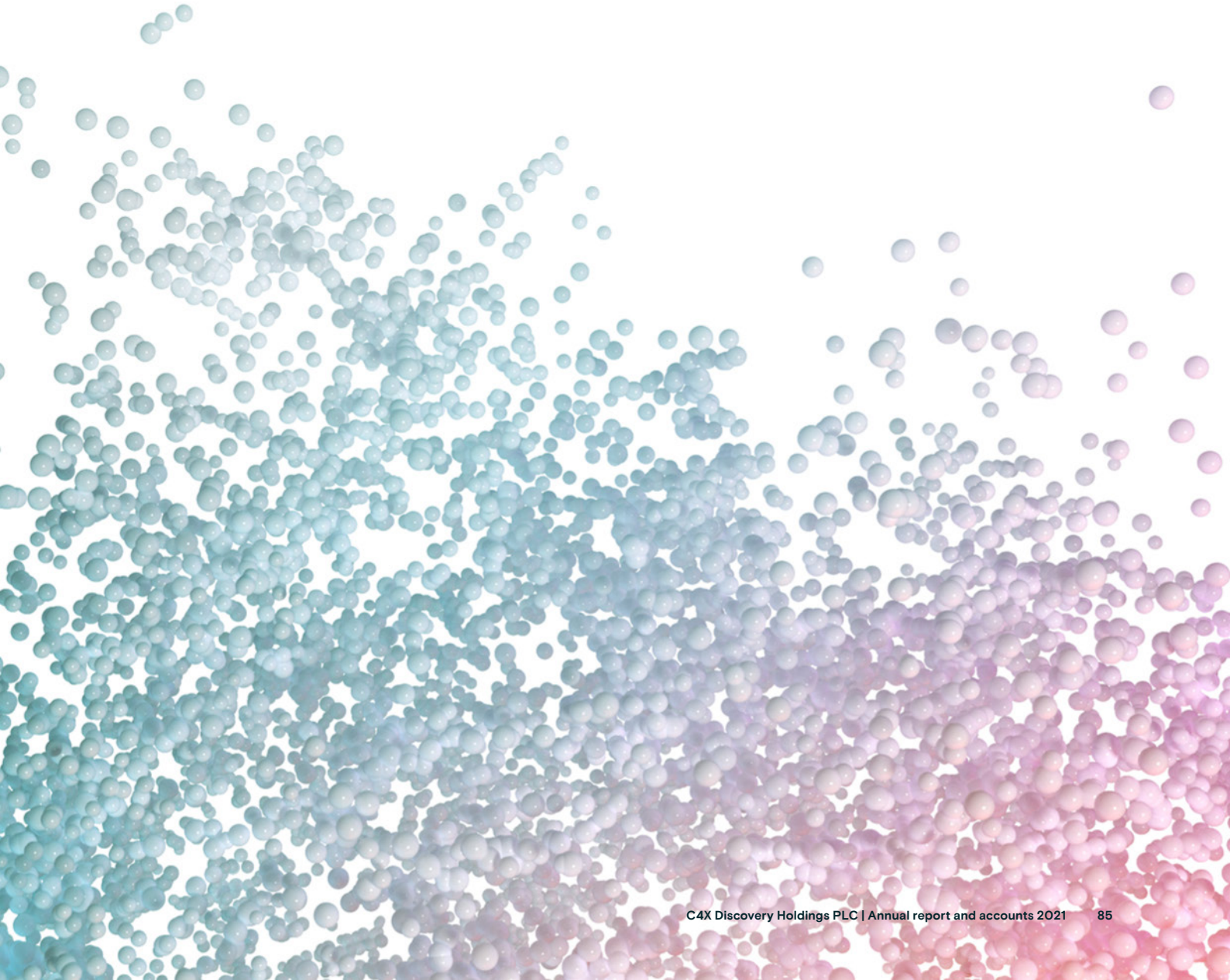

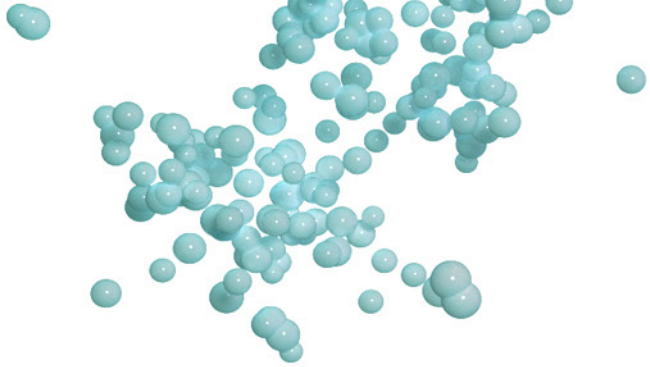

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