Valirx
Bioscience Innovation

Making a structural change to development technologies

ValiRx plc Annual Report and Accounts 2014

WELCOME TO VALIRX PLC

ValiRx plc is a biopharmaceutical company developing technologies and products in oncology therapeutics and diagnostics.

HIGHLIGHTS

In Summary

- Revenues for the year fell to £87,558 (2013: £124,868).
- Administration expenses were £1,603,128 (2013: £1,361,954).
- Expenditure on Research and Development rose 9% on the previous year to £1,772,338 (2013: £1,622,383) reflecting increased investment made in the VAL201 and VAL401 clinical trial programmes.
- Receipt of £210,802 (2013: £nil) grants towards Research and Development.
- Net loss after taxation was £3,244,471 (2013: £2,597,238).
- As at 31 December 2014, the Group had cash and cash equivalents of £452,824 (2013: £960,267). This has since increased following the raising of equity finance in January 2015 and March 2015, thereby enabling the Group to drive the clinical process of its lead compounds, VAL201 and VAL401.

Operational Highlights

- Approval of VAL201 Phase I/II clinical trial by MHRA.
- Establishment of a Joint Venture – ValiSeek to develop lung cancer opportunity VAL401. Advancement of VAL401 through preclinical programme.
- £2.9 million of investment funding raised.
- Initiation second Eurostars award for VAL101.
- Acquisition of TRAC platform.

Chairman's Statement p. 02

At a Glance p. 04

Therapeutics p. 08 to 11

Chief Executive's Report p. 12

View more on our website www.valirx.com/valiseek/valiseek-overview/

CHAIRMAN'S STATEMENT

"

I am pleased to report that in the last 12 months we have seen continued progress across all areas of our business.

Oliver de Giorgio-Miller
Non-executive Chairman

£2.9m

We raised £2.9 million before expenses at the start of January 2014.

I am pleased to report that in the last 12 months we have seen continued progress across all areas of our business.

We started the year in good financial shape having raised, in aggregate, £2.9 million before expenses at the start of January 2014 by way of a combination of an equity placing and an equity swap Agreement; the latter was exercised in full before the year end. Additional equity finance (£1.6 million before expenses) was secured at the beginning of 2015.

A key priority for 2014 was to obtain the necessary formal regulatory permissions from the Medicine and Healthcare Products Regulatory Agency ("MHRA") and Ethics Committee to commence a Phase I/II, dose escalation study at University College London Hospital ("UCLH"), to assess the safety and tolerability of our lead drug VAL201 in patients with locally advanced or metastatic prostate cancer and other advanced solid tumours. These permissions were received in October at which point patient recruitment and testing began. We have since reported that VAL201 was safe and well tolerated at the doses tested in the first cohort and has now advanced to the next elevation of dose, where further safety and tolerability testing will be undertaken and early stage efficacy will be investigated as the trial progresses.

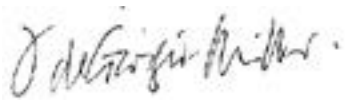
2014 also saw the establishment of a new subsidiary, ValiSeek Limited, a risk-sharing joint venture company with Tangent Reprofiling Limited. ValiSeek holds a worldwide exclusive licence from Tangent for the development and commercialisation of a novel cancer treatment, VAL401. In December we reported that in a GLP-regulatory toxicology study of VAL401 no adverse effects were seen throughout the experiment even at a dosage 60 times greater than the envisaged dose for patients. This study has completed the toxicology package required to support ValiSeek's approach to the regulatory authorities in 2015 with respect to advancing the drug towards pivotal clinical efficacy trials, initially in patients with lung cancer.

Another important accomplishment during the reporting period was the grant of new European and Japanese patents for our novel cancer screening test biomarker, NAV3, which is only one of five patent family assets within our Finland-based biomarker operation, ValiFinn Oy. Current diagnostic methods for cancer rely in the main on microscopic analysis of cells in biopsies. These work well in detecting established tumour cells. However at the early stage of cancer and before morphological changes have developed, such malignant cell detection is and remains difficult. The NAV3 gene biomarker is an important breakthrough as it enables the detection of cancer cells in tissue samples, whether they are primary tumours, metastases or pre-malignant cells, at a stage when tumour development is only about to start.

Lastly, in November we entered into a strategic alliance with one of the world's leading biomedical research institutions, Deutsches Krebsforschungzentrum (the German Cancer Research Center) in Heidelberg, aimed at accelerating the translation of the preclinical evidence that we have amassed in support of our GenelCE technology's potential to silence specific "rebellious genes" implicated in causing cancers, and take individualised cancer medicine from bench to bedside. As part of the Agreement, ValiRx will retain all rights to new GenelCE compounds deriving from the collaboration.

Our financial results show revenues for the year at £87,558 (2013: £124,868) with operating expenses rising 6% to £3,164,664 (2013: £2,984,337) after receipts of £210,802 of grants towards R&D (2013: £nil), as a result of increased R&D investment and overheads to drive VAL201 to Phase I/II clinical trials, and complete the VAL401 safety toxicology studies before year-end. The net loss for the year increased to £3,160,031 (2013: £2,702,258) resulting in a reduced loss per share (basic and diluted) of 0.08 pence (2013: 0.15 pence). As at 31 December 2014 the Company had cash and cash equivalents of £452,824 (2013: £960,267); however, since the period end, our cash position has increased significantly following a further raising of equity finance, which we believe positions the Group well to reach its goals across all areas in 2015.

I should like to thank the Board and other colleagues at ValiRx, ValiFinn and ValiSeek for their contributions during another successful year and our shareholders for their continued support.



Oliver de Giorgio-Miller
Non-executive Chairman

15 April 2015

£87,558

Revenues for the year £87,558 (2013: £124,868).

£210,802

in grants towards R&D (2013: £nil).

AT A GLANCE

We focus on the treatment of cancer and associated Biomarkers, specialising in epigenomic and genetic analysis.

The principal activity of the Company continued to be that of an oncology therapeutics and companion diagnostics development company.

The Company has undertaken to develop a novel and ground-breaking class of therapeutics across a number of fields in oncology and has taken its lead compound, VAL201, into Phase I/II clinical trials. The Company listed on the Alternative Investment Market ("AIM") of the London Stock Exchange in October 2006.

The Company has a pipeline of other therapeutic drugs, which are currently progressing towards clinical trials. The product focus is in the targeted analysis and treatment of cancer, but the technologies can be applied to other fields as well, such as neurology and inflammatory diseases.

It actively manages projects within its portfolio as a trading company. The ValiRx business model spreads the risks of life science technology development by minimising financial exposure and running a set of projects to defined commercial endpoints. This maximises returns to shareholders by adding value at the earlier stages where value increases per investment unit are the greatest.

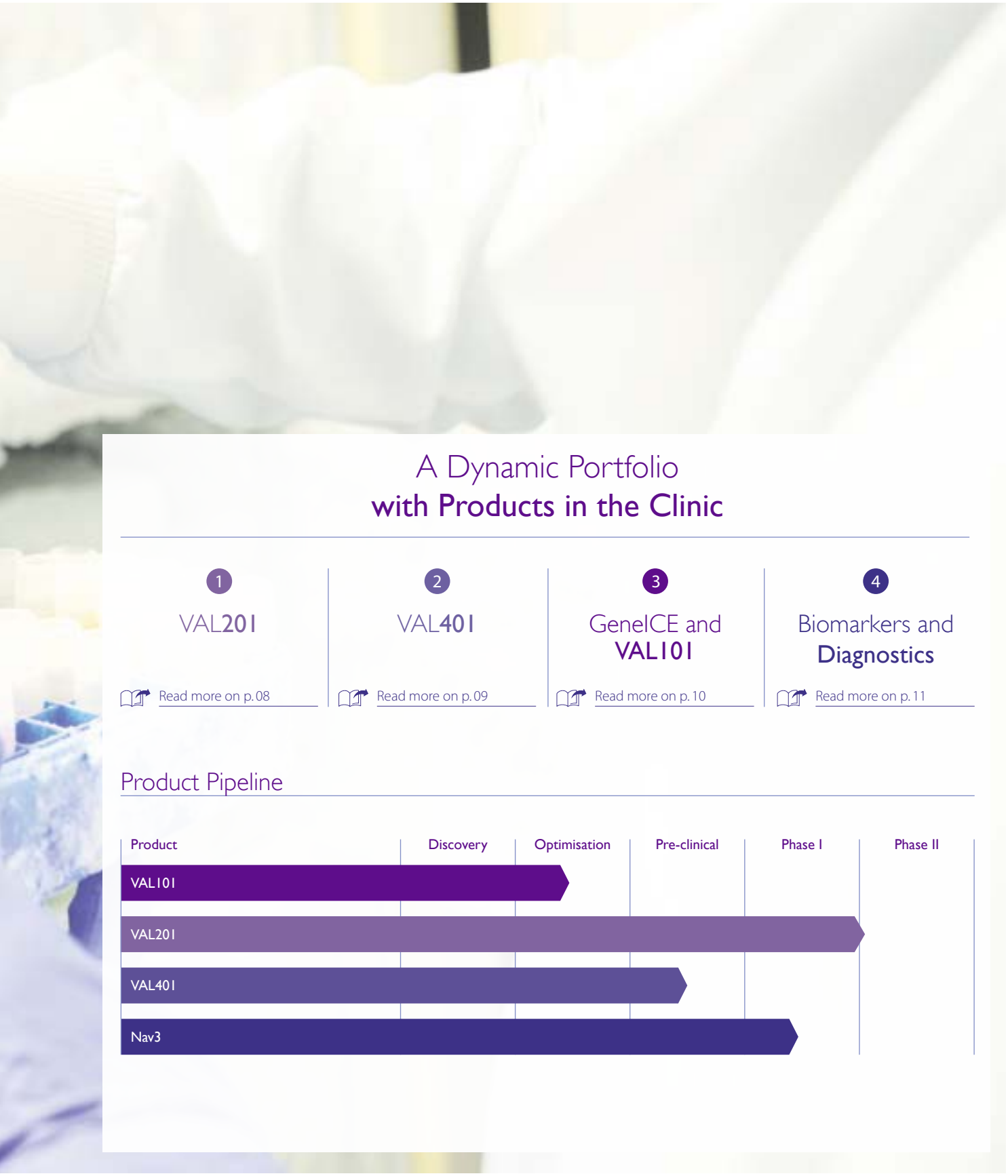
The Company operates through the following divisional companies:

ValiPharma
ValiPharma is the therapeutics division, with two embedded technologies primarily directed at the treatment of cancers.

ValiFinn
ValiFinn is the Biomarkers and Diagnostic development division. ValiRx acquired through its ValiFinn subsidiary, the complimentary TRAC technology later in the year to strengthen the portfolio.

ValiSeek
ValiSeek is a joint venture between ValiRx and Tangent Ltd to develop VAL401 in lung cancer and potentially other indications.

A review of the development and performance of the Group can be found in the Chief Executive's Report (p. 12).



A Dynamic Portfolio **with Products in the Clinic**

1 VAL**201**

Read more on p. 08

2 VAL**401**

Read more on p. 09

3 GeneICE and **VAL101**

Read more on p. 10

4 Biomarkers and **Diagnostics**

Read more on p. 11

Product Pipeline

VALIRX – THE DEVELOPMENT OF ONCOLOGY THERAPEUTICS

A snapshot of ValiRx in time and space.

Oncology Therapeutic Field

1880's – Baltimore surgeon William Halsted pioneers a new approach to removing breast tumours, radical mastectomy, in which the entire breast and the surrounding lymph nodes and chest muscles are removed. This helps reduce recurrences of the disease, which was previously nearly always fatal.

1903 – Five years after Marie Curie's discovery of radium, doctors report the first successful use of this radioactive element to treat cancer, in two Russian patients with skin cancer.

1949 – Following results of clinical trials conducted in 1946 and 1947, nitrogen mustard is approved by the Food and Drug Administration (FDA) for the treatment of Hodgkin lymphoma. Its discovery spurs rapid advancements in chemotherapy.

1970's – CT scanning provides clearer images of tumours, guiding radiation and other treatments.

1986 – The FDA approves the first PSA (prostate-specific antigen) test to screen for prostate cancer – the most common form of cancer in men – in men aged 50 and older. In the years that follow, widespread use of PSA testing leads to a significant jump in early-stage prostate cancer diagnoses.

1990's – For the first time since record-keeping began in the 1930's, cancer mortality rates begin to decline.

ValiRx's Development

2006 – ValiRx admits onto the AIM following the successful reverse take-over of Azure Holdings plc. The Company's valuation on admission is £12.8 million based on an opening share price of 1.45 pence per share.

2007 – Initiation of in vitro studies completed on GeneICE™ therapeutics platform. First GeneICE™ patents granted in Australia, Europe and the USA. Creation of diagnostics commercialisation business, ValiBio SA. European patent rights secured on Nucleosomics™, a high throughput screening mechanism for a wide range of cancers. Solid progress made on HyperGenomics™, high throughput screening mechanism for acute myeloid leukaemia and prostate cancer.

2008 – ValiRx Finland Oy, or ValiFinn was founded in 2008 in Oulu in Finland in a joint collaboration between ValiRx plc and local partners (in August 2011 the Company became a wholly owned subsidiary of ValiRx plc). Further advancement of the preclinical programmes from our collaborations with Cancer Research Technology Limited and Imperial College. Successful completion of a funding round on 12 May 2008; raising £830,000 net cash proceeds for the Company.

2009 – ValiRx is awarded a grant of £270,000 by the UK's Government Technology Strategy Board under the Eurostars scheme for GeneICE development.

2010 – The Company successfully completed the sale of ValiBio SA, our wholly owned Belgian subsidiary, to a Singaporean-registered company, Singapore Volition Pte. Limited ("Volition"), for a total consideration of $1 million (£625,000), of which $400,000 was in staged cash payments with the balance in Ordinary Shares in Volition.

1997

The FDA approves the first molecularly targeted cancer drug, rituximab (Rituxan), to treat patients with B-cell non-Hodgkin lymphoma that no longer responds to other treatments.

1998

The FDA approves tamoxifen (Novaldex), a hormonal drug already used to prevent recurrence of breast cancer, to reduce the risk of developing breast cancer in women who are at high risk for the disease.

The FDA approves the groundbreaking drug trastuzumab (Herceptin) after research shows that adding the monoclonal antibody to chemotherapy dramatically increases survival for women with advanced breast cancer that over-produces a protein called HER2.

2005

In 2005, the Childhood Cancer Survivors Study reports that survivors' risk of long-term health problems – including heart problems, second cancers and scarring of the lungs – was five times greater than that of their healthy siblings.

The results are helping oncologists and primary care providers monitor and better manage the long-term health of the millions of cancer survivors alive today.

2010

In a Phase III study, the targeted drug ipilimumab (Yervoy) – which boosts a specific component of the immune system – is found to improve survival and delay disease progression in patients whose advanced melanoma progresses despite other therapies. The drug is approved for this use in early 2011.

2012

New treatment option for advanced prostate cancer.

Source: Cancer Progress
www.cancerprogress.net

2011

ValiMedix Ltd becomes the exclusive supplier of the SELFCheck brand of Personal Health Screening Tests, which is increasingly available in pharmacies throughout the UK.

2012

ValiMedix enters into a UK distribution agreement with First Health Products Limited for the distribution and sale of ValiRx's SELFCheck health screening products in the UK.

Successful placing to raise £2.9 million allows VAL201 to enter into in-human clinical trials.

£2.9m

2013

Lead Compound ValiRx's drug substance VAL201 has efficacy in prostate, breast and ovarian cancer models and also addresses endometriosis or hormone-induced abnormal cell growth in women whilst the NAV3 Biomarker receives approval by the Australian patent office. ValiRx and Phamatest Services Limited is also awarded a new Eurostars II grant for further GenelCE development.

2014

ValiRx receives European Patent Grant as well as Japanese Patent Grant for Nav3 biomarker.

ValiRx establishes ValiSeek Limited ("ValiSeek") a joint venture with Tangent Reprofiling Limited whilst also entering into a collaboration agreement (the "Agreement") with the DKFZ to further develop GenelCE.

A Phase I/II Clinical trial on VAL201 is approved by the Medicine and Healthcare Products Regulatory Agency ("MHRA").

THERAPEUTICS

VAL201

1

Prostate Cancer

The Company's leading anti-cancer therapeutic VAL201 is currently in clinical trials for the treatment of prostate cancer and potentially other indications of hormone induced unregulated growth including endometriosis. The Phase I/II trial has been initiated and VAL201 was safe and well tolerated at the doses tested. Progressing through the dose escalation and expansion stages, the study is then designed to investigate further details of these aspects as well as efficacy. Particular emphasis will be placed on evaluating the pharmacokinetics, pharmacodynamics and early assessment of anti-tumour activity in response to VAL201, using a variety of measurements including ValiRx's biomarkers, with biomarkers being key indicators in personal medicine.

VAL201 selectively prevents tumour growth by specifically inhibiting the proliferation of tumour cells. As a result, tumour growth is suppressed and metastasis is significantly reduced. The approach is a targeted therapeutic with pre-clinical results that indicate that due to the specific nature of this treatment, this therapy is likely to be less toxic than many other therapeutic options.

The VAL201 target is also associated with other cancers and there is significant potential for VAL201 to be used as a treatment for other hormone-induced cancers, such as breast and ovarian and also endometriosis.

Endometriosis

Endometriosis is a gynaecological medical condition in which cells from the lining of the uterus (endometrium) appear and flourish outside the uterine cavity lined by endometrial cells, which are under the influence of female hormones. These endometrial-like cells in areas outside the uterus (endometriosis) are influenced by hormonal changes and respond in a way that is similar to the cells found inside the uterus and symptoms often worsen with the menstrual cycle. The treatments chosen will depend on symptoms, age, and lifestyle plans. VAL201 has been shown though to reduce abnormal endometrial growth, whilst leaving other hormone-induced activities working normally. ValiRx's initial in-vitro results show a reduction in endometrial lesion size directly related to dose and two generations of offspring produced by treated animals. This strongly suggests that the peptide does not affect fertility the same way other treatments do.

"

I am thrilled that the VAL201 clinical development has now entered the human patient phase and I am looking forward to receiving information about the compound's performance and behaviour in this critical stage of development.

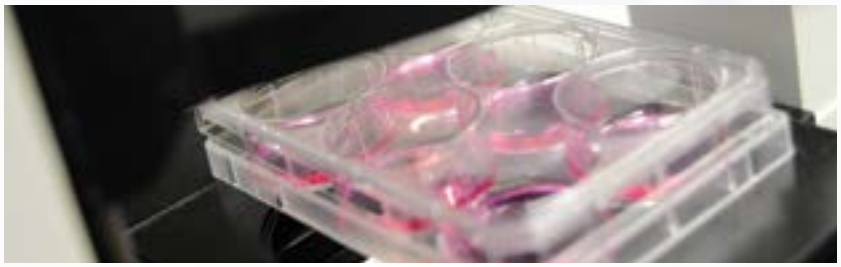
Dr Satu Vainikka
Chief Executive Officer

50%

The prognosis for many patients with prostate cancer is very poor – less than 50% survive beyond 2 years.

VAL401

2



"I am delighted that VAL401 has progressed according to schedule since being in-licensed to the ValiRx group last year. We look forward to hearing reports from ValiSeek of further advancement over the coming year.

Dr Satu Vainikka
Chief Executive Officer

Lung Cancer and others

VAL401 is the reformulation of a generic drug that has over 20 years of clinical use for treatment of a chronic non-oncology disease in an oral capsule. The re-formulation allows the drug to access previously unexploited anti-cancer activity. VAL401 is progressing satisfactorily through its remaining preclinical development and towards a clinical trial for the treatment of lung cancer and other oncology indications. Progress into the clinic will comprise a shorter than usual route to Market Authorisation by use of prior clinical data gathered on the original generic drug. Preclinical efficacy data has been collected in both non-small cell lung and prostate cancers. Preclinical toxicology has revealed no side effects beyond those expected from the parent drug, with preclinical pharmacokinetic data allowing bridging from VAL401 to the historical full clinical data package on the parent. Formulation stability tests are currently underway to complete the CMC package.

20yrs

During 20 years of prior clinical use, the active drug has been safely administered long term (chronic use of over 2 year's duration) with good compliance.

Indications

Other possible indications include prostate and pancreatic cancer.

THERAPEUTICS continued

GenelCE and **VAL101**

3

GenelCE

GenelCE "rebellious gene" technology continues to show good progress in the pre-clinical phase – the programme currently benefits from a second Eurostars grant for up to €1.6 million.

Rebellious genes are genes that are overexpressed when they should not be or are erroneously expressed, e.g., in cancers, inflammatory conditions, Alzheimer's and autoimmune diseases. ValiRx's proprietary GenelCE technology enables the selective silencing of specific genes by targeted histone deacetylation leading to chromatin condensation. This prevents access and silences gene expression. In nature histone deacetylation of a particular gene is brought about by recruitment of a histone deacetylase complex (HDAC) to the gene. GenelCE constructs mimic this natural mechanism by delivery to the nucleus of a dual-module construct comprising: the binding of GenelCE construct to its target gene leads to deacetylation of the histones associated with the gene, localised chromatin condensation and gene silencing.

VAL101

VAL101 is a novel therapeutic based on the Company's proprietary GenelCE (Gene Inactivation by chromatin engineering) platform. It acts to target and switch "OFF" the gene that expresses Bcl-2, a protein that is implicated in about half of all carcinomas. Pre-clinical studies have established VAL101's efficacy in prostate, ovarian and pancreatic cancers, and it may also have anti-tumour activity against orphan oncologic indications. ValiRx's GenelCE technology enables the selective silencing or the shutting down of particular rebellious genes, thereby halting and reversing tumour growth.

€1.6m

GenelCE has attracted a second €1.6 million Eurostars grant to fund its development.

80%

Bcl-2 is over-expressed in up to 80% of breast cancers;

90%

90% of prostate cancers;

80%

and 80% of leukaemias.

Biomarkers and **Diagnostics**

4

Biomarker development programme, to support clinical and pre-clinical development, is continuing to produce results with the recent acquisition of complimentary TRAC technology.

The use of biomarkers with oncology therapeutics is one of the fastest growing areas of cancer research, as not only can the biomarkers identify patients who are more likely to respond to a particular drug therapy, but they can also indicate tumour progression.

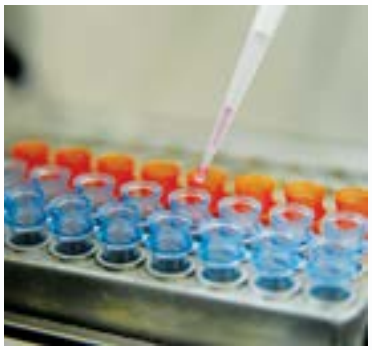
ValiRx's biomarker subsidiary, ValiFinn in Finland provides the Group with exposure to the Biomarker market, a key and increasingly exciting field within its industry, but also to a revenue stream, derived from the provision of contract services to the pharmaceutical industry.

ValiFinn has built on its specialist biomarker expertise to develop its own companion diagnostic biomarkers to complement ValiRx's therapeutics, its existing intellectual property and its companion diagnostic activities, as well as marketing that expertise for the development programmes of other companies. Its services for consumers include biomarker measurements for health monitoring.

ValiFinn conducts the management of certain aspects of VAL201 late preclinical work and will assist in the regulatory work pertaining to the clinical trials and will manage certain aspects of the clinical work regarding hormone induced refractory cancer.

ValiRx's proprietary novel NAV3 Cancer Screening Test enables the detection of cancer cells in tissue samples, whether they are primary tumours, metastases or pre-malignant cell, at a stage when tumour development is only about to start. The test is based on the detection of specific changes in the NAV3 gene and the system of tests can be applied to a range of cancers including.

"Transcript Analysis with the Aid of Affinity Capture" or TRAC technology enables the efficient screening of a large number of drug candidates for a wide range of genetic safety and efficacy markers. The technology platform already has an established customer base and it has been generating revenue since 2012. Going forward, ValiRx will look to leverage upon TRAC's market presence and grow the sales of this diagnostic business. The Company believes that together with clinical validation, revenues from TRAC will grow, which will support both the biomarker and therapeutic development businesses. ValiFinn, which is itself already generating revenues, is well placed to further develop as a service/licensing business.



$3.6bn

The global cancer biomarkers market for 2007 was estimated to be $3.6 billion.

+6.3%

By 2016, the global cancer biomarkers market is expected to have grown by 6.3% to $6.3 billion.

CHIEF EXECUTIVE'S REPORT

"

Following on from the Chairman's comprehensive review I will comment on the events and activities that I find the most significant and point the way to the future of the Company.

Dr Satu Vainikka
Chief Executive Officer

VAL201

ValiRx achieved formal regulatory clearance to undertake a clinical trial of VAL201 (now commenced).

Following on from the Chairman's comprehensive review I will comment on the events and activities that I find the most significant and point the way to the future of the Company.

The big achievement and the very significant event of 2014 was the Company getting formal regulatory clearance to undertake and starting a clinical trial of VAL201, a peptide directed at blocking androgen induced cancer by inhibiting a particular function with in large protein complex which goes by the acronym Src. It has been shown in many systems, tested by us, and others, that the effect VAL201 has in this situation is to prevent cancerous cells form dividing under the influence of androgen hormones.

Getting to this stage has been the culmination of an intense period of work. During which the project team has been required to provide sufficient robustly manufactured compound along with a large set of scientific data and toxicological information prior to submitting a Clinical Trial Application ("CTA"). A CTA comprises a full plan for all aspects of the proposed clinical trial. In conjunction with, and as is required, to the CTA an Investigational Medical Product Dossier ("IMPD") was produced. This is a document outlining all that is known about the science surrounding VAL201 and its proposed therapeutic use. The IMPD also details manufacture, storage and stability of VAL201 over time. Then, on top of this is the production of an Investigational Brochure ("IB") which is a summary of the CTA and IMPD but also includes medical information and is aimed primarily at its use in the clinic and wider community. I have to thank the team for this herculean effort and then driving though the regulatory process of the MHRA Regional Ethics Committee and the local R&D approvals answering and responding to all requests and questions tirelessly.

Now that we are actually in the midst of the Trial at UCLH and the initial results are very encouraging I am looking forward with optimism for VAL201 and its future.

The new subsidiary, a risk-sharing joint venture, ValiSeek Limited is a substantial development and brings a new novel cancer treatment, VAL401 to ValiRx. Using the infrastructure developed while getting VAL201 in to the clinic and with the results we have obtained during the year and the preparation to take the therapy into efficacy trialling looks promising, especially as the safety and a human toxicology profile is well understood.

It should be noted that during the year the Company was actively involved in a Eurostar European funded grant with partners in Finland and Germany as well as with various scientists and manufacturing concerns throughout Europe and wider. As the Chairman has already described, the strategic alliance with the world leading Deutsches Krebsforschungzentrum (the German Cancer Research Center) matters greatly in the continuing development of the GeneICE platform and potential products derived from it.

The continuing growth of activity in our Finnish subsidiary ValiFinn is pleasing and its core activities have progressed well and are in line with our plans. Of note are the developments surrounding NAV3 mentioned by the Chairman.

Now that we are actually in the midst of the Trial at UCLH and the initial results are very encouraging I am looking forward with optimism for VAL201 and its future.

The work done by ValiFinn, particularly in the progress and analysis of the trial of VAL201 and the efficacy assessments, should also be appreciated. Alongside this work, is the more mundane but important background routine clinical work for which ValiFinn needs recognition. I should also record my pleasure at the acquisition of the TRAC technology from the administrators of Plexpress at the end of the year and early thereafter. It is too early to say much but it will be significant to ValiRx and its activities internally and externally.

In the outlook I am happy to look forward to the continuing output from the Clinical trial of VAL201, developments with both VAL401 and GeneICE platform products, along with the developments in Biomarkers and Diagnostics excite me.

I am very happy to thank all of my colleagues at ValiRx for their commitment and hard work which has given us a very successful and memorable year. I also appreciate and thank our shareholders for their continued support.

Dr Satu Vainikka
Chief Executive Officer

15 April 2015

Our Strategy and Business Model

ValiRx is a growing company with a clear goal. Our business model spreads the risks of life science technology developments by minimising financial exposure and running a set of projects to defined commercial endpoints. This maximises returns to shareholders by adding value at the earlier stages where value increases per investment unit are the greatest.

Vision
Our vision is to make a structural change in science.

Aim
Our aim is to engineer a scientific breakthrough in human health and wellbeing.

Strategy
We will achieve these goals through early detection of disease and therapeutic intervention.

RISKS AND UNCERTAINTIES

Risk	Description	Mitigation
Industry risk	The success of the Group's programmes depends upon the quality of the design and the implementation of each programme. The Group utilises a range of external scientific, regulatory and clinical experts to help guide its development programmes. The progress of the development programmes therefore represents the best indicator of the Group's performance. Successful commercialisation of the Group's products is likely to depend on successful progress through clinical studies, licensing and or partnering and registration. Development of product candidates involves a lengthy and complex process and products may not meet the necessary requirements in terms of toxicity, efficacy or safety, or the relevant regulators may not agree with the conclusions of the Group's research and may require further testing or withhold approval altogether.	The Group manages its clinical and regulatory risk by working closely with its expert regulatory advisors and, where appropriate, seeking advice from regulatory authorities on the design of key development plans for its pre-clinical and clinical programmes.
Competition risk	The Group's success depends on acceptance of the Group's products by the markets, including pharmaceutical and biotechnology companies users and third party payers, and consequently the Group's progress may be adversely affected if it is unable to achieve market acceptance of its products. Factors which may affect the rate and level of market acceptance of any of the Group's products include the existence or entry on to the market of superior competing products or therapies and the price of the Group's products compared to competing products and overall cost effectiveness of the product.	The Group works closely with its legal and other advisors and obtains, where necessary opinions on competition risk relevant to the Group's programmes and activities.
Financial risk: Cash flow	The Group has a history of operating losses which are anticipated to continue until the Group is able to generate sufficient revenues from its development programmes. However, the Group may need to seek further capital through equity or debt financings in the future and if this is not successful, the financial condition of the Group may be adversely affected.	As at 31 December 2014, the Group had cash resources of £1 million which the Group considers sufficient to finance its operational activities until at least Q1 2015 and has since raised further funding of £4.3 million.
Clinical and regulatory risk	Successful commercialisation of the Group's products is likely to depend on successful progress through clinical studies and registration. Development of product candidates involves a lengthy and complex process and products may not meet the necessary requirements in terms of toxicity, efficacy or safety, or the relevant regulators may not agree with the conclusions of the Group's research and may require further testing or withhold approval altogether.	The Group manages its clinical and regulatory risk by working closely with its expert regulatory advisors and, where appropriate, seeking advice from bodies on clinical and regulatory risk relevant to the Group's programmes and activities.
Counterparty risk	The Group's success depends on acceptance of the Group's products by the markets, including various buyers, users and third party payers, and consequently the Group's progress may be adversely affected if it is unable to achieve market acceptance of its products. Factors which may affect the rate and level of market acceptance of any of the Group's products include the existence or entry on to the market of superior competing products or therapies and the price of the Group's products compared to competing products and overall cost effectiveness of the product.	The Group works closely with its legal advisors and obtains, where necessary opinions on the Counterparty risk relevant to the Group's programmes and activities.
Intellectual property risk	The Group's success depends, in part, on its ability to obtain and maintain protection for its intellectual and proprietary information, so that it can stop others from making, using or selling its inventions or proprietary rights. The Group's patent applications may not be granted and its existing patent rights may be successfully challenged and revoked.	The Group invests in maintaining and protecting this intellectual property to reduce risks over the enforceability and validity of the Group's patents. The Group works closely with its legal advisors and obtains where necessary opinions on the intellectual property landscape relevant to the Group's programmes and activities.
Return on investment	The drug development process is inherently risky and is conducted over several years and consequently is costly. Many drug candidates fail in development due to the clinical and regulatory risks, and even in those circumstances where drugs are sold, licensed or partnered prior to or subsequent to potential or actual approval, sales levels can be disappointing due to competition, healthcare regulation and/or intellectual property challenges. As a result the returns achieved may be insufficient to cover the costs incurred.	The Group looks to mitigate the development and commercial risk by partnering drug candidates for late-stage development and commercialisation. By partnering in this way, part of the risk profile is reduced and the cost to the Company of programme development is minimised.

Risk Status
^
^
›
›
›
›
ˇ

Risk Status Key

- ^ Risk increased
- › Risk unchanged
- ˇ Risk decreased

Corporate Social **Responsibility**

Delivering healthcare solutions that reduce complexity, drive efficiency and improve patient wellbeing.

ValiRx recognise the obligation to behave as a responsible corporate citizen and believe that by doing so we will minimise business risk and enhance our reputation.

The Board recognises the potential benefits of corporate social responsibility (CSR) for the competitiveness of ValiRx and encourages a culture of continuous improvement in CSR-related issues. We have set specific policies that cover key aspects of CSR and strive to operate at the highest level of integrity.

Corporate **Governance**

Corporate Social Responsibility represents our commitment to economic and social development that will have a positive impact on the health and well-being of our team members, local and global communities, and stakeholders at large while advancing the quality of our company through engagement in the world around us.

At ValiRx, Our Board of Directors recognise that good corporate governance is essential to running a successful company, and they are committed to ensuring that high standards are maintained to solidly underpin the management of our business affairs.

Our Corporate Social Responsibility Vision

The overriding goals and objective of CSR encapsulate our higher mission.

Core Values

Our values of respect, trust, passion, innovation and continuous improvement all call for and are enhanced by a focus on the nonfinancial aspects of our business.

What is it about

Our vision is to create, develop and deliver innovative healthcare solutions and services that help reduce complexity, drive efficiency and improve the overall patient wellbeing.

What are we doing about it

We continually refine our vision and people strategy for the future of our business and the markets we serve. Reporting is an essential tool for tracking and communicating progress against our commitments. It will help us advance our vision and demonstrate our efforts to innovate in the industry.

Governance

BOARD OF DIRECTORS

Our experienced Board of Directors comprises six dedicated members who are all well respected within their field.

Oliver de Giorgio-Miller
Non-executive Chairman

Oliver has a wealth of experience in the management and commercial advancement of life science companies. He has worked for over 30 years with several global pharmaceutical and medical device companies including Schering AG, Hoffman la Roche, Intavent-Orthofix and Photo Therapeutics, a Cancer Research UK company, and he has extensive experience advising a number of other early stage biopharmaceutical and medical device companies.

Since 2002 Oliver has worked as a life sciences analyst in the City, working alongside corporate finance, investor relations and sales teams on a wide range of transactions including IPOs, secondary issues and M&As. He is a director and investment manager of an offshore fund, Sarum Investment (SICAV) plc, which is exclusively focused on the oncology sector. Oliver joined the Board of ValiRx plc in May 2011.

Dr Satu Vainikka
Chief Executive Officer

Satu has many years' experience of the biotechnology industry, including extensive first hand experience of equity financing, business management and developing life science technology into commercial enterprises. Prior to her current role as CEO of ValiRx, she was a founder, director and CEO of Cronos Therapeutics Limited.

In her past roles, Dr Vainikka has developed and exited successful business models, negotiated corporate and academic transactions and raised funding for a number of companies.

Dr Satu Vainikka has gained the following qualifications and awards:

- MBA at Imperial College Business School 2000;
- PhD in signal transduction in oncology, University of Helsinki 1996; and
- prestigious "embo" fellowship for Postdoctoral research at Imperial Cancer Research (now CRC).

Dr George Morris
Chief Operations Officer

George has over 25 years' experience in biological and medical research and financial services. In the past he has worked for Guy's Hospital Medical School Department of Medicine, King's College and University College London. As a research scientist, he is an author of numerous books and articles on refereed papers, approximately 70 abstracts, short reports and posters, and an inventor of multiple patents.

George was a founding member of the expert advisory panel, the "Biotechnology and Finance Forum", set up jointly between the European Commission and the European Association of Securities Dealers. George is involved in a number of conferences and workshops with the EU research and agricultural directorates and is an "expert" to the Commission and has been invited into several policy discussion groups.

George has worked with a variety of commercial, governmental organisations and financial institutions in the US, Europe and Australia and many consultancy projects covering various biotechnology and financial activities. He is regularly asked to chair or participate in conferences in his areas of experience, including acting as a "Venture Academy" mentor.

To view our Scientific Advisory Board, visit
www.valirx.com/about-us/scientific-advisory-board/

Gerry Desler
Chief Financial Officer

Gerry is a chartered accountant, who qualified in 1968 with a City firm, before becoming a partner in 1970. Between 1985 to 1990 he was the senior partner. During his time in the City, he has specialised in consultancy work, much of it involving funding and venture capital.

He was involved in one of the first joint ventures in what was then the People's Republic of China in 1980. Gerry is also the finance director of Premier Gold Resources plc, an AIM listed company, and is on the board of a number of private companies.

Kevin Alexander
Non-executive Director

Kevin is a qualified solicitor in England and an attorney in New York and he was a partner at major law firms in both London and the United States for over 25 years. Since leaving the law he has been involved in forming and managing various businesses, both private and public. Kevin is a Director of ValiRx plc and joined the Board in September 2006. He has an MA in law from Cambridge University.

Seppo Mäkinen
Non-executive Director

Seppo Mäkinen has more than 25 years executive experience in board level and venture capital management on life science companies, his special expertise is on biotech/medtech/diagnostics. The career includes ten years as Director in Life Sciences at Sitra (Finnish Government Fund), followed by thirteen years as co-founder and Managing Partner in Bio Fund Management Oy from this time also five years as President of BioFund A/S, Copenhagen. With €200 million under management, BioFund was one of the biggest European VC funds investing into life sciences. Seppo Mäkinen is currently Board Member in five life science/healthcare companies and advisor to Merieux Développement Fund. He received his M.Sc. Degree in physical chemistry from University of Jyväskylä in 1979.

Company **Information**

Directors
Oliver de Giorgio-Miller
Dr Satu Vainikka
Dr George Morris
Gerry Desler
Kevin Alexander
Seppo Mäkinen

Secretary
Kevin Alexander

Company number
03916791

Registered office
24 Greville Street
London
EC1N 8SS

Auditors
Adler Shine LLP
Chartered Accountants
and Statutory Auditor
Aston House
Cornwall Avenue
London
N3 1LF

Bankers
Royal Bank of Scotland Plc
St Ann Street
Manchester
M50 2SS

Solicitors
Pinsent Masons LLP
30 Crown Place
Earl Street
London
EC2A 4ES

Governance

DIRECTORS' REPORT

For the year ended 31 December 2014

The Directors present their report and financial statements for the year ended 31 December 2014.

Results and dividends
The results for the year are set out on page 21.

The Directors do not recommend payment of an ordinary dividend.

Financial risk management objectives and policies
Note 25 to the financial statements gives details of the Group's objectives and policies for risk management of financial instruments.

Research and development
The Group will continue its policy of investment in research and development. In accordance with International Financial Reporting Standards (IFRS), during the year the Group expensed to the income statement £1,772,338 (2013: £1,622,383) on research and development. Further details on the Group's research and development are included in the Chief Executive's Report on pages 12 to 13.

Directors
The following Directors have held office since 1 January 2014:

Oliver de Giorgio-Miller
Dr Satu Vainikka
Dr George Morris
Gerry Desler
Kevin Alexander
Seppo Mäkinen

The market value of the Company's shares at 31 December 2014 was 0.22 pence and the high and low share prices during the period were 0.50 pence and 0.22 pence respectively.

Significant shareholders
As at 13 March 2015, so far as the Directors are aware, there are no parties who are directly or indirectly interested in 3% or more of the nominal value of the Company's share capital.

Directors' insurance
The Directors and officers of the Company are insured against any claims against them for any wrongful act in their capacity as a Director, officer or employee of the Group, subject to the terms and conditions of the policy.

Auditors
In accordance with Section 489 of the Companies Act 2006, a resolution proposing that Adler Shine LLP be reappointed as auditors of the Company will be put to the Annual General Meeting.

Directors' responsibilities
The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. The Directors are also required to prepare financial statements for the Group in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. The Directors have chosen to prepare the financial statements for the Company in accordance with United Kingdom Generally Accepted Accounting Practice.

Group financial statements
International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's "Framework for the Preparation of Financial Statements". In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. A fair presentation also requires directors to:

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

Parent Company financial statements

Company law requires the Directors to prepare financial statements for each financial year. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

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

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

Financial statements are published on the Group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Statement of disclosure to auditors

So far as each person serving as a Director of the Company at the date this report is approved is aware:

(a) there is no relevant audit information of which the Company's auditors are unaware, and

(b) each Director hereby confirms that he or she has taken all the steps that he or she ought to have taken as Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This report was approved by the Board of Directors and signed on its behalf by:

Dr Satu Vainikka
Director

Governance

INDEPENDENT AUDITORS' REPORT

to the members of ValiRx plc

We have audited the Group and Parent Company financial statements (the "financial statements") of ValiRx plc for the year ended 31 December 2014 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position and Parent Company Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity and the related notes.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 auditors' 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.

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 18, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's ("APB") Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the Parent Company's affairs as at 31 December 2014 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept 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.

Darsh Shah (Senior Statutory Auditor)
for and on behalf of Adler Shine LLP
Chartered Accountants & Statutory Auditor
Aston House
Cornwall Avenue
London
N3 1LF

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2014

	Notes	2014 £	2013 £
Revenue	3	**87,558**	124,868
Cost of sales		**(61,025)**	(51,618)
Gross profit		**26,533**	73,250
Research and development		**(1,772,338)**	(1,622,383)
Administrative expenses		**(1,603,128)**	(1,361,954)
Other operating income	4	**210,802**	–
Operating loss	4	**(3,138,131)**	(2,911,087)
Fair value loss on derivative financial assets	14	**(72,202)**	–
Finance income	5	**8,023**	5,552
Loss on disposal of financial assets	11	**(437,493)**	–
Finance costs	6	**(1,532)**	(180)
Loss on ordinary activities before taxation		**(3,641,335)**	(2,905,715)
Income tax expense	7	**396,864**	308,477
Loss on ordinary activities after taxation		**(3,244,471)**	(2,597,238)
Non-controlling interest		**84,440**	–
Loss for the year		**(3,160,031)**	(2,597,238)
Other comprehensive income			
Change in fair value of available-for-sale assets		**–**	(105,020)
Loss for the year and total comprehensive income		**(3,160,031)**	(2,702,258)
Loss per share – basic and diluted	8		
From continuing operations		**(0.08)p**	(0.15)p

There are no recognised gains and losses other than those passing through the Consolidated Statement of Comprehensive Income.

The notes on pages 25 to 46 form part of these statutory accounts.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2014

	Notes	Share capital £	Share premium £	Merger reserve £	Reverse acquisition reserve £	Share option reserve £	Non controlling interests £	Retained earnings £	Total £
Balance at 1 January 2013		6,051,607	5,337,152	637,500	602,413	73,852	–	(7,665,683)	5,036,841
Changes in equity for 2013									
Loss for the year		–	–	–	–	–	–	(2,597,238)	(2,597,238)
Change in fair value of available-for-sale assets		–	–	–	–	–	–	(105,020)	(105,020)
Issue of shares		307,750	692,437	–	–	–	–	–	1,000,187
Costs in respect of shares issued		–	(104,358)	–	–	–	–	–	(104,358)
Balance at 31 December 2013		6,359,357	5,925,231	637,500	602,413	73,852	–	(10,367,941)	3,230,412
Changes in equity in 2014									
Loss for the year		–	–	–	–	–	(84,440)	(3,160,031)	(3,244,471)
On acquisition of subsidiary		–	–	–	–	–	110,814	–	110,814
Issue of shares	18	922,449	2,069,701	–	–	–	–	–	2,992,150
Costs in respect of shares issued		–	(390,200)	–	–	–	–	–	(390,200)
Movement in the year	17	–	–	–	–	89,324	–	–	89,324
Transfer between share option reserve and retained earnings		–	–	–	–	(9,032)	–	9,032	–
Balance at 31 December 2014		**7,281,806**	**7,604,732**	**637,500**	**602,413**	**154,144**	**26,374**	**(13,518,940)**	**2,788,029**

Merger reserve

The merger reserve of £637,500 exists as a result of the acquisition of ValiRx Bioinnovation Limited. The merger reserve represents the difference between the nominal value of the share capital issued by the Company and the fair value of ValiRx Bioinnovation Limited at 3 October 2006, the date of acquisition.

Reverse acquisition reserve

The reverse acquisition reserve exists as a result of the method of accounting for the acquisition of ValiRx Bioinnovation Limited and ValiPharma Limited.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2014

	Notes	2014 £	2014 £	2013 £	2013 £
ASSETS					
Non-current assets					
Intangible assets	9		2,380,021		1,882,762
Property, plant and equipment	10		1,507		685
Financial assets: available-for-sale investments	11		–		768,323
			2,381,528		2,651,770
Current assets					
Inventories	12	11,150		4,078	
Trade and other receivables	13	777,602		490,395	
Cash and cash equivalents		452,824		960,267	
			1,241,576		1,454,740
LIABILITIES					
Current liabilities					
Trade and other payables	15		(835,075)		(876,098)
Net current assets			406,501		578,642
Net assets			2,788,029		3,230,412
SHAREHOLDERS' EQUITY					
Called up share capital	18		7,281,806		6,359,357
Share premium			7,604,732		5,925,231
Merger reserve			637,500		637,500
Reverse acquisition reserve			602,413		602,413
Share option reserve			154,144		73,852
Profit and loss account			(13,518,940)		(10,367,941)
Total shareholders' equity			2,761,655		3,230,412
Non-controlling interests			26,374		–
Total equity			2,788,029		3,230,412

The notes on pages 25 to 46 form part of these statutory accounts.

Approved by the Board and authorised for issue on 15 April 2015.

Dr Satu Vainikka
Director

Company Registration No. 03916791

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2014

	2014		2013	
	£	£	£	£
Net cash outflow from operating activities		(3,316,712)		(2,232,552)
Taxation		309,541		164,892
Returns on investments and servicing of finance				
Interest received	8,023		5,552	
Interest paid	(1,532)		(180)	
Net cash inflow from returns on investments and servicing of finance		6,491		5,372
Capital expenditure and financial investment				
Payments to acquire intangible assets	(273,846)		(132,135)	
Payments to acquire tangible assets	(1,408)		(1,922)	
Receipts from sales of financial investments	330,830		–	
Net cash inflow/(outflow) for capital expenditure and financial investment		55,576		(134,057)
Acquisitions and disposals				
Non-controlling interest	63		–	
Net cash outflow for acquisitions and disposals		63		–
Financing				
Issue of ordinary share capital	2,900,000		1,000,187	
Cost of share issue	(390,200)		(104,358)	
Cost of derivative financial asset	(1,500,000)		–	
Proceeds received from issue of derivative financial asset	1,427,798		–	
Net cash generated from financing activities		2,437,598		895,829
Net decrease in cash and cash equivalents		(507,443)		(1,300,516)
Cash and cash equivalents at beginning of period		960,267		2,260,783
Cash and cash equivalents at end of period		452,824		960,267

The notes on pages 25 to 46 form part of these statutory accounts.

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2014

1 Cash flows from operating activities

	2014 £	2013 £
Operating loss	**(3,138,131)**	(2,911,087)
Depreciation of tangible assets	**517**	5,623
Amortisation of intangible assets	**90,697**	55,537
Increase in inventories	**(7,072)**	(1,351)
(Increase)/decrease in receivables	**(199,884)**	7,045
(Decrease)/(increase) in payables within one year	**(158,873)**	614,463
Other non-cash movements	**6,710**	(2,782)
Share option charge	**89,324**	–
Cash outflows from operating activities	**(3,316,712)**	(2,232,552)

2 Cash and cash equivalents

	1 January 2014 £	Other non-cash changes £	Cash flow £	31 December 2014 £
Net cash				
Cash at bank and in hand	960,267	–	(507,443)	**452,824**
	960,267	–	(507,443)	**452,824**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2014

1 Principal accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below.

1.1 Basis of preparation

ValiRx plc is a company incorporated in the United Kingdom under the Companies Act 1985, which is listed on the AIM market of the London Stock Exchange Plc. The address of its registered office is 24 Greville Street, London EC1N 8SS.

The registered number of the Company is 03916791.

The Group financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRSs"), International Financial Reporting Interpretations Committee ("IFRIC") interpretations and the Companies Act 2006 applicable to companies reporting under IFRS.

The Group financial statements have been prepared under the historical cost convention or fair value where appropriate.

1.2 Going concern

The current economic environment is challenging and the Group have reported an operating loss for the year. These losses will continue in the current accounting year to 31 December 2015.

The Company carries out regular fund-raising exercises in order that it can provide the necessary working capital for the Group. Further funds will be required to finance the Group's work programme. As detailed in note 24, since the year end, the Group has raised £1.6 million before expenses through two issues of new Ordinary Shares.

The board expects to continue to raise additional funding as and when required to cover the Group's development, primarily from the issue of further shares.

As such the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

1.3 Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and all its subsidiaries ("the Group"). Subsidiaries include all entities over which the Group has the power to govern financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control commences until the date that control ceases. Intra-group balances and any unrealised gains and losses on income or expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

On 3 October 2006, ValiRx Bioinnovation Limited ("Bioinnovation") acquired 60.28% of the issued share capital of ValiPharma Limited ("ValiPharma") in exchange for shares in Bioinnovation. Concurrently, the Company, ("ValiRx"), acquired the entire issued share capital of Bioinnovation in a share for share transaction. As a result of these transactions, the former shareholders of ValiPharma became the majority shareholders in ValiRx. Accordingly, the substance of the transaction was that ValiPharma acquired ValiRx in a reverse acquisition. Under IFRS 3 "Business Combinations", the acquisition of ValiPharma has been accounted for as a reverse acquisition.

In May 2008 the Company acquired the remaining 39.72% of the issued share capital of ValiPharma, which is now wholly owned by the Group. This acquisition was accounted for using the acquisition method of accounting.

In August 2011, the Company acquired for a nominal amount, the outstanding equity of a Finnish non-trading company – ValiRx Finland OY ("ValiFinn") – that it had jointly established with local partners in 2008. As a result of the acquisition, ValiFinn has become a wholly owned subsidiary of the Company.

In November 2013 ValiSeek Limited was formed to enable the Company to entered into a joint venture agreement. The Company has a 55.5% holding in the issued share capital of ValiSeek.

The assets and liabilities of the Group's foreign operations are expressed in pounds sterling using exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rate for the period. Material exchange differences arising are classified as equity. The translation differences are recognised in the period in which the foreign operation is disposed of.

Intra-group transactions, profits and balances are eliminated in full on consolidation.

1.4 Goodwill

Goodwill on acquisition of subsidiaries represents the excess of the cost of acquisition over the fair value of the Group's share of the net identifiable net assets and contingent liabilities acquired. Identifiable assets are those which can be sold separately or which arise from legal rights regardless of whether those rights are separable. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is not amortised but is tested annually, or when trigger events occur, for impairment and is carried at cost less accumulated impairment losses.

1 Principal accounting policies continued

1.5 Other intangible assets

Acquired licences, trademarks and patents are capitalised at cost and are amortised on a straight-line basis over their useful life. Patents are amortised over 16 years and licences over 16 to 20 years.

Acquired brands are written off in equal annual instalments over their useful economic life, which the Directors estimate to be 15 years. However, following the cancellation of ValiMedix Limited's distribution agreement and the cessation of the Company's trade, the directors carried out a review of the carrying value of brands, as a consequence of which the value has been fully impaired. This has resulted in an amortisation charge of £9,603 in excess of the normal annual charge of £996.

1.6 Research and development

Research expenditure is recognised as an expense and is charged to the income statement in the year in which it is incurred.

Development expenditure is recognised as an expense in the same way unless it meets the recognition criteria of IAS 38 "Intangible Assets". Regulatory and other uncertainties generally mean that such criteria are not met. Where, however, the recognition criteria are met, intangible assets are capitalised and amortised over their useful economic lives from product launch.

1.7 Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation.

Depreciation is provided at the following rates per annum to write off the cost of property, plant and equipment, less estimated residual value, on a straight line basis from the date on which they are brought into use:

Plant and machinery	33% per annum straight line
Computer equipment	33% per annum straight line

1.8 Impairment of assets

The carrying value of property, plant and equipment and intangibles is reviewed for impairment when events or changes in circumstances indicate the carrying value may be impaired. An impairment loss is recognised in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

1.9 Inventories

Inventories are valued at the lower of cost and net realisable value.

1.10 Financial assets

The Company classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss;
- loans and receivables;
- held-to-maturity investments; and
- available-for-sale financial assets.

Management determines the classification of its investments at initial recognition.

1.11 Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The principal financial assets of the Company are loans and receivables, which arise principally through the provision of goods and services to customers (e.g. trade receivables) but also incorporate other types of contractual monetary asset. They are included in current assets, except for maturities greater than twelve months after the balance sheet date. These are classified as non-current assets.

The Group's loans and receivables are recognised and carried at the lower of their original amount less an allowance for any doubtful amounts. An allowance is made when collection of the full amount is no longer considered possible.

The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents in the Consolidated Statement of Financial Position.

Cash and cash equivalents include cash at bank and in hand and short-term deposits with an original maturity of three months or less. The Company considers overdrafts (repayable on demand) to be an integral part of its cash management activities and these are included in cash and cash equivalents for the purposes of the cash flow statement.

1.12 Investments

For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the Statement of Comprehensive Income.

The fair values of quoted investments are based on published market prices.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 31 December 2014

1 Principal accounting policies continued

1.13 Financial liabilities

The Group does not have any financial liabilities that would be classified as fair value through the profit or loss. Therefore all financial liabilities are classified as other financial liabilities as follows.

The Group's trade and other payables are recognised at their original amount.

1.14 Share capital

Financial instruments issued by the Group are treated as equity only to the extent that they do not meet the definition of a financial liability. The Group's ordinary and deferred shares are classified as equity instruments.

1.15 Retirement benefits: Defined contribution schemes

Contributions to defined contribution pension schemes are charged to the Consolidated Statement of Comprehensive Income in the year to which they relate.

1.16 Taxation

The taxation charge represents the sum of current tax and deferred tax.

The tax currently payable is based on the taxable profit for the period using the tax rates that have been enacted or substantially enacted by the balance sheet date. Taxable profit differs from the net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Group financial statements. Deferred tax is determined using tax rates that have been enacted or substantially enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realised of the deferred tax liability is settled.

Deferred tax assets are only recognised to the extent that it is probable that future taxable profit will be available against which the asset can be utilised.

Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited to equity, in which case the deferred tax is also dealt with in equity.

1.17 Foreign currency translation

Transactions in currencies other than Sterling, the presentational and functional currency of the Company, are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on retranslation are included in the income statement for the period, except for exchange differences on non-monetary assets and liabilities, which are recognised directly in equity, where the changes in fair value are recognised directly in equity.

On consolidation, the assets and liabilities of the Group's overseas entities (none of which has the currency of a hyper-inflationary economy) are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

1.18 Government grants

Grants are credited to deferred revenue. Grants towards capital expenditure are released to the profit and loss account over the expected useful life of the assets. Grants towards revenue expenditure are released to the profit and loss account as the related expenditure is incurred.

1.19 Revenue recognition

Revenue represents sales and services to third party customers in the health sector, stated net of any applicable value added tax. Revenue is recognised when the goods and services have been provided.

1.20 Share-based payments

IFRS 2 "Share-based Payments" requires that an expense for equity instruments granted is recognised in the financial statements based on their fair values at the date of the grant. This expense, which is in relation to employee share options, is recognised over the vesting period of the scheme. The fair value of employee services is determined by reference to the fair value of the awarded grant calculated using the Black-Scholes model.

At the year end date, the Group revises its estimate of the number of share incentives that are expected to vest. The impact of the revisions of original estimates, if any, is recognised in the Statement of Comprehensive Income, with a corresponding adjustment to equity, over the remaining vesting period.

1 Principal accounting policies continued

1.21 New standards and interpretations

As at the date of approval of these financial statements, the following standards were in issue but not yet effective. These standards have not been adopted early by the Company as they are not expected to have a material impact on the financial statements other than requiring additional disclosure or alternative presentation.

IFRS 9	Financial instruments – classification and measurement (revised)
IFRS 9	Financial instruments – Hedge accounting (revised)
IFRS 10 and IAS 28	Consolidated financial statements – sale or contribution of assets between an investor and its associates or joint venture (amendment)
IFRS 10 and IAS 28	Consolidated financial statements – application of consolidation exception
IFRS 11	Joint arrangements – accounting for acquisitions of an interest in a joint operation (amendment)
IFRS 12	Disclosure of interests in other entities – application of the consolidation exception (amendment)
IFRS 14	Regulatory deferred accounts
IFRS 15	Revenue from contracts with customers
IFRS 2, 3, 8, IAS 16, 24, 38	Annual improvements 2010 to 2012 cycle
IFRS 1, 3, 13 IAS 40	Annual improvements 2011 to 2013 cycle
IFRS 5, 7, IAS 19, 34	Annual improvements 2014
IAS 1	Presentation of financial statements – disclosure initiative (amendment)
IAS 19	Defined benefit plans: Employee contributions (amendment)
IAS 27	Separate financial statements – use of equity accounting method for investments (amendment)
IAS 38	Intangible assets – acceptable methods of depreciation and amortisation (amendment)
IAS 39	Novation of derivatives and continuation of hedge accounting (amendment)
IAS 41	Agriculture – bearer plants

The International Financial Reporting Interpretations Committee has also issued interpretations which the Company does not consider will have a significant impact on the financial statements.

2 Critical accounting estimates and judgements

The preparation of the financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amounts, events or actions, actual results ultimately may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised. The material areas in which estimates and judgements are applied as follows:

Goodwill impairment

The Group is required to test, on an annual basis, whether goodwill has suffered any impairment. Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

Share-based payments

The estimates of share-based payments costs require that management selects an appropriate valuation model and makes decisions on various inputs into the model, including the volatility of its own share price, the probable life of the options before exercise, and behavioural consideration of employees.

Deferred tax assets

Deferred taxation is provided for using the liability method. Deferred tax assets are recognised in respect of tax losses where the Directors believe that it is probable that future profits will be relieved by the benefit of tax losses brought forward. The Board considers the likely utilisation of such losses by reviewing budgets and medium-term plans for each taxable entity within the Group. If the actual profits earned by the Group's taxable entities differ from the budgets and forecasts used then the value of such deferred tax assets may differ from that shown in these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 31 December 2014

3 Turnover and loss on ordinary activities before taxation

The Directors are of the opinion that under IAS 14 – "Segmental Information" the Group operates in two primary business segments, being drug development and the sale of self-test drug kits. The secondary segment is geographic. The Group's geographical segments are determined by location of operations. The Group's revenues and net assets by both primary and secondary business segments are shown below.

Class of business	2014 £	2013 £
Revenue		
Diagnostics	**87,558**	124,868
Loss before taxation		
Drug development	**(3,368,720)**	(2,726,580)
Diagnostics	**(263,583)**	(179,135)
	(3,641,335)	(2,905,715)
Net assets		
Drug development	**2,680,889**	3,088,448
Diagnostics	**107,140**	141,964
	2,788,029	3,230,412

Geographical market	2014 £	2013 £
Revenue		
UK	**2,935**	3,011
Europe	**84,623**	121,857
	87,558	124,868
Loss before taxation		
UK	**(3,393,070)**	(2,734,689)
Europe	**(239,233)**	(171,026)
	(3,641,335)	(2,905,715)
Net assets		
UK	**2,682,266**	3,104,591
Europe	**105,763**	125,821
	2,788,029	3,230,412

4 Operating loss

	2014 £	2013 £
Operating loss is stated after charging		
Amortisation of intangible assets	**90,697**	55,537
Depreciation of tangible assets and after crediting	**517**	5,623
Government grants	**210,802**	–
Auditors' remuneration		
Fees payable to Company auditors for the audit of the Company and consolidated accounts	**14,000**	14,000
– The audit of Company's subsidiaries pursuant to legislation	**13,000**	11,000
– Auditor's fees for review of interim accounts	**1,270**	1,270

5 Finance income

	2014 £	2013 £
Bank interest	**8,023**	5,552

6 Finance costs

	2014 £	2013 £
On bank loans and overdrafts	**1,532**	180

7 Taxation

	2014 £	2013 £
Domestic current year tax		
Tax credits on research and development – current year	**(396,864)**	(309,541)
Foreign corporation tax		
Foreign corporation tax	**–**	127
Current tax charge	**(396,864)**	(309,414)
Factors affecting the tax charge for the year		
Loss on ordinary activities before taxation	**(3,641,335)**	(3,024,628)
Loss on ordinary activities before taxation multiplied by effective rate of UK corporation tax of 21.50% (2013: 23.25%)	**(782,887)**	(703,226)
Effects of		
Non deductible expenses	**57,259**	822
Capital allowances for the year in deficit/(excess) of depreciation and amortisation	**2,036**	(1,820)
Tax losses not utilised	**351,451**	425,248
Research and development expenditure	**(122,099)**	(30,264)
Other tax adjustments	**97,376**	–
	386,023	393,986
Current tax charge	**(396,864)**	(309,414)

No corporation tax arises on the results for the year ended 31 December 2014 due to the losses incurred for tax purposes.

The deferred tax asset, arising from tax losses of £9,300,000 (2013: £7,785,000) carried forward, has not been recognised but would become recoverable against future trading profits.

8 Loss per ordinary share

The earnings and number of shares used in the calculation of loss per ordinary share are set out below:

	2014	2013
Basic		
Loss for the financial period	**(3,160,031)**	(2,597,238)
Weighted average number of shares	**3,854,730,440**	1,733,106,298
Loss per share	**(0.08)p**	(0.15)p

There was no dilutive effect from the share options outstanding during the year (note 17).

Following the issue of 400,000,000 Ordinary Shares of 0.1 pence each in January 2015, and a further 400,000,000 and 30,769,231 Ordinary Shares of 0.1 pence each in March 2015, the number of allotted Ordinary Shares of 0.1 pence each in issue was 3,772,151,745.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 31 December 2014

9 Intangible fixed assets

	Patents £	Goodwill £	Brands and licences £	Total £
Cost				
At 1 January 2013	651,865	1,177,592	115,000	1,944,457
Additions	132,135	–	–	132,135
Exchange differences	2,802	–	–	2,802
At 31 December 2013	786,802	1,177,592	115,000	2,079,394
Exchange differences	(8,795)	–	–	(8,795)
Additions	223,846	110,751	260,000	594,597
Impairment	–	–	–	–
At 31 December 2014	**1,001,853**	**1,288,343**	**375,000**	**2,665,196**
Amortisation				
At 1 January 2013	122,647	–	18,405	141,052
Exchange differences	43	–	–	43
Impairment on disposals	–	–	–	–
Charge for the year	49,541	–	5,996	55,537
At 31 December 2013	172,231	–	24,401	196,632
Exchange differences	(2,154)	–	–	(2,154)
Charge for the year	60,098	–	30,599	90,697
At 31 December 2014	**230,175**	**–**	**55,000**	**285,175**
Net book value				
At 31 December 2014	**771,678**	**1,288,343**	**320,000**	**2,380,021**
At 31 December 2013	614,571	1,177,592	90,599	1,882,762

The goodwill arising on the acquisitions of ValiRx Bioinnovation Limited, ValiPharma Limited, ValiRx Finland OY and ValiSeek Limited is not being amortised but will be reviewed on an annual basis for impairment, or more frequently if there are indications that goodwill might be impaired. The impairment review comprises a comparison of the carrying amount of the goodwill with its recoverable amount (the higher of fair value less costs to sell and value in use). ValiRx plc has used the value in use method, applying a 15% discount rate.

Goodwill per cash generating unit:	£
Valipharma Limited	772,229
ValiRx Bioinnovations Limited	394,613
ValiMedix Limited	–
ValiRx Finland OY	10,750
ValiSeek Limited	110,751

Sensitivity analysis is not required as a reasonably possible change in assumptions would not result in an impairment.

10 Property, plant and equipment

	Plant and machinery £
Cost	
At 1 January 2013	24,521
Exchange differences	24
Additions	1,922
At 31 December 2013	26,467
Exchange differences	(117)
Additions	1,408
At 31 December 2014	**27,758**
Depreciation	
At 1 January 2013	20,158
Exchange difference	1
Charge for the period	5,623
At 31 December 2013	25,782
Exchange differences	(48)
Charge for the year	517
At 31 December 2014	**26,251**
Net book value	
At 31 December 2014	**1,507**
At 31 December 2013	685

11 Financial assets – available-for-sale investments

	Listed investments £	Unlisted investments £	Total £
Cost and valuation			
At 1 January 2014	768,323	1,333,770	2,102,093
Disposals	(768,323)	–	(768,323)
At 31 December 2014	–	**1,333,770**	**1,333,770**
Provisions for diminution in value			
At 1 January 2014 and at 31 December 2014	–	1,333,770	1,333,770
Net book value			
At 31 December 2014	–	–	–
At 31 December 2013	768,323	–	768,323

The Group owns 5.5% (2013: 5.5%) (on a fully diluted basis) of the issued share capital of Morphogenesis Inc., a company incorporated in USA. Morphogenesis Inc. is a private company in which ValiRx plc holds a minority interest.

In January 2014, the Company disposed of its investment in VolitionRx Limited, receiving gross sales proceeds of US$601,578 (£361,323).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 31 December 2014

12 Inventories

	2014 £	2013 £
Finished goods and goods for resale	**11,150**	4,078

13 Trade and other receivables

	2014 £	2013 £
Trade receivables	**18,078**	8,398
Tax recoverable	**396,864**	309,541
Called up share capital not paid	**73**	40
Other receivables	**219,857**	145,317
Prepayments and accrued income	**142,730**	27,099
	777,602	490,395

Amounts falling due after more than one year and included in the receivables above are:

	2014 £	2013 £
Other receivables	**14,638**	–

In the Directors' opinion the carrying amount of receivables is considered a reasonable approximation of fair value.

14 Derivative financial assets

In December 2013, the Company issued 800 million new Ordinary Shares of 0.1 pence per share at a price of 0.325 pence ("Benchmark Price") per share to YA Global Master SPV Limited ("Yorkville") with a notional value of £2.6 million. The Company entered into an equity swap price mechanism with Yorkville for 753,846,154 of these shares for £1.5 million of that amount. Yorkville hedged the consideration they pay for shares in the Company against the performance of the Company's share price over an 18 month period. All 800 million shares were allotted with full rights on the date of the transaction.

At each swap settlement, the Company would receive greater or lower consideration calculated on pro-rata basis depending on whether the applicable Market Price for the previous month was greater or less than the Benchmark Price.

As the amount of the consideration receivable by the Company from Yorkville would vary subject to the change in the Company's share price and would be settled in the future, the receivable was treated as a derivative financial asset and has been designated at fair value through profit or loss.

In October 2014, the equity swap agreement was exercised in full by agreement between the parties. The Company received back £1,427,798 of the amount swapped with Yorkville.

15 Trade and other payables

	2014 £	2013 £
Trade payables	**514,200**	742,783
Taxes and social security costs	**25,076**	14,111
Other payables	**4,732**	–
Accruals and deferred income	**291,067**	119,204
	835,075	876,098

In the Directors' opinion the carrying amount of payables is considered a reasonable approximation of fair value.

16 Retirement benefits

The Group operate defined contribution pension schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. The pension cost charge represents contributions payable by the Group to the funds.

Defined contribution

	2014 £	2013 £
Contributions payable by the Company for the year	**47,019**	49,596

17 Share-based payments

At 31 December 2014 outstanding awards to subscribe for Ordinary Shares of 0.1 pence each in the Company, granted in accordance with the rules of the ValiRx share option schemes, were as follows:

	2013	Weighted average remaining contractual life (years)	Weighted average exercise price (pence)
Brought forward	45,880,000	–	0.86
Granted	–	–	–
Lapsed	–	–	–
Carried forward	45,880,000	7.45	0.86

	2014	Weighted average remaining contractual life (years)	Weighted average exercise price (pence)
Brought forward	**45,880,000**	–	**0.87**
Granted	**282,000,000**	–	**0.35**
Lapsed	**(6,400,000)**	–	**(0.77)**
Carried forward	**321,480,000**	**9.08**	**0.42**

All options were exercisable at the year end.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
for the year ended 31 December 2014

17 Share-based payments continued

The fair value of the remaining share options has been calculated using the Black-Scholes model. The assumptions used in the calculation of the fair value of the share options outstanding during the year are as follows:

	Share options	Share options	Share options	Share options	Share options
Grant date	23 November 2007	17 September 2009	8 July 2011	19 January 2014	21 October 2014
Exercise period	November 2007 – November 2017	September 2009 – September 2019	July 2011 – July 2021	January 2014 – January 2024	October 2014 – October 2024
Share price at date of grant	10.5p	2.1p	0.64p	0.345p	0.36p
Exercise price	10.5p	1.0p	0.75p	0.345p	0.355pp
Shares under option	430,000	2,550,000	36,500,000	133,000,000	149,000,000
Expected volatility	35%	40%	52%	17%	17%
Expected life (years)	3.5	4 .0	3.0	3.0	3.0
Risk-free rate	4.36%	2.50%	1.24%	0.99%	1.00%
Expected dividend yield	0.00%	0.00%	0.00%	0.00%	0.00%
Fair value per option	1.55p	0.72p	0.10p	0.04p	0.03p

Volatility was determined by reference to the standard deviation of expected share price returns based on a statistical analysis of daily share prices over a 3 year period to grant date. All of the above options are equity settled and the charge for the year is £89,324 (2013: £nil).

18 Share capital

	2014 Number	2013 Number	2014 £	2013 £
Allotted, called up and fully paid				
Ordinary Shares of 0.1p each	**2,941,382,514**	2,018,934,009	**2,941,383**	2,018,934
Deferred shares of 5p each	**58,378,365**	58,378,365	**2,918,918**	2,918,918
Deferred shares of 0.9p each	**157,945,030**	157,945,030	**1,421,505**	1,421,505
			7,281,806	6,359,357

On 2 January 2014, the Company raised £2,600,000 before fees and expenses by way of a Placing of 800,000,000 new Ordinary Shares of 0.1 pence each at 0.325 pence per share. Consideration was satisfied by the issue of a derivative financial instrument (note 14).

On 16 January 2014, the Company raised £300,000 before fees and expenses by way of a Placing of 92,307,692 new Ordinary Shares of 0.1 pence each at 0.325 pence per share.

On 21 January 2014, the Company issued 9,801,829 new Ordinary Shares of 0.1 pence each at a price of 0.328 pence per share, in settlement of £32,150 services provided to the Company.

On 11 April 2014, the Company issued 20,338,984 new Ordinary Shares of 0.1 pence each at a price of 0.295 pence per share as part of the initial consideration for the purchase of its 60% shareholding in ValiSeek Limited (note 9).

The deferred shares have no rights to vote, attend or speak at general meetings of the Company or to receive any dividend or other distribution and have limited rights to participate in any return of capital on a winding-up or liquidation of the Company.

19 Financial commitments

At 31 December 2014 the Company was committed to making the following payments under non-cancellable operating leases in the year to 31 December 2015:

	Land and buildings	
	2014 £	2013 £
Operating leases which expire		
Within one year	**27,000**	27,000

20 Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling activities of the Group, and are all Directors of the Company.

	2014 £	2013 £
Salaries and other short-term employee benefits	**366,125**	486,538
Post-employment benefits	**23,796**	23,796
Compensation for loss of office	**–**	18,000
	389,921	528,334

Salaries and fees	Salary, bonus and fees £	Post-employment benefits £	2014 £	2013 £
Dr Satu Vainikka	150,000	8,796	**158,796**	191,296
Dr George Morris	88,000	15,000	**103,000**	133,000
Kevin Alexander	25,000	–	**25,000**	40,000
Gerry Desler	54,125	–	**54,125**	74,000
Oliver de Giorgio-Miller	24,000	–	**24,000**	39,000
Seppo Mäkinen (appointed 4 October 2013)	25,000	–	**25,000**	6,250
Nicholas Thorniley (resigned 4 October 2013)	–	–	**–**	44,788
	366,125	23,796	**389,921**	528,334

The number of Directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 2 (2013: 2).

The Directors interests in share options as at 31 December 2014 are as follows:

Director	Options at 31 December 2014	Exercise price	Date of grant	First date of exercise	Final date of exercise
Dr Satu Vainikka	**1,000,000**	1.00p	17.09.09	17.09.13	17.09.19
Dr Satu Vainikka	**10,000,000**	0.75p	08.07.11	08.07.11	08.07.21
Dr Satu Vainikka	**24,000,000**	0.345p	19.01.14	19.01.14	19.01.24
Dr Satu Vainikka	**24,000,000**	0.36p	21.10.14	21.10.14	21.10.24
Dr George Morris	**750,000**	1.00p	17.09.09	17.09.13	17.09.19
Dr George Morris	**6,000,000**	0.75p	08.07.11	08.07.11	08.07.21
Dr George Morris	**22,000,000**	0.345p	19.01.14	19.01.14	19.01.24
Dr George Morris	**22,000,000**	0.36p	21.10.14	21.10.14	21.10.24
Kevin Alexander	**400,000**	1.00p	17.09.09	17.09.13	17.09.19
Kevin Alexander	**6,000,000**	0.75p	08.07.11	08.07.11	08.07.21
Kevin Alexander	**20,000,000**	0.345p	19.01.14	19.01.14	19.01.24
Kevin Alexander	**20,000,000**	0.36p	21.10.14	21.10.14	21.10.24
Gerry Desler	**130,000**	10.50p	23.11.07	23.05.09	23.11.17
Gerry Desler	**400,000**	1.00p	17.09.09	17.09.13	17.09.19
Gerry Desler	**6,000,000**	0.75p	08.07.11	08.07.11	08.07.21
Gerry Desler	**22,000,000**	0.345p	19.01.14	19.01.14	19.01.24
Gerry Desler	**22,000,000**	0.36p	21.10.14	21.10.14	21.10.24
Oliver de Giorgio-Miller	**3,000,000**	0.75p	08.07.11	08.07.11	08.07.21
Oliver de Giorgio-Miller	**20,000,000**	0.345p	19.01.14	19.01.14	19.01.24
Oliver de Giorgio-Miller	**20,000,000**	0.36p	21.10.14	21.10.14	21.10.24
Seppo Mäkinen	**8,000,000**	0.345p	19.01.14	19.01.14	19.01.24
Seppo Mäkinen	**20,000,000**	0.36p	21.10.14	21.10.14	21.10.24

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 31 December 2014

21 Staff costs

Number of employees

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

	2014 Number	2013 Number
Directors	6	6
Staff	6	3
	12	9

Employment costs

	2014 £	2013 £
Wages and salaries	660,771	718,253
Social security costs	59,855	49,095
Other pension costs	47,019	49,596
Costs of share option scheme	89,324	–
	856,969	816,944

22 Control

The Directors consider that there is no ultimate controlling party.

23 Related party transactions

During the year the Director, Gerry Desler, provided the Company with bookkeeping services totalling £12,500 (2013: £9,000) and similar services to ValiRx Finland Oy totalling £12,577 (2013: £nil).

During the year the Director, Oliver de Giorgio-Miller, invoiced the Company £49,500 (2013: £24,750) for research and development work.

During the year the Director, Kevin Alexander, provided the Company with legal services totalling £nil (2013: £9,199).

At the year end, the amounts owed to Directors included in trade payables and relating to directors remuneration and expenses to be reimbursed were as follows:

	2014 £	2013 £
Gerry Desler	–	18,109
Oliver de Giorgio-Miller	–	15,000
Dr George Morris	–	–
Dr Satu Vainikka	2,975	–
Kevin Alexander	–	–
Seppo Mäkinen	–	–

24 Post balance sheet events

In January 2015, the Company raised £800,000, before expenses, through the issue of 400 million new Ordinary Shares of 0.1 pence each at 0.20 pence per share. The net proceeds of this fundraising will be used for future oncology development work and for general working capital purposes.

In March 2015, the Company raised £800,000, before expenses, through the issue of 400 million new Ordinary Shares of 0.1 pence each at 0.20 pence per share. The net proceeds of this fundraising will be used for future oncology development work and for general working capital purposes.

In February 2015, the Company, through its wholly owned subsidiary ValiRx Finland OY, acquired the assets and intellectual property rights of the Finnish gene expression and biomarker technology "Transcript Analysis with the Aid of Affinity Capture" for a consideration and payment of €76,400 in cash.

In March 2015, the Company issued 30,769,231 Ordinary Shares of 0.1 pence each to Cancer Research Technology Limited at a price of 0.26 pence per share in lieu of an £80,000 milestone payment.

25 Financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises are as follows:

- available-for-sale investments;
- trade and other receivables;
- cash and cash equivalents; and
- trade and other payables.

The Group does not use or issue financial instruments of a speculative nature.

A summary of the financial instruments held by category is provided below:

The fair value measurement of available-for-sale investments is as follows:

	Fair value measurement		
	Level 1 £	Level 2 £	Level 3 £
At 31 December 2014	–	–	–
At 31 December 2013	768,323	–	–

Financial assets	2014 £	2013 £
Available-for-sale investments	–	768,323
Loans and receivables		
Trade and other receivables	**777,602**	490,395
Cash and cash equivalents	**452,824**	960,267
Total loans and receivables	**1,230,426**	1,450,662
Total financial assets	**1,230,426**	2,218,985

Financial liabilities	2014 £	2013 £
Trade and other payables	**835,075**	876,098

The Directors consider that the carrying amount of available-for-sale investments, trade and other receivables and trade and other payables approximates their fair value.

Financial risk management

The Group's activities expose it to a variety of risks, including market risk (foreign currency risk and interest rate risk), credit risk and liquidity risk. The Group manages these risks through an effective risk management programme and, through this programme, the Board seeks to minimise potential adverse effects on the Group's financial performance.

The Board provides written objectives, policies and procedures with regards to managing currency and interest risk exposures, liquidity and credit risk including guidance on the use of certain derivative and non-derivative financial instruments

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's credit risk is primarily attributable to its receivables and its cash deposits. It is Group policy to assess the credit risk of new customers before entering contracts. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Liquidity risk and interest rate risk

Liquidity risk arises from the Group's management of working capital. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. The Board regularly receives cash flow projections for a minimum period of twelve months, together with information regarding cash balances monthly.

The Group is principally funded by equity and invests in short-term deposits, having access to these funds at short notice. The Group's policy throughout the period has been to minimise interest rate risk by placing funds in risk free cash deposits but also to maximise the return on funds placed on deposit.

All cash deposits attract a floating rate of interest. The benchmark rate for determining interest receivable and floating rate assets is linked to the UK base rate.

Foreign currency risk

The Group has an entity which operates in Europe and is therefore exposed to foreign exchange risk arising from currency exposure to the Euro, the functional currency of that subsidiary. The overseas subsidiary operates a separate bank account that is used solely for that subsidiary, thus managing the currency in that country. The Group's net assets arising from the overseas subsidiary are exposed to currency risk resulting in gains or losses on retranslation into Sterling. Given the levels of materiality, the Group does not hedge its net investments in overseas operations as the cost of doing so is disproportionate to the exposure.

Financial Statements

COMPANY BALANCE SHEET

as at 31 December 2014

	Notes	2014		2013	
		£	£	£	£
Fixed assets					
Intangible assets	2		**170,000**		80,000
Investments	4		**3,128,532**		3,577,432
			3,298,532		3,657,432
Current assets					
Debtors	5	**1,822,376**		1,810,454	
Cash at bank and in hand		**433,232**		952,457	
		2,255,608		2,762,911	
Creditors: amounts falling due within one year	6	**(936,034)**		(1,121,117)	
Net current assets			**1,319,574**		1,641,794
Total assets less current liabilities			**4,618,106**		5,299,226
Capital and reserves					
Called up share capital	9		**7,281,806**		6,359,357
Share premium account	10		**7,604,732**		5,925,231
Merger reserves	10		**637,500**		637,500
Share option reserve	10		**154,144**		73,852
Profit and loss account	10		**(11,060,076)**		(7,696,714)
Shareholders' funds	11		**4,618,106**		5,299,226

Approved by the Board and authorised for issue on 15 April 2015.

Dr Satu Vainikka
Director

Company Registration No. 3916791

NOTES TO THE COMPANY FINANCIAL STATEMENTS

for the year ended 31 December 2014

1 Accounting policies

1.1 Accounting convention

The balance sheet and the associated notes have been prepared under the historical cost convention in accordance with the provisions of the Companies Act 2006 and applicable United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Under Financial Reporting Standard 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements.

The Company is also exempt from FRS 22 "Earnings per Share" as this information is produced in the consolidated accounts.

1.2 Compliance with accounting standards

The financial statements are prepared in accordance with applicable United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), which have been applied consistently (except as otherwise stated).

1.3 Research and development

Research expenditure is written off to the profit and loss account in the year in which it is incurred. Development expenditure is written off in the same way unless the Directors are satisfied as to the technical, commercial and financial viability of individual projects. In this situation, the expenditure is deferred and amortised over the period during which the Company is expected to benefit.

1.4 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Computer equipment	33% per annum straight line

1.5 Investments

Fixed asset investments are stated at cost less provision for diminution in value.

1.6 Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the taxable profits and the results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured on a non-discounted basis. A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be taxable profits from which the future reversal of the underlying timing differences can be deducted.

1.7 Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the profit and loss account.

1.8 Government grants

Grants are credited to deferred revenue. Grants towards capital expenditure are released to the profit and loss account over the expected useful life of the assets. Grants towards revenue expenditure are released to the profit and loss account as the related expenditure is incurred.

1.9 Profit and loss account

The Directors have taken advantage of the exemption available under Section 408 of the Companies Act 2006 and have not presented a profit and loss account for the Company alone. A loss of £3,372,394 is attributable to shareholders for the financial year ended 31 December 2014 (2013: £2,520,066).

1.10 Financial instruments

Full details of the Company's policy in relation to financial instruments and management of financial risk are set out in note 25 to the Group financial statements. The Company does not hold any derivatives and there is no material difference in the fair value and carrying value of any financial instruments held by the Company.

1.11 Share-based payments

FRS 20 "Share-based Payments" requires that the fair value of options awarded to employees is charged to the profit and loss account over the period during which the employees become unconditionally entitled to the options.

NOTES TO THE COMPANY FINANCIAL STATEMENTS continued

for the year ended 31 December 2014

2 Intangible fixed assets

	Development Costs £
Cost	
At 1 January 2014	100,000
Additions	100,000
At 31 December 2014	200,000
Amortisation	
At 1 January 2014	20,000
Charge for the year	10,000
At 31 December 2014	30,000
Net book value	
At 31 December 2014	170,000
At 31 December 2013	80,000

3 Tangible fixed assets

	Computer equipment £
Cost	
At 1 January 2014 & at 31 December 2014	21,755
Depreciation	
At 1 January 2014 & at 31 December 2014	21,755
Net book value	
At 31 December 2014	–
At 31 December 2013	–

4 Fixed asset investments

	Shares in subsidiary undertakings £	Listed investments £	Total £
Cost			
At 1 January 2014	2,865,894	711,538	3,577,432
Additions	262,638	–	262,638
Disposals	–	(711,538)	(711,538)
At 31 December 2014	3,128,532	–	3,128,532
Net book value			
At 31 December 2014	3,128,532	–	3,128,532
At 31 December 2013	2,865,894	711,538	3,577,432

The principal subsidiary undertakings of the Company are as follows:

	Country	% of shares held	Activity
ValiRx Bioinnovation Limited	England and Wales	100.00	Holding company
ValiPharma Limited	England and Wales	100.00*	Therapeutic research and development
ValiMedix Limited	England and Wales	100.00	Medical diagnostics company
ValiMedix Limited	England and Wales	100.00	Medical diagnostics company
ValiRx Finland OY	Finland	100.00	Therapeutic research and development
ValiSeek Limited	England and Wales	55.50	Therapeutic research and development

* 60.28% is owned by ValiRx Bioinnovation Limited and 39.72% by the Company.

The market value of the listed investments as at 31 December 2014 was £nil (2013: £768,323).

5 Debtors

	2014 £	2013 £
Amounts owed by subsidiary undertakings	**1,140,139**	1,347,734
Tax recoverable	**370,240**	309,541
Other debtors	**169,267**	130,401
Prepayments and accrued income	**142,730**	22,778
	1,822,376	1,810,454

Amounts falling due after more than one year and included in the debtors above are:

	2014 £	2013 £
Other debtors	**14,638**	–

6 Creditors: amounts falling due within one year

	2014 £	2013 £
Trade creditors	**379,950**	706,175
Amounts owed to subsidiary undertakings	**320,670**	300,670
Taxes and social security costs	**15,147**	11,572
Other creditors	**4,732**	–
Accruals and deferred income	**215,535**	102,700
Current tax charge	**936,034**	1,121,117

7 Pension and other post-retirement benefit commitments

Defined contribution

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund.

	2014 £	2013 £
Contributions payable by the Company for the year	**23,796**	23,796

NOTES TO THE COMPANY FINANCIAL STATEMENTS continued

for the year ended 31 December 2014

8 Share-based payments

At 31 December 2014 outstanding awards to subscribe for Ordinary Shares of 0.1 pence each in the Company, granted in accordance with the rules of the ValiRx share option schemes, were as follows:

2013		Weighted average remaining contractual life (years)	Weighted average exercise price (pence)
Brought forward	45,880,000	–	0.86
Granted	–	–	–
Lapsed	–	–	–
Carried forward	45,880,000	7.45	0.86

2014		Weighted average remaining contractual life (years)	Weighted average exercise price (pence)
Brought forward	**45,880,000**	**–**	**0.87**
Granted	**282,000,000**	**–**	**0.35**
Lapsed	**(6,400,000)**	**–**	**(0.77)**
Carried forward	**321,480,000**	**9.08**	**0.42**

The fair value of remaining share options has been calculated using the Black-Scholes model. The assumptions used in the calculation of the fair value of the share options outstanding during the year are as follows:

	Share options	Share options	Share options	Share options	Share options
Grant date	23 November 2007	17 September 2009	8 July 2011	19 January 2014	21 October 2014
Exercise period	November 2007 – November 2017	September 2009 – September 2019	July 2011 – July 2021	January 2014 – January 2024	October 2014 – October 2024
Share price at date of grant	10.5p	2.1p	0.64p	0.345p	0.36p
Exercise price	10.5p	1p	0.75p	0.345p	0.36p
Shares under option	430,000	2,550,000	36,500,000	133,000,000	149,000,000
Expected volatility	35%	40%	52%	40%	52%
Expected life (years)	3.5	4.0	3.0	3.0	3.0
Risk-free rate	4.36%	2.50%	1.24%	0.99%	1.00%
Expected dividend yield	0.00%	0.00%	0.00%	0.00%	0.00%
Fair value per option	1.55p	0.72p	0.10p	0.04p	0.03p

Volatility was determined by reference to the standard deviation of expected share price returns based on a statistical analysis of daily share prices over a 3 year period to grant date. All of the above options are equity settled and the charge for the year is £89,324 (2013: £nil).

9 Share capital

	2014 Number	2013 Number	2014 £	2013 £
Allotted, called up and fully paid				
Ordinary Shares of 0.1p each	**2,941,382,514**	2,018,934,009	**2,941,383**	2,018,934
Deferred shares of 5p each	**58,378,365**	58,378,365	**2,918,918**	2,918,918
Deferred shares of 0.9p each	**157,945,030**	157,945,030	**1,421,505**	1,421,505
			7,281,806	6,359,357

On 2 January 2014, the Company raised £2,600,000 before fees and expenses by way of a Placing of 800,000,000 new Ordinary Shares of 0.1 pence each at 0.325 pence per share. Consideration was satisfied by the issue of a derivative financial instrument (note 14: group accounts).

On 16 January 2014, the Company raised £300,000 before fees and expenses by way of a Placing of 92,307,692 new Ordinary Shares of 0.1 pence each at 0.325 pence per share.

On 21 January 2014, the Company issued 9,801,829 new Ordinary Shares of 0.1 pence each at a price of 0.328 pence per share, in settlement of £32,150 services provided to the Company.

On 11 April 2014, the Company issued 20,338,984 new Ordinary Shares of 0.1 pence each at a price of 0.295 pence per share as part of the initial consideration for the purchase of its 60% shareholding in ValiSeek Limited.

The deferred shares have no rights to vote, attend or speak at general meetings of the Company or to receive any dividend or other distribution and have limited rights to participate in any return of capital on a winding-up or liquidation of the Company.

10 Statement of movements on reserves

	Share premium account £	Other reserves (see below) £	Profit and loss account £
Balance at 1 January 2014	5,925,231	711,352	(7,696,714)
Loss for the year	–	–	(3,372,394)
Transfer from share option reserve to profit and loss account	–	(9,032)	9,032
Premium on shares issued during the year	2,069,701	–	–
Share premium – other movements	(390,200)	–	–
Movement during the year	–	89,324	–
Balance at 31 December 2014	**7,604,732**	**791,644**	**(11,060,076)**
Share option reserve			
Balance at 1 January 2014		73,852	
Share option reserve movement		80,292	
Balance at 31 December 2014		**154,144**	
Merger reserve			
Balance at 1 January 2014 and at 31 December 2014		**637,500**	

The merger reserve arises as a result of the acquisition of ValiRx Bioinnovations Limited and represents the difference between the nominal value of the share capital issued by the Company and the fair value of ValiRx Bioinnovations at the date of acquisition.

NOTES TO THE COMPANY FINANCIAL STATEMENTS continued

for the year ended 31 December 2014

11 Reconciliation of movements in shareholders' funds

	2014 £	2013 £
Loss for the financial year	**(3,372,394)**	(2,520,066)
Shares issued	**2,992,150**	1,000,187
Cost of share issue written off to share premium account	**(390,200)**	(104,358)
Transfer from share option reserve to profit and loss account	**9,032**	–
Other reserves movement	**80,292**	–
Net depletion in shareholders' funds	**(681,120)**	(1,624,237)
Opening shareholders' funds	**5,299,226**	6,923,463
Closing shareholders' funds	**4,618,106**	5,299,226

12 Related party transactions

During the year the Director, Gerry Desler, provided the Company with bookkeeping services totalling £12,500 (2013: £9,000).

During the year the Director, Oliver de Giorgio-Miller, invoiced the Company £49,500 (2013: £24,750) for research and development work.

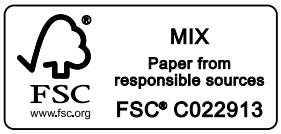
During the year the Director, Kevin Alexander, provided the Company with legal services totalling £nil (2013: £9,199).

At the year end, the amounts owed to Directors included in trade creditors were as follows:

	2014 £	2013 £
Gerry Desler	**–**	18,109
Oliver de Giorgio-Miller	**–**	15,000
Dr George Morris	**–**	–
Dr Satu Vainikka	**2,975**	–
Kevin Alexander	**–**	–
Seppo Mäkinen	**–**	–

NOTES

NOTES continued



This Report has been printed on UPM Fine offset, a paper produced using wood fibre from fully sustainable forests with FSC® certification. All pulps used are Elemental Chlorine Free and the manufacturing mill holds the ISO14001 and the EMAS accreditations for environmental management.

Printed in the UK by Pureprint using vegetable inks and their Alcofree and Pureprint environmental printing technology.

Pureprint is a CarbonNeutral® company. Both manufacturing millv and the printer are registered to the Environmental Management System ISO14001 and are Forest Stewardship Council® (FSC) chain-of-custody certified.

ckd

Design & production
www.carrkamasa.co.uk

ValiRx plc
24 Greville Street
London
EC1N 8SS