BUILDING THE FIRST SELF-SUSTAINABLE DRUG DISCOVERY ENGINE

C4X Discovery Holdings plc
Annual report and accounts 2016

C4X Discovery (C4XD.L) aims to become the world's most productive drug discovery company by exploiting cutting-edge technologies to design and create best-in-class drug candidates.

Our unique capabilities power cost efficient discovery of a diverse multi-disease portfolio of pre-clinical assets, in order to generate a sustainable source of revenue.

C4XD at a glance
Read more on pages 2 and 3

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

Highlights

Operational highlights (including post-period end)

Strategic

- The Board committed to the delivery of C4X Discovery's ("C4XD") vision to become the world's most productive Drug Discovery Engine. Focus has shifted to generating a high value pre-clinical asset portfolio that will drive revenue through early stage licensing deals. Existing fee-for-service agreements will be discontinued.
- Strategic acquisitions made to enhance the Company's core target identification and drug design capabilities:
  - in March 2016, Adorial Limited ("Adorial") together with its subsidiaries and its proprietary DNA-based target identification platform, Taxonomy3®, were acquired. New Taxonomy3® targets in rheumatoid arthritis were announced in July 2016 alongside a potential personalised medicine approach in Parkinson's disease; and
  - also in July 2016, the pioneering computational drug discovery technologies from MolPlex Ltd were acquired, further enhancing the Company's cutting-edge drug design platform.

Senior appointments

- Dr Clive Dix was appointed Chief Executive Officer in May 2016, following a successful period as Executive Chairman.
- Brad Hoy, Chief Financial Officer, and Dr Craig Fox, Chief Scientific Officer, were appointed to the Board of Directors in November 2016.

Discovery Engine progress

- Drug asset portfolio grown from three programmes in addiction, diabetes and chronic obstructive pulmonary disorder in 2014 to eight programmes across a number of therapeutic areas.
  - Future disease areas of focus will be inflammation, neurodegeneration and other opportunistic areas, for example, immuno-oncology.

Partnerships

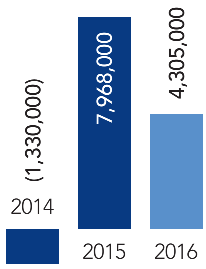
- A new multi-target risk-sharing alliance with Evotec AG ("Evotec") was announced in September 2016. Evotec and C4XD will work together on novel small molecule drugs across a range of targets, therapeutic areas and stages of development.
- In October 2015, a new research collaboration was announced with the University of Oxford's Structural Genomics Consortium, providing C4XD with access to valuable target, assay and "hit" molecule information.

Financial highlights

- Completion of a £5.0 million fundraise in September 2016 through the conditional placing of 4,901,961 new ordinary shares at a price of 102 pence per ordinary share.
- Acquisition of Adorial Limited and its subsidiaries ("Adorial") on 1 March 2016 for £1,670,700.
- Fee-for-service revenue for the 12 months ended 31 July 2016 was £279,000 (2015: £312,000).
- Loss after tax for the 12 months ended 31 July 2016 was £5,321,000 or 16.83 pence per share (2015: £3,064,000 or 10.77 pence per share).
- Net assets at 31 July 2016 of £4,305,000 (2015: £7,968,000).
- Cash, cash equivalents, short-term investments and deposits of £1,328,000 (2015: £7,485,000).
- R&D expenses increased by 66% to £5,239,000 for the year ended 31 July 2016 (2015: £3,159,000).
- Administrative expenses increased by £903,000 during the year to £1,817,000 (2015: £904,000).

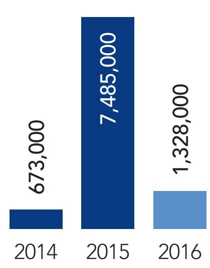
Net assets

£4,305,000



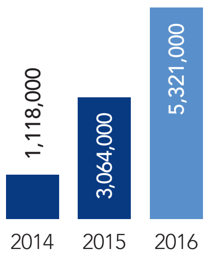
Cash

£1,328,000



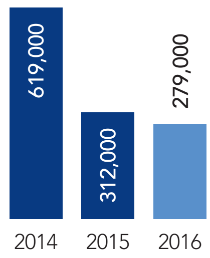
Loss after tax

£5,321,000



Fee-for-service revenues

£279,000



Strategic report

Corporate governance

Financial statements

C4XD at a glance

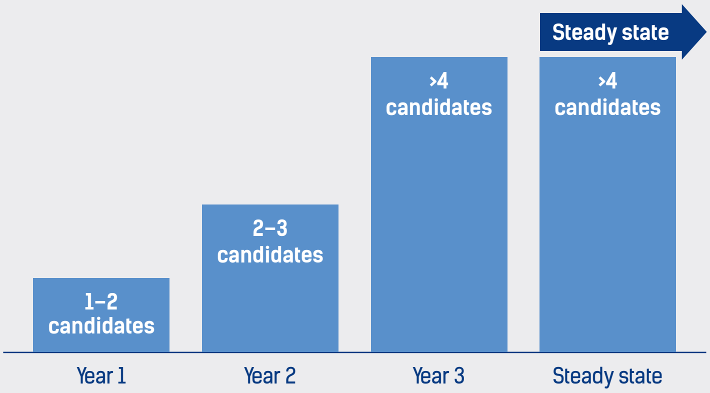
Our vision is to become the world's most productive Drug Discovery Engine and provide pharma with a sustainable source of commercially attractive assets.

Our vision

The global medicine's R&D landscape has transformed over the past decade. Large pharmaceutical companies have become increasingly reliant on discovery innovation from small and mid-size biopharma to supply their development pipelines. There is now a huge opportunity to provide pharma with a sustainable source of commercially attractive assets.

At C4X Discovery, our vision is to fulfil this need by becoming the world's most productive Drug Discovery Engine. We will commit our resources to the early discovery of novel therapeutic targets for valuable disease areas and generate multiple new candidate drug molecules against these targets. We will enable partners, who are much better placed, to take on the technical and financial risk associated with the clinical development of these molecules. Our goals are ambitious and we aim to produce at least four pre-clinical candidates every year once the Company reaches sustainable productivity ("steady state"). Our sustainability will be possible by licensing these assets to pharma and using the revenue generated to drive our engine further.

Our goal is to produce four or more pre-clinical candidates each year at steady state



We believe that our proprietary suite of state-of-the-art technologies, exploited by our highly experienced and uniquely trained scientific team, leaves us well positioned to achieve this goal. Under the Company's new leadership, with Dr Clive Dix as Chief Executive Officer and a strong and experienced team surrounding him, we have already taken strides towards achieving our vision.

2015/16: An engine-building year

C4XD's management team has proactively driven the Company to reach multiple value inflexion points over the year.

3 September 2015
Expansion of team with strong biology expertise

23 September 2015
Breakthrough compounds for diabetes and inflammation

7 October 2015
Small molecule leads against IL-17 for inflammation and autoimmune diseases

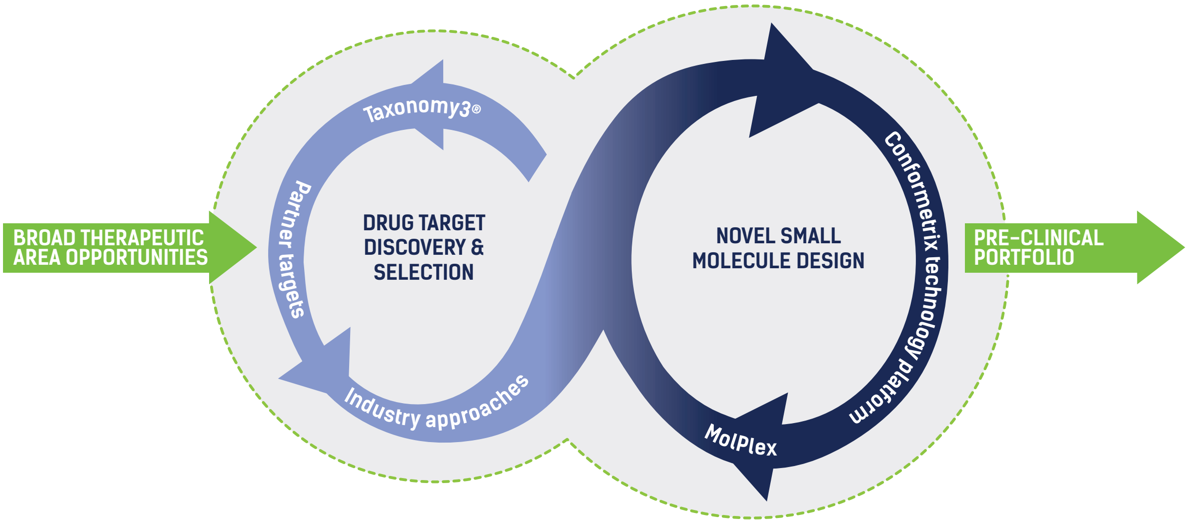
28 October 2015
Collaboration with *Structural Genomics Consortium* at *Oxford University*

19 November 2015
Appointment of Clive Dix as Executive Chairman

2016

Our Discovery Engine

Our suite of combined proprietary technologies forms the core of our state-of-the-art Drug Discovery Engine that spans novel target identification and drug molecule design.



Taxonomy3®

Taxonomy3® is a novel *in silico* platform technology that utilises proprietary ground-breaking mathematical algorithms to perform complex multivariate analyses of genetic data. Taxonomy3® is used to analyse "healthy-versus-disease" genetic datasets. It identifies and characterises defined patient groups and is able to ascertain previously unknown genetic linkages and interactions between genes and biological pathways in a broad range of diseases. Taxonomy3® fuels our drug discovery portfolio by generating novel targets in these genetically defined patient sub-groups.

Conformetrix

Our Conformetrix patented technology platform allows the dynamic 3D shapes of free drug molecules to be precisely measured from experimental data, giving medicinal chemists insights into the behaviour and physical properties of drug molecules. The measurement, analysis and use of dynamic 3D shapes is at the heart of the C4X Drug Discovery Engine. The focus and clarity that these provide, allow us to make rapid progress in developing new and better drugs at a fraction of the cost compared to best industry practice.

MolPlex

The MolPlex platform is a pioneering software-based system that combines state-of-the-art chemoinformatics, computational chemistry and artificial intelligence to optimise the drug development process. This technology enables C4XD to not only generate the chemical starting point for such design programmes in rapid time, but also to enhance the other properties required for successful human administration of a drug molecule (e.g. absorption, metabolism and excretion). Each of Conformetrix and MolPlex provide independent insights into how to refine initial hit molecules to be highly suited to interact with their biological targets.

Combined technology suite

Together with our highly experienced scientists, these three complementary technologies form our Discovery Engine. Used in conjunction with industry-standard chemical and biology techniques accessed via our network of contract research organisations, this represents the full complement of capabilities required to deliver viable pre-clinical candidates suitable for advancement into clinical development in collaboration with pharma partners.

1 March 2016
Acquisition of genetic analysis Adorial and its subsidiaries

4 May 2016
Appointment of Clive Dix as Chief Executive Officer and Sam Williams as Interim Chairman

4 July 2016
Identification of new drug targets in inflammation and neurodegeneration

11 July 2016
Acquisition of drug discovery technologies from *MolPlex*

6 September 2016
Post balance sheet event: £5.0m fundraise through conditional placing of ordinary shares

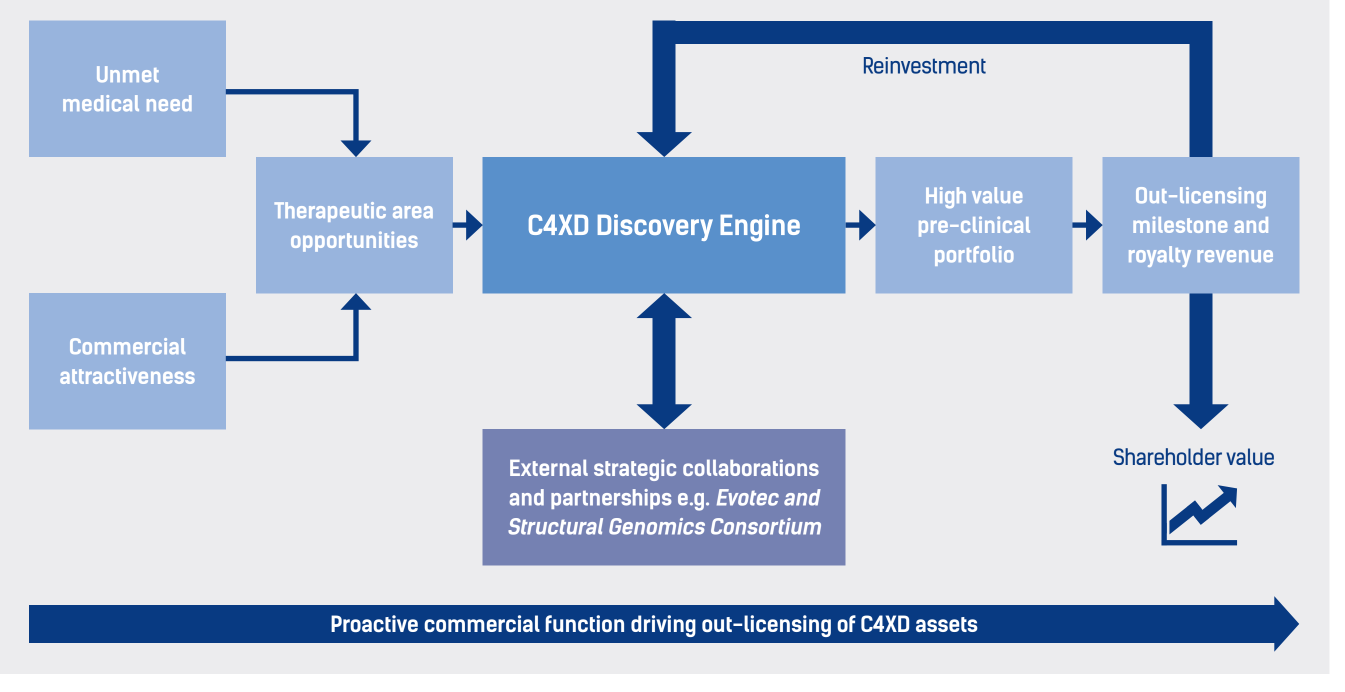
28 September 2016
Post balance sheet event: new strategic collaboration with *Evotec*

Our business model

Our vision is to become self-sustainable by building alliances with complementary organisations and focussing our capital on high value discovery activities.

Over the last five years, global licensing revenues of pre-clinical assets have grown significantly, reaching $2.4 billion in total deal value in 2015 (a near four-fold increase since 2011)[1]. We believe this trend will continue as large pharma engages in an increasingly aggressive competition for the most innovative assets. We aim to exploit this by continually monitoring the licensing landscape, only pursuing new programmes in areas of high unmet medical need that are commercially attractive, and focussing on developing long-term partnerships with licensees.

To ensure our costs remain sustainable, our management team will continue to proactively seek opportunities to build alliances and collaborations with organisations that have capabilities complementary to our own, and we have already signed agreements with SGC Oxford and Evotec in this respect. We have also established a "virtual company" model that enables us to focus our capital on our high value discovery activities and effectively manage our cash spend.



1 Source: BIO Industry Analysis "Emerging Therapeutic Company Investment and Deal Trends" 25 May 2016.

Our people remain central to our business model. Developing the right talent continues to be paramount and we will continue to invest in our diverse, agile and innovative workforce. We have established a project-based culture that facilitates innovation through active collaboration between different skillsets and experiences, removing unnecessary layers of decision making to empower our scientists to break through barriers in drug discovery.

Separately, we have begun to build a proactive commercial function, recruiting the best talent from blue-chip professional organisations. We see this as critical to seeking out partners for our candidate portfolio, identifying the best commercial opportunities for new programmes, and prioritising strategic shifts that will enable C4XD to fulfil its ambitious goals. We will also continue to seek acquisition opportunities that present outstanding value to our shareholders where needed.

Interim Chairman's statement

Sam Williams, Interim Chairman

"The Board is fully committed to the delivery of our strategy."

"We are passionate about finding better ways of discovering drugs."

We are passionate about finding better ways of discovering drugs, from identifying novel therapeutic targets through to designing best-in-class molecules that act against these targets. We believe that the only way to do this is to equip talented and motivated scientists with unique tools that allow them to perform discovery better than anyone else. That is what we aim to do at C4XD. Our pioneering approach to target identification and drug design differentiates us from our peers and forms the core of our "Discovery Engine". We will continue to keep an open mind in building our engine and will add to our technological foundations where necessary. If we can deliver our scientific goals and our commitment to sustainability through the reinvestment of deal revenue into our engine, then we believe we will break new ground in the UK R&D landscape. The Board is fully committed to the delivery of our strategy.

The strength of our core technologies has continued to attract market-leading talent, and the Group has already been transformed with the appointment of Clive Dix as Chief Executive Officer following his short and impactful period as Executive Chairman. We could not have found a more suitable candidate to take the Group forward and our conviction is supported by the superb progress the Group has made since his appointment in May 2016.

C4XD has demonstrated a continued ability to adapt and evolve in order to deliver strong growth and sound business fundamentals. We appreciate our shareholders' continued support and confidence and we look forward to delivering significant shareholder value in 2017 and beyond.

Sam Williams
Interim Chairman
6 January 2017

CEO's statement

Clive Dix, Chief Executive Officer

"We have a complete range of tools to discover novel compounds and pioneer new disruptive approaches to drug discovery."

"We see ourselves as the 'architects' of drug discovery."

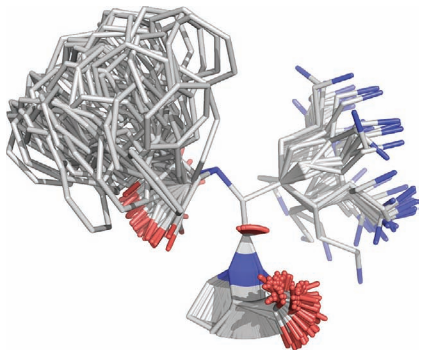
We see ourselves as the "architects" of drug discovery, constantly innovating and finding novel ways to solve the challenges in biology and chemistry that confound others. To enable this, we need to focus our efforts in areas where we can lead major shifts in traditional discovery approaches. It has been an exciting year for C4XD as we have taken the opportunity to identify these areas and build our Discovery Engine.

Strengthening our leadership

Our vision requires strong leadership. We have strengthened our Board with the appointment of Craig Fox, Chief Scientific Officer, and Brad Hoy, Chief Financial Officer. Both Craig and Brad bring a wealth of knowledge and experience to the Company and will make significant contributions to executing our strategic plans. In addition, Brad Hoy has been appointed permanent CFO following a period as interim CFO.

Enhancing our discovery platform

Our flagship Conformetrix technology, which we believe to be the only platform in the world able to see the "4D" shape of molecules in solution, is highly disruptive and enables our medicinal chemists to design candidates faster than the industry standard. We have proven our ability to do this for known therapeutic targets by producing a highly potent and selective Orexin-1 antagonist for addictive disorders that is now in pre-clinical development.



However, to become a truly productive Discovery Engine, we recognise the need to enhance our capabilities to identify our own novel therapeutic targets to which Conformetrix can be applied. To address this, in March 2016 we acquired Adorial Limited and its subsidiaries ("Adorial") and its proprietary genetic platform Taxonomy3®. Taxonomy3® is a highly sensitive mathematical tool that is able to identify previously unknown linkages and interactions between genes and biological pathways in a broad range of diseases.

This enables the discovery of targets that cause disease, rather than those that are simply associated with its symptoms. This platform increases our chances of discovery success and reduces risk of clinical failures. The two founders of Adorial joined C4XD and have already led the identification of exciting novel targets in rheumatoid arthritis and a potential personalised medicine approach in Parkinson's disease. They are now working closely with our chemists as well as interrogating further genetic datasets.

To differentiate us further and accelerate our ability to design best-in-class pre-clinical candidates, we also acquired a suite of advanced software tools from MolPlex Ltd. These tools enable rapid identification of new hit compounds against targets *in silico* using a vast library of virtual molecules, visualisation of interactions between drug and target, and prediction of "drug-like" qualities of lead molecules.

Taken together, we believe our suite of complementary proprietary technologies provides our scientists with a complete range of tools to discover novel compounds and pioneer new disruptive approaches to drug discovery.

Building our discovery portfolio

Since our IPO in 2014, we have grown our portfolio from three programmes (in addiction, diabetes and chronic obstructive pulmonary disorder) to eight programmes across a number of therapeutic areas.

We will continue to invest in C4XD's core discovery activities to support our ambition of producing at least four pre-clinical candidates each year at steady state. To focus our efforts, we will prioritise new programmes in the areas of inflammation and neurodegeneration as these diseases have strong genetic associations and are likely to drive strong commercial interest from prospective partners. We will continue to maximise value from opportunistic areas, for example, immuno-oncology. Additional disease areas are under continual assessment at C4XD, with robust scientific analysis and commercial intelligence used to identify the best next therapeutic areas for inclusion in our portfolio.

Forming strategic alliances

To deliver our vision, we understand that we must focus our efforts on the areas where we have strengths – novel target identification and drug design. As such, we will no longer provide any fee-for-service capabilities. Instead, we have secured, and will continue to seek, longer-term risk-sharing strategic alliances that enable us to achieve our goal of becoming the world's most productive Drug Discovery Engine.

In October 2015, we signed an agreement with the University of Oxford's Structural Genomics Consortium ("SGC Oxford"). This collaboration gives us access to structural, biological and therapeutic information held by SGC Oxford on both targets and "hit" molecules. Our expertise in drug design will be used to improve existing SGC Oxford "hit" molecules, which will remain its exclusive property, whilst new compounds identified by C4XD will belong to us. This alliance provides us with a powerful new basis to expand our portfolio into new therapeutic areas.

Following the end of the financial year, we entered a new multi-target, risk-sharing strategic collaboration with Evotec AG ("Evotec"), a leading drug discovery and development alliance company.

CEO's statement continued

Clive Dix, Chief Executive Officer

Forming strategic alliances continued

This agreement builds on our existing scientific collaboration announced in January 2015 and will enable us to increase the output of our Discovery Engine with reduced risk and, potentially, lower cost. C4XD will work with Evotec on three projects where Evotec will apply its extensive assay and screening technologies, laboratory scientists and medicinal chemists in return for funding to partially cover operating costs, milestones and potential future royalties. We share common development and commercial goals with Evotec and we could not have found a better partner for this type of deal in terms of financial strength and capacity.

Successful £5 million fundraise

In September 2016, we successfully closed a £5 million fundraise at 102 pence per share. This brought in several new strategic investors, including Calculus Capital Limited and Polar Capital LLP, who have strong track records in investing in the life sciences sector. This new cash enables us to progress our pre-clinical pipeline and initiate new discovery programmes derived by Taxonomy3®, and provides working capital for operations.

Outlook

C4XD's strategy is to achieve our ambitions in drug discovery and corporate development, thereby delivering value for our shareholders. The coming year will focus on securing deal revenue from our existing portfolio, progressing our discovery candidates to pre-clinical development, identifying novel and exciting drug targets and selectively building our operations to support our vision. I am excited about what we can achieve and I look forward to sharing this journey with you.

Clive Dix
Chief Executive Officer
6 January 2017

Discovery portfolio review

Neuroscience – Addiction and Parkinson's disease

Oral Orexin-1 Antagonist Programme

The treatment of addiction represents a substantial area of unmet medical need, forecast to be worth an estimated $13 billion per annum by 2018[1]. C4XD's lead programme targeting Orexin-1 could represent a major new method of treating addiction by targeting the "craving" process itself. Through the Company's Conformetrix platform, C4XD has identified novel, patentable oral antagonists of Orexin-1 providing the Company with a pre-clinical candidate and a second differentiated follow-up molecule. Furthermore, to enable visualisation of the activity of this drug in the brain in the planned Phase I clinical study, a potential PET imaging agent has been identified and is being assessed for suitability for clinical use.

The Orexin-1 receptor is considered to be central to the brain's "craving" and "reward" pathways with pre-clinical efficacy observed in multiple addiction models. Recently, Actelion Pharmaceuticals Ltd ("Actelion") announced the first public disclosure of a selective Orexin-1 antagonist entering clinical development with a Phase 1 study currently in progress. Selectivity against the structurally similar Orexin-2 receptor is of critical importance and C4XD has identified compounds with more than 1,000-fold selectivity for the Orexin-1 receptor versus the Orexin-2, which has a very different biological function in mediating the sleep/wake cycle. Molecules that target the Orexin-2 receptor, such as the approved drug Suvorexant, have been shown to be beneficial in the treatment of insomnia and therefore this activity must be absent from a drug being developed for the treatment of addiction.

Following Actelion's lead, C4XD believes that a number of pharmaceutical companies have active pre-clinical Orexin-1 programmes for the treatment of addiction. C4XD's programme is well placed from a product development perspective and provides a licensing opportunity for pharma companies interested in the treatment of addiction seeking to acquire an Orexin-1 programme.

Parkinson's disease

Analysis of the Wellcome Trust's publicly available Parkinson's disease dataset using C4XD's proprietary target discovery technology Taxonomy3® has identified multiple novel targets in discrete patient sub-groups that could potentially provide an opportunity in stratified medicine. C4XD is extending this analysis by examining an additional dataset that contains clinical phenotype descriptions to be used in combination with the genetic stratification. Once this analysis is complete, novel targets for progression will be selected and linked to a specific sub-group of Parkinson's patients.

Inflammation

Oral NRF-2 Activator Programme

In September 2015, C4XD announced it had designed novel activators of the NRF-2 pathway, which is important in mediating lung diseases such as chronic obstructive pulmonary disease ("COPD"), and multiple sclerosis ("MS"). COPD represents an area of substantial unmet medical need and a $41 billion market[2] and, therefore, oral activators of NRF-2 are the subject of considerable interest by the pharmaceutical industry. However, novel NRF-2 activators have proved difficult to identify. Recently, C4XD's proprietary technology has enabled the discovery of some of the most potent compounds reported so far against NRF-2 and these should be more selective than previously developed agents. C4XD initiated a fully integrated research programme in 2015/16

"Our alliances provide us with a powerful new basis to expand our portfolio."

with a UK-based contract research organisation providing chemistry and biology services with the goal of delivering a shortlist of molecules from which C4XD would select a candidate to take into pre-clinical development and significant progress has been made.

IL-17 Programme

In October 2015, C4XD announced it had identified highly selective small molecule leads in our programme against Interleukin-17 ("IL-17"), a critical and high value target in inflammation and autoimmune diseases, including psoriasis. The psoriasis market is estimated to be worth $9 billion per annum[3]. Current attempts to target IL-17 are based on injectable monoclonal antibodies with the identification of orally available small molecules proving extremely challenging. C4XD's technology has enabled the identification of small molecules that can selectively block IL-17 activity, offering the potential of oral or topical use with benefits over injectable antibody therapies.

Rheumatoid arthritis

Analysis of the publicly available Wellcome Trust's rheumatoid arthritis dataset using C4XD's proprietary target discovery technology Taxonomy3® has identified multiple novel targets that have not previously been genetically linked with this major disease. The targets are from protein families whose function suggests that any resulting drug molecules will have a very different biological impact on disease from that of existing rheumatoid arthritis therapies, enabling considerable therapeutic and commercial differentiation. C4XD has already prioritised two of these drug targets for evaluation as potential new pipeline programmes and the first of these targets is currently at the evaluation stage.

Diabetes

Oral GPR142 Agonist Programme

Diabetes is a large and growing market, estimated to be worth $55 billion per annum by 2017[4]. In September 2015, C4XD announced the identification of novel lead molecules that target GPR142, a key factor in the production of insulin.

Activation of the GPR142 receptor stimulates insulin production in a glucose-dependent manner, avoiding the hypoglycaemia risk associated with some existing diabetes therapies. GPR142 has recently become the focus of considerable activity within the pharma industry, including key publications from Eli Lilly and Merck. Using its proprietary technology, C4XD has identified critical drug design principles, enabling the Company to generate novel, potent, orally available compounds in just a few months. C4XD has demonstrated potent activity of the Company's proprietary molecules in isolated pancreatic islets, the region of the pancreas that produces insulin, and continues to evaluate multiple novel series ahead of selecting its lead series for progression.

Oral GLP-1 Agonist Programme

GLP-1 is a clinically validated diabetes target with multiple products in late stage clinical development or approved and marketed. The market leader for GLP-1 agonists, Victoza®, achieved 2015 sales of $2.68 billion in 2015[5]. However, these products are peptide-based therapeutic agents which require injection and are expensive to manufacture and prescribe. C4XD believes there is significant opportunity to develop a more convenient oral therapy that would also provide the potential for once-daily fixed-dose combination products with other marketed oral diabetes products.

Using its Conformetrix platform, C4XD has identified novel molecules that activate the GLP-1 receptor and studies are underway to further profile these molecules for suitability as orally delivered therapeutic agents.

Oncology

C4XD's Drug Discovery Engine is currently being utilised to target two key therapeutic principles in the treatment of cancer: an epigenetic target potentially useful for the treatment of cancer, such as cancers of the breast, prostate, lung and head and neck; and a small molecule immuno-oncology approach useful for the treatment of metastatic non-small cell lung cancer, melanoma and bladder and renal cancers. These programmes are at the evaluation stage.

1 Source: GBI Research 2012.

2 Source: Visiongain, Asthma and COPD Therapies: World Market 2013–2023.

3 Source: Visiongain, Psoriasis Treatment: World Market 2013–2023.

4 Source: Visiongain, Diabetes Treatments: World-Drug-Market-2013–2023.

5 Novo Nordisk Annual Report 2015.

Strategic report

Clive Dix, Chief Executive Officer

Pages 2–11 of the annual report include details of the core strategy for the Group.

Business model

A description of the Group's activities and how it seeks to add value is included in the "Our business model" section, the Interim Chairman's Statement and the CEO's Statement on pages 4 to 11.

Review of the business and future developments

C4XD continues to progress its proprietary programmes and focus its activities on the delivery of its strategic ambitions and acquiring complementary technologies. Grant income received by the Group is netted off administrative expenses and is not included within revenue.

Key performance indicators

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

In addition, the management of and control of cash balances is a priority for the Group and this is budgeted and monitored closely to ensure that the Group maintains adequate liquid resources to meet financial commitments as they arise.

At this stage of its development, quantitative key performance indicators are not generally an effective way of measuring the Group's performance, although the Group's monitoring of cash and expenditure against budget is also measured against progress in its programmes. In addition, a qualitative summary of performance is provided in the Interim Chairman's Statement and the CEO's Statement.

Principal risks and uncertainties

The Group continues to manage to reduce the inherent risk for the business by collaborating and partnering with pharmaceutical companies and research organisations. The principal risks to achieving full commercialisation and to becoming cash generative are outlined as follows:

Technology

In common with other technology businesses developing new and innovative technical applications for the pharmaceutical sector, there is an inherent risk that C4XD's techniques will not enable its scientists to obtain the results required to generate meaningful value in its internal drug discovery programmes nor satisfy the needs of its customers. The Group cannot guarantee in advance that its technologies will meet either its internal demands or those of its partners. The Group works closely with its collaborators and partners to ensure that C4XD continues to meet their expectations. The C4XD technical development team continues to improve the core technology in terms of functionality and efficiency of output.

Collaborators and partners

C4XD's success is dependent upon how extensively the Group's techniques are successful in discovering drug candidates that are commercially and technically attractive to pharmaceutical company collaborators and partners.

Timing

It may take longer than anticipated for the Group's proprietary programmes to progress.

It may take longer than anticipated for the Group's technology to identify drug candidates that are commercially and technically attractive to pharmaceutical company collaborators.

Market and competition

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

Intellectual property

The success of C4XD's technology depends in part upon the Group's ability to protect and defend its rights over current and future intellectual property in the form of technologies, processes or products.

The Group may be unable to adequately protect itself from intellectual property infringement or effectively enforce its rights in certain jurisdictions.

"The Directors have a reasonable expectation that the Group will have adequate resources to continue in operation for the foreseeable future."

C4XD has core patents that cover its drug discovery technologies that have been filed in a range of international territories. It is currently under examination in the US and Europe; it has been granted in Japan.

C4XD has filed several composition of matter patents covering novel molecules discovered for its most advanced proprietary pipeline programme for the treatment of addictive disorders.

Attraction and retention of key employees

Attracting, retaining and motivating suitable, high calibre personnel is critical to the long-term success of C4XD's business. The Group aims to provide remuneration packages and working conditions that will attract and retain personnel of the required calibre. The Group awards share options to all key staff as a further way of retaining staff by allowing them to benefit from future improvements in the Group's value.

Funding

C4XD conducts pharmaceutical-related research and development, which is expensive. As at 31 July 2016, the Group had cash and cash equivalents of £1,328,000. After taking into account the additional £5 million raised via a placing in September 2016, on the basis of current projections and plans, the Group has sufficient funding for the next 12 months and thereafter for the foreseeable future in order to continue realising its assets and discharging its liabilities in the normal course of business.

C4XD may accelerate certain activities if this will create additional value for its shareholders. This would require additional funding. In the unlikely event that such funding was not achieved, plans could be curtailed to ensure that the Group could meet all of its liabilities as they fall due over the next 12 months.

Therefore, after making enquiries and considering the uncertainties described above, the Directors have a reasonable expectation that the Group will have adequate resources to continue in operation for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the financial information.

Clive Dix
Chief Executive Officer
6 January 2017

Financial review

Brad Hoy, Chief Financial Officer

"Our cash position and fundraising will allow C4XD to continue with its plan of becoming the world's most productive Drug Discovery Engine."

Results

Revenue for the 12 months ended 31 July 2016 amounted to £279,000 (2015: £312,000). These revenues were largely generated through collaborations with our partners. During the year, the Group has ceased its fee-for-service offering, choosing only to work on a collaborative risk-and-revenue-sharing basis. Grants secured are accounted for as a reduction in administrative expenses.

R&D expenses, which comprise payroll costs, materials spend and third-party contract development costs, have increased by 66% to £5,239,000 for the year ended 31 July 2016 (2015: £3,159,000). This reflects both the increase in drug discovery activity and the continued development of lead drug candidates.

Administrative expenses increased by £913,000 during the year to £1,817,000 (2015: £904,000), reflecting costs relating to the departure of Piers Morgan as CEO in November 2015, additional professional fees, non-scientific staff costs, premises costs and some modest post-acquisition operating costs for Adorial, which have now been absorbed within C4XD.

The loss after tax for the year ended 31 July 2016 was £5,321,000 or 16.83 pence per share (2015: £3,064,000 or 10.77 pence per share).

The Group had net assets at 31 July 2016 of £4,305,000 (2015: £7,968,000) and cash, cash equivalents, short-term investments and deposits of £1,328,000 (2015: £7,485,000).

The above cash position plus the £5 million raised post-year end and outlined in the CEO's Statement will allow C4XD to continue with its plan of becoming the world's most productive Drug Discovery Engine.

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

Acquisition

The Group acquired the entire of the share capital of Adorial Limited and its subsidiaries ("Adorial") on 1 March 2016 for a consideration of £1,670,700, which was satisfied by the issue of 1,508,207 ordinary shares at a price of 106 pence and £72,000 in cash. Adorial was acquired primarily for its proprietary genetic technology, Taxonomy3®, and associated staff and scientific know-how. Since its acquisition Adorial has had no revenues, whilst its costs have largely comprised those related to its retained scientific staff.

Brad Hoy
Chief Financial Officer
6 January 2017

Board of Directors

Sam Williams PhD

Non-Executive Interim Chairman

Sam has 20 years' experience in the biotechnology sector, both as a top-ranked equity analyst in the City and, subsequently, as an entrepreneur and chief executive. Since 2007, he has been CEO of Modern Biosciences, a London-based company developing novel agents for the treatment of chronic inflammatory diseases. Prior to that, Sam spent ten years in finance, most notably at Lehman Brothers, during which time he was ranked the number one European biotechnology equity analyst by Institutional Investor magazine three years in a row. As well as being CEO of Modern Biosciences, Sam is a board member of the UK BioIndustry Association, a non-executive director of Diurnal Group plc and serves on the translational awards advisory committee of the British Heart Foundation. Sam has a PhD from Cambridge University and an MA in Pure and Applied Biology from Oxford University.

Clive Dix PhD

Chief Executive Officer

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

Clive was co-founder and chief executive of Convergence Pharmaceuticals Ltd, which was acquired by Biogen in January 2015.

Clive was previously co-founder and chief executive of PowderMed Ltd, a vaccines development company acquired by Pfizer in November 2006. Before that he was senior vice president, research and development and a Board member of PowderJect Pharmaceuticals plc until its acquisition by Chiron Vaccines in 2003. Clive began his career in industry at Ciba-Geigy and then GlaxoWellcome, where he left as UK research director in 2001. Clive is a recent past chairman of the BioIndustry Association, is currently non-executive chairman of Touchlight Genetics Ltd and Centauri Ltd, and is a non-executive member of the Medicines Discovery Catapult Board.

Craig Fox PhD

Chief Scientific Officer

Craig is an experienced biologist having worked on and managed many drug discovery and development projects during the last 18 years, from initial target selection right through to investigating clinical efficacy and safety in Phase 2 patient studies. Craig joined C4X as Head of Biology in June 2015 before becoming Chief Scientific Officer in October later that year. Prior to joining C4XD, Craig was director of respiratory research at Pulmagen Therapeutics, a clinical stage company spun-out of Argenta in 2010. At Pulmagen, Craig managed several of its collaborations and partnerships, including those with AstraZeneca, Chiesi, Domantis, Dr Reddy's, Skyepharma and Teijin Pharma. Craig was part of the Etiologics Team that merged with Argenta Discovery in 2004 and prior to this he worked for Bayer as a research scientist. Craig has a PhD in Respiratory Medicine from Birmingham University and a first-class biochemistry degree from the University of Surrey.

Brad Hoy
Chief Financial Officer

Brad has more than 20 years' experience in the pharmaceutical and biotechnology industries and has held a number of senior financial and general management positions in both the UK and the US. Previously, Brad was chief financial officer of Plethora Solutions Holdings plc, an AIM-listed specialty pharmaceutical company, chief executive officer of Xcellsyz Limited, a UK venture capital-backed life science company, and senior director of Geron Corporation's stem cell-focussed UK subsidiary. Brad is a co-founder of Seven Hills Venture Partners, a life sciences advisory firm, and currently serves as non-executive director on the board of directors for e-Therapeutics plc.

Harry Finch PhD
Non-Executive Director

Harry has significant experience within the pharmaceutical industry, specialising in medicinal chemistry, drug discovery and development. Currently he is an independent consultant working with a variety of small biotech companies and investors, many of which are in the oncology arena. Harry is also a non-executive director of Pulmocide Therapeutics and Artios Pharma Ltd.

After attaining a PhD in Organic Chemistry, Harry worked at Ciba-Geigy AG (Now Novartis AG) and Roche Allen & Hanburys Limited, before joining GlaxoWellcome plc where he became director of Chemistry.

Harry is an expert in the respiratory area of the pharma industry and is co-inventor of GSK's successful asthma drug salmeterol (Serevent). In addition, he has worked across a range of therapeutic areas and at several biotechnology companies, including Ribotargets, Vernalis, Argenta and Pulmagen.

Alex Stevenson PhD
Non-Executive Director

Alex has a proven track record in identifying, investing and growing businesses within the pharmaceutical sector. He is currently Chief Scientific Officer at 4D pharma plc.

From 2008, Alex was a director and shareholder of Aquarius Equity Partners Limited, and he joined the Board of C4XD as a Non-Executive Director following Aquarius' investment in the Company. Prior to this, Alex worked for IP Group plc where he specialised in life science investments.

Alex has been involved in a number of private and public companies, including Nanoco Group plc, admitted to AIM in 2009; Retroscreen Virology Group plc, admitted to AIM in 2012; Tissue Regenix Group plc, admitted to AIM in 2010; and Auralis Limited, which, after investment through Aquarius Equity Partners Limited, delivered a seven-fold return through to its trade sale to ViroPharma Inc in 2010.

Corporate governance statement

C4XD is committed to high standards of corporate governance and the Board acknowledges the importance of the principles set out in the UK Corporate Governance Code published by the Financial Reporting Council in September 2014 ("the Code").

Although the Code is not mandatory for companies admitted to AIM, the Group has adopted many, although not all, aspects of the Code as set out in this report.

The Board

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

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

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

As at 31 July 2016, the Board comprised the Non-Executive Interim Chairman, the Chief Executive Officer and two independent Non-Executive Directors.

The names of the current Directors, together with their biographical details and any other directorships, are set out on pages 16 and 17. All of the Directors at 31 July 2016 served throughout the period under review.

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

The Board considers its independent Non-Executive Directors to be independent in character and judgement. No Non-Executive Director has been an employee of the Group or has had a material business relationship with the Group since its Admission to AIM; receives remuneration other than a director's fee and share options (save as disclosed); has close family ties with any of the Group's advisers, Directors or senior employees; or holds cross-directorships. The independent Non-Executive Directors are Sam Williams, Harry Finch and Alex Stevenson. Prior to his appointment as a Non-Executive Director, Sam Williams was Chief Executive of C4XD; Alex Stevenson is a director and shareholder in Aquarius Equity Partners, a major shareholder of the Group.

The Non-Executive Directors constructively challenge and help develop proposals on strategy and bring strong, independent judgement, knowledge and experience to the Board's deliberations.

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

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

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

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

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

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

	Full Board
Number of meetings in year	6
Attendance:	
Executive Directors	
Clive Dix	4
Piers Morgan	2
Non-Executive Directors:	
Sam Williams	6
Clive Dix	2
Harry Finch	6
Alex Stevenson	6

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

The roles of the Chairman and the Chief Executive Officer

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

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

Professional development

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

Performance evaluation

The Board has established a formal process for the annual evaluation of the performance of the Executive Directors. This evaluation is based on a performance evaluation questionnaire completed by each Executive Director. The evaluation of the Chief Executive Officer is performed by the Chairman and the evaluation of the other Executive Directors is performed by the Chief Executive Officer.

Information

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

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

Director dealings in Group shares

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

Investor relations

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

Annual General Meeting ("AGM")

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

Board Committees

Audit Committee

The Audit Committee comprises Sam Williams and Harry Finch; Sam Williams is Chairman. The Committee is responsible for monitoring the quality of internal controls, ensuring that the financial performance of the Group is properly measured and reported on and reviewing reports from the Group's auditors relating to the Group's accounting and internal controls, in all cases having due regard to the interests of shareholders.

Corporate governance statement continued

Board Committees continued

Audit Committee continued

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

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

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

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

Remuneration Committee

The Remuneration Committee comprises Harry Finch, who is Chairman of the Committee, and Alex Stevenson. The Committee is responsible for establishing a formal and transparent procedure for developing policy on executive remuneration and for setting the remuneration of individual Directors. Full details of Directors' remuneration and remuneration policy are set out on pages 21 to 23.

Nominations Committee

The Nominations Committee comprises Alex Stevenson, who is Chairman of the Committee, and Sam Williams. The Committee is responsible for identifying and nominating, for the approval of the Board, candidates to fill Board vacancies as and when they arise.

Internal controls and risk management

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

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

Some key features of the internal control system are:

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

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

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

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

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

(iv) the Group has a uniform system of investment appraisal.

Risk management

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

Details of the Group's financial risk management objectives and policies are disclosed in note 25 to the financial statements.

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

The Group seeks to manage liquidity by ensuring funds are available to meet foreseeable needs and to invest cash assets safely and profitably. The Group had cash, cash equivalent and deposit balances of £1,328,000 at 31 July 2016 (2015: £7,485,000). Cash deposits are spread across a range of financial institutions with investment grade credit status. Deposits are invested in a mixture of fixed-term and notice accounts. The Board approves all financial institutions before deposits are placed and regularly reviews the level of funds allocated to each institution.

Directors' remuneration report

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

Information not subject to audit

Remuneration Committee

The Remuneration Committee comprises Harry Finch, who is Chairman of the Committee, Sam Williams and Alex Stevenson. The Committee may invite anyone it deems appropriate to attend and advise at meetings.

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

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

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

Basic annual salary

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

Other taxable benefits

The Group provides an occupational pension scheme for employees, including Executive Directors. The Group operates a voluntary, subsidised private health insurance scheme for employees, including Executive Directors.

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

Discretionary annual bonus

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

Discretionary share option schemes

All Directors and employees are eligible to receive discretionary share options to be granted in accordance with the Group's approved share option scheme. Details of the grants made under the scheme are provided in note 20 to the financial statements. This takes into account the need to motivate and retain key individuals. Details of share option grants made to Directors are shown in the table below.

Remuneration policy for Non-Executive Directors

Non-Executives receive a fixed fee and do not receive any pension payments or other benefits, but they do participate in the share option scheme at the discretion of the Remuneration Committee.

Service contracts

Sam Williams (Non-Executive Interim Chairman) entered into a letter of appointment with the Company on 17 October 2014. The appointment will continue for a period of three years from admission to the AIM market (subject to re-election by shareholders as required by the articles) and is terminable earlier by the Group in various specified circumstances and in any event by either party on six months' notice. The annual fee payable for Sam's services as a Non-Executive Director is £15,450 per annum.

Harry Finch (Non-Executive Director) entered into a letter of appointment with the Company on 17 October 2014. The appointment will continue for a period of three years from admission to the AIM market (subject to re-election by shareholders as required by the articles) and is terminable earlier by the Group in various specified circumstances and in any event by either party on six months' notice. The annual fee payable for Harry's services as a Non-Executive Director is £15,450 per annum.

In addition to his duties as a Non-Executive Director, Harry Finch acts as a consultant on certain technical matters, for which he is remunerated at the rate of £1,400 per day, which the Board (excluding Harry Finch) has determined to be an arm's length commercial rate. During the year ended 31 July 2016, in addition to his annual fee of £15,450 for his services as a Non-Executive Director, Harry Finch was paid £11,550 in connection with the services he provided as a technical consultant (2015: £2,100).

Alex Stevenson (Non-Executive Director) entered into a letter of appointment with the Group on 17 October 2014. The appointment will continue for a period of three years from admission to the AIM market (subject to re-election by shareholders as required by the articles) and is terminable earlier by the Group in various specified circumstances and in any event by either party on six months' notice. The annual fee payable for Alex's services as a Non-Executive Director is £15,450 per annum.

Directors' remuneration report continued

Information not subject to audit continued

Directors' shareholdings

Directors' interests in the shares of the Group, including family and beneficial interests, at 31 July 2016 were:

	Ordinary shares of 1 pence each			
	31 July 2016 Number	31 July 2016 %	31 July 2015 Number	31 July 2015 %
Dr Sam Williams	1,069,625	3.29%	1,069,625	3.45%
Dr Clive Dix	691,250	2.13%	591,250	1.91%
Dr Harry Finch	321,425	0.99%	321,425	1.04%
Dr Alex Stevenson*	485,403	1.49%	485,403	1.57%

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

Information subject to audit

Directors' remuneration

The remuneration of the Directors, who served on the Board of C4X Discovery Holdings plc during the year to 31 July 2016, is as follows:

	Base salary and fees £000	Other £000	Annual bonus £000	Pension costs £000	Benefits in kind £000	Share-based payments £000	Total 2016 £000
Executive Directors:							
Clive Dix*	74	—	—	—	—	27	101
Piers Morgan	271	—	—	26	—	—	297
Non-Executive Directors:							
Sam Williams	16	—	—	—	—	1	17
Clive Dix*	8	—	—	—	—	1	9
Harry Finch**	16	11	—	—	—	1	28
Alex Stevenson***	16	—	—	—	—	—	16
	401	11	—	26	—	30	468

* Clive Dix was Non-Executive Chairman until 19 November 2015, when he became Executive Chairman, and in turn on 4 May 2016 became Chief Executive Officer. His total remuneration has accordingly been split between that earned in his capacity as a Non-Executive Director and that earned in his capacity as an Executive Director.

** Harry Finch received £11,550 in connection with the services he provided as a technical consultant.

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

31 July 2015 comparative

	Base salary and fees £000	Other £000	Annual bonus £000	Pension costs £000	Benefits in kind £000	Share-based payments £000	Total 2015 £000
Executive Directors:							
Piers Morgan	191	—	75	3	—	15	284
Non-Executive Directors:							
Clive Dix	25	—	—	—	—	—	25
Harry Finch	15	2	—	—	—	—	17
Alex Stevenson	15	—	—	—	—	—	15
Sam Williams	15	—	—	—	—	—	15
	261	2	75	3	—	15	356

Directors' share options

Directors' interests in share options to acquire ordinary shares of 1 pence in the Group as at 31 July 2016 were:

Share options:	Date granted	Exercise price	At 31 July 2015	Exercised during the year	Lapsed	Granted during the year	At 31 July 2016
Sam Williams	8 June 2015	£1.00	20,000	—	—	—	20,000
Clive Dix	8 June 2015	£1.00	20,000	—	—	—	20,000
	8 December 2015	£0.77	—	—	—	500,000	500,000
Harry Finch	8 June 2015	£1.00	20,000	—	—	—	20,000

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

The market price for C4XD shares as at 31 July 2016 was 116.0 pence per share. The highest and lowest prices during the year were 133.5 pence and 67.50 pence respectively.

No options were granted during the year below market value.

On behalf of the Board

Harry Finch
Chairman of the Remuneration Committee
6 January 2017

Directors' report

The Directors present their report and the audited financial statements for the Group and parent company for the year ended 31 July 2016.

Financial instruments

Details of the Group's financial risk management objectives and policies are disclosed in note 25 to the financial statements.

Research and development

The principal activity of the Group is research and development, a review of which is included in the Interim Chairman's and CEO's statements on pages 6 to 11.

Total research and development spend was £5,239,000 (2015: £3,159,000). No development expenditure was capitalised in the period (2015: £nil) for the reasons provided in note 3(f) to the accounts.

Dividends

The Directors do not recommend payment of an ordinary dividend (2015: £nil).

Share capital and funding

As at 31 July 2016 share capital comprised 32.5 million ordinary shares of 1 pence each (2015: 31.0 million ordinary shares) and 2.0 million deferred shares of £1 each (2015: 2.0 million shares). During the year, the Company issued 1,508,207 ordinary shares as part of the consideration for the acquisition of Adorial. Full details of the Group's and Company's share capital movements during the period are given in note 19 to the financial statements.

In September 2016, the Group raised £5.0 million via a placing of 4,901,961 ordinary shares at 102 pence each.

Details of shares under option are provided in note 20 to the financial statements.

Directors and their interests

The following Directors held office during the year:

Dr Sam Williams;
Dr Clive Dix;
Dr Harry Finch;
Dr Alex Stevenson;
Piers Morgan (resigned 19 November 2015);
Craig Fox (appointed 22 November 2016); and
Brad Hoy (appointed 22 November 2016).

Biographies of the Directors can be found on pages 16 and 17.

Details of Directors' remuneration and interests in the share capital of the Group are shown in the Directors' Remuneration Report on pages 21 to 23.

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

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

Directors' indemnity insurance

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

Significant shareholders

The Group is aware that the following had an interest in 3% or more of the issued ordinary share capital of the Company at 31 July 2016:

	Number of 1 pence ordinary shares at 31 July 2016	% of issued share capital
The Aquarius IV Fund LLP	4,864,375	14.97%
Mr Andrew Almond	3,010,000	9.26%
Mr Charles Douglas Blundell	3,010,000	9.26%
Mr Andrew Black	2,600,000	8.00%
The Aquarius Origin Fund LLP	2,595,050	7.99%
Aviva Life & Pensions UK Limited	2,533,604	7.80%
Mr Samuel Cameron Williams	1,069,625	3.29%

Donations

No charitable or political donations were made in the year (2015: £nil).

Employment policies

The Group is committed to ensuring the health and safety of its employees in the workplace. This includes the provision of subsidised private health insurance for employees who elect to take it.

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

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

Corporate Governance Statement

The Group's statement on corporate governance can be found in the Corporate Governance Statement on pages 18 to 20.

Going concern

The Chief Executive Officer's Statement on pages 8 to 11 outlines the business activities of the Group along with the factors which may affect its future development and performance. The Group's financial position is discussed in the Financial Review on pages 14 to 15 along with details of its cash flow and liquidity. Note 24 to the financial statements sets out the Group's financial risks and the management of those risks.

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

Disclosure of information to the auditor

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG LLP as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

Annual General Meeting notice

The Annual General Meeting of the Company will be held on 31 January 2017, at 12 noon, at The Podium, Euston, 1 Eversholt Street, London NW1 1AD. The notice convening the AGM, together with an explanation of the resolutions to be proposed, are enclosed with the annual report and accounts 2016, in addition to a form of proxy.

On behalf of the Board

Clive Dix
Chief Executive Officer
6 January 2017

Statement of Directors' responsibilities

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

Financial statements

Independent auditor's report

to the members of C4X Discovery Holdings plc

for the year ended 31 July 2016

We have audited the financial statements of C4X Discovery Holdings Plc for the year ended 31 July 2016 set out on pages 29 to 56. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 26, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 July 2016 and of the Group's loss for the period then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006 and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and 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.

Antony Whittle
(Senior Statutory Auditor)
for and on behalf of KPMG LLP,
Statutory Auditor
Chartered Accountants
1 St Peter's Square
Manchester
M2 3AE
6 January 2017

Consolidated statement of comprehensive income

for the year ended 31 July 2016

	Notes	2016 £000	2015 £000
Revenue	5	279	312
Cost of sales		(12)	(112)
Gross profit		267	200
Research and development expenses		(5,239)	(3,159)
Administrative expenses		(1,817)	(904)
Operating loss		(6,789)	(3,863)
Finance income	8	32	49
Loss on ordinary activities before taxation		(6,757)	(3,814)
Taxation	9	1,436	750
Loss for the year and total comprehensive loss for the year		(5,321)	(3,064)
Loss per share			
Basic and diluted loss for the year	10	(16.83)p	(10.77)p

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

There were no other items of comprehensive income for the year (2015: £nil) and therefore the loss for the year is also the total comprehensive loss for the year.

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

The notes on pages 34 to 56 form an integral part of these financial statements.

Consolidated statement of changes in equity

for the year ended 31 July 2016

	Issued equity capital £000	Share premium £000	Share-based payment reserve £000	Merger reserve £000	Capital contribution reserve £000	Revenue reserve £000	Total £000
At 31 July 2014	**200**	**—**	**29**	**920**	**—**	**(2,482)**	**(1,333)**
Loss for the year and total comprehensive loss for the year	—	—	—	—	—	(3,064)	(3,064)
Issue of share capital	110	10,890	—	—	—	—	11,000
Expenses of placing	—	(877)	—	—	—	—	(877)
Loan notes converted to deferred shares	2,025	—	—	—	—	—	2,025
Waiver of loan note interest	—	—	—	—	195	—	195
Share-based payments	—	—	22	—	—	—	22
Transactions with owners	2,135	10,013	22	—	195	—	12,365
At 31 July 2015	**2,335**	**10,013**	**51**	**920**	**195**	**(5,546)**	**7,968**
Loss for the year and total comprehensive loss for the year	—	—	—	—	—	(5,321)	(5,321)
Issue of share capital	15	1,584	—	—	—	—	1,599
Share-based payments	—	—	59	—	—	—	59
Transactions with owners	15	1,584	59	—	—	—	1,658
At 31 July 2016	**2,350**	**11,597**	**110**	**920**	**195**	**(10,867)**	**4,305**

Company statement of changes in equity

for the year ended 31 July 2016

	Issued equity capital £000	Share premium £000	Share-based payment reserve £000	Total £000
At 31 July 2014	—	—	—	—
Loss for the year and total comprehensive loss for the year	—	—	—	—
Acquisition of C4X Discovery Limited	200	—	—	200
Issue of share capital	110	10,890	—	11,000
Expenses of placing	—	(877)	—	(877)
Loan notes converted to deferred shares	2,025	—	—	2,025
Share-based payments	—	—	22	22
Transactions with owners	2,335	10,013	22	12,370
At 31 July 2015	2,335	10,013	22	12,370
Loss for the year and total comprehensive loss for the year	—	—	—	—
Issue of share capital	15	1,584	—	1,599
Share-based payments	—	—	59	59
Transactions with owners	2,350	11,597	81	14,028
At 31 July 2016	2,350	11,597	81	14,028

Statements of financial position

at 31 July 2016

Registered no. 09134041

	Notes	31 July 2016 Group £000	31 July 2016 Company £000	31 July 2015 Group £000	31 July 2015 Company £000
Assets					
Non-current assets					
Property, plant and equipment	11	94	—	85	—
Intangible assets	12	654	—	59	—
Goodwill	13	1,192	—	—	—
Investment in subsidiaries	14	—	1,952	—	222
		1,940	1,952	144	222
Current assets					
Trade and other receivables	15	429	12,075	388	12,147
Income tax asset	16	1,400	—	700	—
Short-term investments and cash on deposit	17	—	—	4,000	—
Cash and cash equivalents	17	1,328	1	3,485	1
		3,157	12,076	8,573	12,148
Total assets		5,097	14,028	8,717	12,370
Liabilities					
Current liabilities					
Trade and other payables	18	792	—	749	—
		792	—	749	—
Total liabilities		792	—	749	—
Net assets		4,305	14,028	7,968	12,370
Capital and reserves					
Issued equity capital	19	2,350	2,350	2,335	2,335
Share premium	19	11,597	11,597	10,013	10,013
Share-based payment reserve	20	110	81	51	22
Merger reserve	21	920	—	920	—
Capital contribution reserve	22	195	—	195	—
Revenue reserve	23	(10,867)	—	(5,546)	—
Total equity		4,305	14,028	7,968	12,370

Approved by the Board and authorised for issue on 6 January 2017.

The notes on pages 34 to 56 form an integral part of these financial statements.

Clive Dix
Chief Executive Officer
6 January 2017

Cash flow statements

for the year ended 31 July 2016

	Notes	31 July 2016 Group £000	31 July 2016 Company £000	31 July 2015 Group £000	31 July 2015 Company £000
Loss after interest and tax		(5,321)	—	(3,064)	—
Adjustments for:					
Depreciation of tangible fixed assets	11	33	—	21	—
Amortisation of intangible assets	12	55	—	5	—
Share-based payments	20	59	—	22	—
Finance expense		—	—	—	—
Taxation		(1,436)	—	(750)	—
Changes in working capital:					
(Increase)/decrease in trade and other receivables		(40)	67	(231)	—
(Decrease)/increase in trade and other payables		(28)	—	510	—
(Decrease)/increase in deferred revenue		(56)	—	12	—
Cash (outflow)/inflow from operating activities		(6,734)	67	(3,475)	—
Research and development tax credit received		736	—	300	—
Net cash (outflow)/inflow from operating activities		(5,998)	67	(3,175)	—
Cash flows from investing activities					
Purchases of tangible fixed assets	11	(42)	—	(85)	—
Purchases of intangible fixed assets	12	(50)	—	(8)	—
Acquisition of subsidiary (net of cash acquired)		(67)	(67)	—	—
Cash advance to subsidiary		—	—	—	(10,122)
Decrease/(increase) in cash placed on deposit	17	4,000	—	(4,000)	—
Net cash inflow/(outflow) from investing activities		3,841	(67)	(4,093)	(10,122)
Cash flows from financing activities					
Proceeds from issues of ordinary share capital	19	—	—	11,000	11,000
Expenses share capital issue	19	—	—	(877)	(877)
Repayment of preference shares		—	—	(30)	—
Interest paid		—	—	(13)	—
Net cash inflow from financing activities		—	—	10,080	10,123
(Decrease)/increase in cash and cash equivalents		(2,157)	—	2,812	1
Cash and cash equivalents at the start of the year		3,485	1	673	—
Cash and cash equivalents at the end of the year		1,328	1	3,485	1
Monies placed on deposit at the end of the year		—	—	4,000	—
Cash, cash equivalents and deposits at the end of the year	17	1,328	1	7,485	1

The notes on pages 34 to 56 form an integral part of these financial statements.

Notes to the financial statements

for the year ended 31 July 2016

1. Reporting entity

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

These Group financial statements consolidate those of the Company and its subsidiaries (together referred to as "the Group" and individually as "Group entities") for the year ended 31 July 2016.

The financial statements of the Company and the Group for the year ended 31 July 2016 were authorised for issue by the Board of Directors on 6 January 2017 and the statement of financial position was signed on the Board's behalf by Clive Dix.

The Company has elected to take the exemption under Section 408 of the Companies Act 2006 not to present the parent company's statement of comprehensive income. The parent company's result for the year ended 31 July 2016 was £nil (2015: £nil).

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

2. Basis of preparation

(a) Statement of compliance

The Group's and parent company's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and International Financial Reporting Committee ("IFRIC") interpretations as they apply to the financial statements of the Group for the period ended 31 July 2016.

(b) Basis of measurement

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

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

(c) Going concern

The Interim Chairman's Statement and CEO's Statement on pages 6 to 11 outline the business activities of the Group along with the factors which may affect its future development and performance. The Group's financial position is discussed in the Financial Review on pages 14 and 15 along with details of its cash flow and liquidity. Note 25 to the financial statements sets out the Group's financial risks and the management of those risks.

Having prepared management forecasts, which incorporate the post-year-end £5 million cash raise, and made appropriate enquiries, the Directors are satisfied that the Group has adequate resources for the foreseeable future. Accordingly, they have continued to adopt the going concern basis in preparing the Group and Company financial statements. However, given the nature of the Group's biotechnology-based business and need for ongoing investment in its drug development activities, the Group will be looking to raise additional funds in the future to allow continued development.

(d) Functional and presentational currency

These financial statements are presented in Sterling, which is the Group's functional currency. All financial information presented has been rounded to the nearest thousand.

(e) Use of estimates and judgements

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

While every effort is made to ensure that such estimates and judgements are reasonable, by their nature they are uncertain and, as such, changes in estimates and judgements may have a material impact on the financial statements.

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

Equity-settled share-based payments

The determination of share-based payment costs requires: the selection of an appropriate valuation method; consideration as to the inputs necessary for the valuation model chosen; judgement regarding when and if performance conditions will be met; and the estimation of the number of awards that will ultimately vest. Inputs required for this arise from judgements relating to the future volatility of the share price of C4XD and comparable companies, the Group's expected dividend yields, risk-free interest rates and expected lives of the options. The Directors draw on a variety of sources to aid in the determination of the appropriate data to use in such calculations. The share-based payment expense is most sensitive to vesting assumptions and to the future volatility of the future share price factor. Further information is included in note 3.

2. Basis of preparation continued

(e) Use of estimates and judgements continued

Taxation

Management judgement is required to determine the amount of tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. The carrying value of the unrecognised tax losses at 31 July 2016 was £830,000 (2015: £416,000). The value of the net deferred tax liability not recognised at the year end is £12,000 (2015: £8,000). Further information is included in note 9.

Research and development

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

Revenue recognition

Judgements are required as to whether and when contractual milestones have been achieved and in turn the period over which development revenue should be recognised. Management judgements are similarly required to determine whether services or rights under licence agreements have been delivered so as to enable licence revenue to be recognised. Further information is included in note [3].

Valuation of IP assets

The IP assets acquired coincidental with the purchase of Adorial have been valued by independent specialists. The carrying value will be reviewed annually by the Board for any subsequent impairment.

3. Significant accounting policies

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

(a) Basis of consolidation

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

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

The Group measures goodwill at the acquisition date as:

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

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

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies. All C4X Discovery Holdings plc's subsidiaries are 100% owned. Subsidiaries are fully consolidated from the date control passes.

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

(b) Foreign currency transactions

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

Notes to the financial statements continued

for the year ended 31 July 2016

3. Significant accounting policies continued

(c) Segmental reporting

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

(d) Revenue recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable for the sale of goods or services, excluding discounts, rebates, VAT and other sales taxes or duties.

The Group's revenues to date comprise amounts earned under joint development agreements and individual project development programmes in respect of novel small molecule therapies.

Revenues received from development programmes are recognised on a straight-line basis over the period that the development work is being performed as measured by contractual milestones. Revenue is not recognised where there is uncertainty regarding the achievement of such milestones and where either revenue has not been paid or the customer has the right to recoup advance payments.

(e) Government grants

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

Government grants of a revenue nature are deducted from R&D expenses in the consolidated statement of comprehensive income in line with the terms of the underlying grant agreement.

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

(f) Research and development

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

The criteria for recognising expenditure as an asset are:

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

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

(g) Lease payments

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

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

3. Significant accounting policies continued

(h) Finance income

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

(i) Income tax

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

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

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

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

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

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

(j) Tangible fixed assets

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

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

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

Building improvements	– straight line over remainder of lease period
Office equipment	– straight line over three years

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

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

Notes to the financial statements continued

for the year ended 31 July 2016

3. Significant accounting policies continued

(k) Intangible assets

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

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

Patents – straight line over 20 years
IP assets – straight line over five years
Software – straight line over five years

(l) Goodwill

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

(m) Impairment of assets

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

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

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

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

(n) Investments in subsidiaries

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

(o) Trade and other receivables

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

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

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

3. Significant accounting policies continued

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

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

(q) Trade and other payables

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

(r) Provisions

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

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

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

There were no provisions at 31 July 2016 (2015: nil).

(s) Financial assets and liabilities

Financial assets and liabilities are recognised when the Group becomes party to the contracts that give rise to them and are classified as financial assets and liabilities at fair value through the consolidated statement of comprehensive income. The Group determines the classification of its financial assets and liabilities at initial recognition and re-evaluates this designation at each financial year end.

A financial asset or liability is generally derecognised when the contract that gives rise to it is settled, sold or cancelled or expires.

At the year end, the Group had no financial assets or liabilities designated at fair value through the consolidated statement of comprehensive income (2015: £nil).

(t) Classification of financial instruments issued by the Group

Following the adoption of IAS 32, financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

- they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and
- where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called-up share capital and share premium account exclude amounts in relation to those shares.

(u) Share capital

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

Notes to the financial statements continued

for the year ended 31 July 2016

3. Significant accounting policies continued

(v) Share-based payments

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

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

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

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

(w) Defined contribution pension scheme

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

(x) New accounting standards and interpretations

A number of new standards, amendments to standards and interpretations are effective for annual periods commencing on or after 1 January 2016 or ending 31 July 2017 or thereafter and have not been applied in preparing these consolidated financial statements and those that are relevant to the Group are summarised below. None of these are expected to have a significant effect on the consolidated financial statements of the Group in the period of initial application.

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

	Effective date
Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11	1 January 2016
Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38	1 January 2016
Equity Method in Separate Financial Statements – Amendments to IAS 27 (endorsed for use in the EU on 18 December 2015)	1 January 2016
Annual Improvements to IFRSs – 2012–2014 Cycle (endorsed or use in the EU on 15 December 2015)	1 January 2016
Disclosure Initiative – Amendments to IAS 1 (endorsed for use in the EU on 18 December 2015)	1 January 2016
Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12	1 January 2017
Disclosure Initiative – Amendments to IAS 7	1 January 2017
IFRS 9 Financial Instruments	1 January 2018
IFRS 15 Revenue from Contracts with Customers	1 January 2018
Clarifications to IFRS 15 Revenue from Contracts with Customers	1 January 2018
Effective date of IFRS 15 – Amendment to IFRS 15	1 January 2018
Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2	1 January 2018
IFRS 16 Leases	1 January 2018

4. Acquisitions of businesses

Acquisition of subsidiary in the current period

On 1 March 2016, the Group acquired all of the ordinary shares in Adorial Limited together with its subsidiaries for a consideration of £1,670,700, of which £1,598,700 was satisfied by the issue of 1,508,207 ordinary shares at a price of 106 pence, being a 3% premium to the closing price of a C4XD share on 29 February 2016, and £72,000 in cash. The privately held company has a key proprietary genetic technology platform, Taxonomy3®, for the identification of novel drug targets.

With Adorial, the Group now not only has the ability to create the best-in-class molecules against any known therapeutic target using C4XD's approach to ligand-based drug discovery, but also the ability to identify its own highly relevant and unique targets using Taxonomy3®. Combining Taxonomy3® with C4XD's existing platform will fuel the Group's small molecule drug discovery and development pipeline, as well as help it to progress towards its goal of becoming the world's leading engine for the discovery of novel small molecule drugs.

In the five months to 31 July 2016 the subsidiary contributed an estimated pre-tax loss of £75,000 to the consolidated pre-tax loss for the year. If the acquisition had occurred on 1 August 2015, Group revenue would have been unchanged, as Adorial currently has no revenue, and the pre-tax loss would have been an estimated £75,000 higher than currently shown. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on 1 August 2015.

Effect of acquisition

The acquisition had the following effect on the Group's assets and liabilities.

	Recognised values on acquisition £000
Acquiree's net assets at the acquisition date:	
Intangible assets – IP assets	600
Trade and other receivables	1
Cash and cash equivalents	5
Trade and other payables	(127)
Net identifiable assets and liabilities	**479**
Consideration paid:	
Cash	72
Equity issued – see above	1,599
Total consideration	**1,671**
Goodwill	**1,192**

Goodwill has arisen on the acquisition due to the excess of the consideration paid over the net assets acquired.

The Group incurred acquisition-related professional fees of £68,000, which have been included in administrative expenses in the Group's consolidated statement of comprehensive income.

Notes to the financial statements continued

for the year ended 31 July 2016

5. Segmental information

Operating segments

At 31 July 2016, the Group operated as one segment, being the provision of new technologies to improve the drug discovery process for novel small molecule therapies. This is the level at which operating results are reviewed by the chief operating decision maker (i.e. the CEO) to make decisions about resources, and for which financial information is available. All revenues have been generated from continuing operations and are from external customers.

	31 July 2016 £000	31 July 2015 £000
Analysis of revenue		
Amounts earned under joint development agreements	279	312
	279	312

Included within amounts earned under joint development agreements is revenue from two material customers of £128,000 and £106,000 respectively (2015: one material customer amounting to £152,000).

The Group operates in two main geographic areas, although both are managed in the UK. The Group's revenue per geographical segment based on the customer's location is as follows:

	31 July 2016 £000	31 July 2015 £000
Revenue		
UK	151	160
Europe (excluding UK)	128	152
	279	312

All the Group's assets are held in the UK and all of its capital expenditure arises in the UK.

6. Operating loss

The Group	31 July 2016 £000	31 July 2015 £000
Operating loss is stated after charging/(crediting):		
Depreciation of property, plant and equipment (see note 11)	33	21
Amortisation of intangible assets (see note 12)	55	5
Research and development expense*	5,239	3,159
Cost of inventories recognised as an expense (included in cost of sales)	12	112
Grant income	(65)	(144)
Operating lease rentals (see note 24):		
Land and buildings	62	34
Auditor's remuneration:		
Audit services:		
– Fees payable to Company auditors for the audit of the parent and the consolidated accounts	38	25
Fees payable in respect of the audit of subsidiary companies:		
– Auditing the accounts of subsidiaries pursuant to legislation	12	—
– Other services	4	103
Total auditor's remuneration	54	128

* Included within research and development expense are staff costs totalling £1,535,000 (2015: £937,000) also included in note 7.

7. Staff costs and numbers

	31 July 2016 £000	31 July 2015 £000
Wages and salaries	1,784	1,177
Social security costs	206	140
Pension contributions	101	3
Share-based payments	59	22
	2,150	1,342
Directors' remuneration (including benefits in kind) included in the aggregate remuneration above comprised:		
Emoluments for qualifying services	468	356

Directors' emoluments (excluding social security costs, but including benefits in kind) disclosed above include £297,000 paid to the highest paid Director (2015: £284,000). An analysis of the highest paid Director's remuneration is included in the Directors' Remuneration Report.

Retirement benefits are accruing to four Directors (2015: one Director).

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

The Group	31 July 2016 Number	31 July 2015 Number
Directors	4	5
Technological staff	23	14
Administrative staff	1	—
	28	19

8. Finance income and expense

The Group	31 July 2016 £000	31 July 2015 £000
Finance income:		
Bank interest receivable	32	49
	32	49

Bank interest receivable includes £nil (2015: £49,000) which is receivable after the year end.

9. Income tax

The tax credit is made up as follows:

The Group	31 July 2016 £000	31 July 2015 £000
Current income tax:		
UK corporation tax losses in the year	—	—
Research and development income tax credit receivable	(1,400)	(700)
Adjustment in respect of prior years	(36)	(50)
Total current income tax	(1,436)	(750)

Notes to the financial statements continued

for the year ended 31 July 2016

9. Income tax continued

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

The Group	31 July 2016 £000	31 July 2015 £000
Loss on ordinary activities before taxation	(6,757)	(3,814)
Tax at standard rate of 20.00% (2015: 20.67%)	(1,351)	(788)
Effects of:		
Expenses not deductible for tax purposes	25	8
Movement in unprovided deferred tax	(12)	(6)
Surrender of research and development relief for repayable tax credit	835	447
Research and development tax credit receivable	(1,400)	(700)
Tax losses carried forward	503	339
Adjustment in respect of prior years	(36)	(50)
Tax credit in income statement	(1,436)	(750)

Reductions of the main rate of corporation tax from 23% to 21% from 1 April 2014 and to 20% from 1 April 2015 were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015.

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

The Group has accumulated losses available to carry forward against future trading profits. The estimated value of the deferred tax asset, measured at a standard rate of 18% (2015: 20%) is £830,000 (2015: £416,000), of which £nil (2015: £nil) has been recognised. Remaining tax losses have not been recognised as an asset as it is not probable that future taxable profits will be available against which the unused tax losses can be utilised.

The Group also has a deferred tax liability being accelerated capital allowances, for which the tax, measured at a standard rate of 18% (2015: 20%), is £32,000 (2015: £18,000).

The Group has a deferred tax asset for share-based payments, for which the tax, measured at a standard rate of 18% (2015: 20%), is £20,000 (2015: £10,000).

The net deferred tax liability of £12,000 (2015: £8,000) has not been recognised as it is covered by accumulated tax losses (2015: £nil).

10. Earnings per share

The Group	31 July 2016 £000	31 July 2015 £000
Loss for the financial year attributable to equity shareholders	(5,321)	(3,064)
Weighted average number of shares:		
Ordinary shares in issue	31,616,625	28,457,043
Basic loss per share (pence)	(16.83)	(10.77)

Diluted loss per share has not been presented above as the effect of share options issued is anti-dilutive.

11. Property, plant and equipment

The Group	Office equipment, fixtures and fittings £000	Building improvements £000	Total £000
Cost:			
At 31 July 2014	44	—	44
Additions	47	38	85
At 31 July 2015	91	38	129
Additions	42	—	42
At 31 July 2016	133	38	171
Depreciation:			
At 31 July 2014	23	—	23
Provided during the year	18	3	21
At 31 July 2015	41	3	44
Provided during the year	25	8	33
At 31 July 2016	66	11	77
Net book value:			
At 31 July 2016	67	27	94
At 31 July 2015	50	35	85

The Company has no property, plant and equipment.

12. Intangible assets

The Group	Patents £000	IP assets £000	Software £000	Total £000
Cost:				
At 31 July 2014	79	—	—	79
Additions	8	—	—	8
At 31 July 2015	87	—	—	87
Additions	—	—	50	50
Additions – acquisition through business combinations	—	600	—	600
At 31 July 2016	87	600	50	737
Amortisation:				
At 31 July 2014	23	—	—	23
Provided during the year	5	—	—	5
At 31 July 2015	28	—	—	28
Provided during the year	5	50	—	55
At 31 July 2016	33	50	—	83
Net book value:				
At 31 July 2016	54	550	50	654
At 31 July 2015	59	—	—	59

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

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

Software assets are amortised on a straight-line basis over five years. Additions were acquired at the end of the period so there is no amortisation charge for this period. The Company has no intangible assets.

Notes to the financial statements continued

for the year ended 31 July 2016

13. Goodwill

The Group	Purchased goodwill £000	Total £000
Cost:		
At 31 July 2014	—	—
Additions	—	—
At 31 July 2015	—	—
Purchase of Adorial	1,192	1,192
At 31 July 2016	1,192	1,192
Impairment:		
At 31 July 2014	—	—
Provided during the year	—	—
At 31 July 2015	—	—
Provided during the year	—	—
At 31 July 2016	—	—
Net book value:		
At 31 July 2016	1,192	1,192
At 31 July 2015	—	—

The goodwill which originated in the period is explained in note 4. The value at which goodwill is carried is reviewed annually. No impairment charge was provided during the period. The Company has no goodwill.

Impairment

Goodwill considered significant in comparison to the Group's total carrying amount of such assets have been allocated to one cash generating unit as follows:

The Group	Goodwill 2016 £000	Goodwill 2015 £000
Taxonomy3	1,192	—

The Group has one overall cash generating unit, to which synergies from the business combination will arise. The goodwill arising from the acquisition of Adorial Limited in March 2016 is therefore considered for impairment based on the business as a whole. The recoverable amount of the Taxonomy3 technology has been calculated with reference to its fair value less cost to sell. In calculating this value, management has used the following assumptions, based on their experience of the recent acquisition and external sources: the ability of the Taxonomy3 technology to identify new drug targets and their potential market value; and the value of the Group's drug discovery capability as a whole and Taxonomy3's contribution to that valuation. Such valuation is based on both management experience and external valuation assessments. As the business is currently in the Research and Development phase, no revenue is being generated. However, the acquisition has generated significant synergies to provide greater depth and breadth of drug discovery for the Group.

14. Investment in subsidiaries

The Company	Shares £000	Loans £000	Total £000
At 31 July 2015	200	22	222
Acquisition of subsidiary	1,671	—	1,671
Increase in respect of share-based payments	—	59	59
At 31 July 2016	1,871	81	1,952
By subsidiary			
C4X Discovery Limited	200	81	281
C4X Drug Discovery Limited	—	—	—
Adorial Limited	1,671	—	1,671
At 31 July 2016	1,871	81	1,952

Subsidiary undertakings	Country of incorporation	Principal activity	Class of shares held	31 July 2016
C4X Discovery Limited	England and Wales	Research and development	Ordinary	100%
C4X Drug Discovery Limited	England and Wales	Dormant company	Ordinary	100%
Adorial Limited	England and Wales	Drug discovery	Ordinary	100%
Adorial Technologies Limited	England and Wales	Research and development	Ordinary	100%
Adorial Pharma Limited	England and Wales	Research and development	Ordinary	100%

15. Trade and other receivables

	31 July 2016 Group £000	31 July 2016 Company £000	31 July 2015 Group £000	31 July 2015 Company £000
Trade receivables	39	—	31	—
Prepayments	145	—	172	—
Inter-company short-term loan to subsidiary	—	12,075	—	12,147
Other receivables	245	—	185	—
	429	12,075	388	12,147

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

All trade receivables are denominated in Sterling.

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

Other receivables include £243,000 VAT receivable (2015: £174,000).

16. Income tax asset

	31 July 2016 Group £000	31 July 2016 Company £000	31 July 2015 Group £000	31 July 2015 Company £000
Research and development income tax credit receivable	1,400	—	700	—
	1,400	—	700	—

Notes to the financial statements continued

for the year ended 31 July 2016

17. Cash, cash equivalents and deposits

	31 July 2016 Group £000	31 July 2016 Company £000	31 July 2015 Group £000	31 July 2015 Company £000
Short-term investments and cash on deposit	—	—	4,000	—
Cash and cash equivalents	1,328	1	3,485	1
	1,328	1	7,485	1

Under IAS 7, cash held on deposits (being deposits with maturity of greater than three months and no more than 12 months) that cannot readily be converted into cash has been classified as a short-term investment. The maturity on this investment was less than 12 months at the prior reporting date.

Cash and cash equivalents at 31 July 2016 include deposits with original maturity of three months or less of £nil (2015: £485,000).

An analysis of cash, cash equivalents and deposits by denominated currency is given in note 25.

18. Trade and other payables

	31 July 2016 Group £000	31 July 2016 Company £000	31 July 2015 Group £000	31 July 2015 Company £000
Current payables	392	—	448	—
Other payables	116	—	112	—
Deferred revenue	83	—	56	—
Accruals	201	—	133	—
	792	—	749	—

19. Issued equity capital

The Company	Deferred shares Number	Ordinary shares Number	A ordinary shares Number	Share capital £000	Deferred shares £000	Share premium £000	Total £000
Allotted, called up and fully paid ordinary shares of 1p:							
At 31 July 2014	—	2	—	—	—	—	—
Share subdivision on 3 September 2014	—	198	—	—	—	—	—
Shares issued on the acquisition of C4X Discovery Limited on 13 October 2014	2,025,000	15,553,975	4,434,375	200	2,025	—	2,225
Redesignation on 17 October 2014	—	4,434,375	(4,434,375)	—	—	—	—
Issue of share capital	—	11,000,000	—	110	—	10,890	11,000
Expenses of placing	—	—	—	—	—	(877)	(877)
Ordinary and deferred shares at 31 July 2015	2,025,000	30,988,550	—	310	2,025	10,013	12,348
Issue of share capital	—	1,508,207	—	15	—	1,584	1,599
Ordinary and deferred shares at 31 July 2016	2,025,000	32,496,757	—	325	2,025	11,597	13,947

19. Issued equity capital continued

The Group	Share capital £000	Deferred shares £000	Share premium £000	Total £000
Allotted, called up and fully paid ordinary shares of 1p:				
At 31 July 2014	200	—	—	200
Shares issued on the acquisition of C4X Discovery Limited on 13 October 2014	—	2,025	—	2,025
Issue of share capital	110	—	10,890	11,000
Expenses of placing	—	—	(877)	(877)
At 31 July 2015	310	2,025	10,013	12,348
Issue of share capital	15	—	1,584	1,599
Expenses of placing	—	—	—	—
Ordinary and deferred shares at 31 July 2016	325	2,025	11,597	13,947

On 16 July 2014, being the date of incorporation of C4X Discovery Holdings plc, two ordinary shares of £1 were subscribed for fully paid, and on 3 September 2014 such shares were each subdivided into 100 ordinary shares of £0.01 each.

On 13 October 2014, the Company issued 15,553,975 ordinary shares of £0.01 each and 4,434,375 ordinary shares of £0.01 each to the shareholders of C4X Discovery Limited in consideration for the transfer of the entire share capital of C4X Discovery Limited to the Company pursuant to a share exchange agreement. In accordance with the reverse acquisition requirements of IFRS 3, this transaction is recorded in the Group accounts as if this share capital had always been in existence; therefore, it is reflected in the comparative periods for the Group accounts. The Company balance sheet, however, reflects the legal transactions that have occurred during the period and therefore this share for share exchange is recorded in the current period in the Company balance sheet. This gives rise to the difference between the Group and Company share capital in the comparative period.

On 13 October 2014, the Company executed an instrument constituting £2,025,000 unsecured loan notes, with a view to issuing them as consideration for the acquisition of the £2,025,000 unsecured loan notes of C4X Discovery Limited pursuant to a share exchange agreement. The Company's loan notes converted, at nominal value, into deferred shares of £1 in the Company having no rights to any vote or dividends as set out in the Articles.

By a resolution dated 17 October 2014 each of the issued A ordinary shares of £0.01 each was converted into and redesignated as an ordinary share of £0.01 each ranking equally with the existing ordinary shares of £0.01 each in the Company.

On 23 October 2014 11,000,000 shares were issued in a placing at a price of £1 resulting in share proceeds of £11,000,000. Share issue costs of £877,000 were incurred and have been deducted from share premium.

On 1 March 2016, together with £72,000 cash, 1,508,207 shares were issued at a price of 106p, being a 3% premium to the closing mid-market price of a C4XD share on 29 February 2016, for the purpose of acquiring the whole of the share capital of Adorial Limited and its subsidiaries.

Notes to the financial statements continued

for the year ended 31 July 2016

20. Share-based payment reserve

The Group	£000
At 31 July 2014	29
Share-based payments	22
At 31 July 2015	51
Share-based payments	59
At 31 July 2016	110

The Company	£000
At the start of the period	22
Share-based payments	59
At 31 July 2016	81

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

A charge of £59,000 has been recognised in the statement of comprehensive income for the year (2015: £22,000).

Share option schemes

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

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

Grant in September 2009

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

Grant in August 2012

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

Grant in July 2013

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

20. Share-based payment reserve continued

Share option schemes continued

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

Grant in May 2014

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

Grant in June 2015

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

Grant in December 2015

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

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

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

The Group and Company	2016 Number	2015 Number
Outstanding at 1 August	2,177,325	1,699,575
Granted during the year	500,000	477,750
Lapsed/cancelled	(20,000)	—
Outstanding at 31 July	**2,657,325**	2,177,325
Exercisable at 31 July*	1,699,575	1,699,575

During the year ended 31 July 2016, no options were exercised (2015: nil).

* Coincidental with the Company's listing on AIM in October 2014, holders of options to acquire 1,699,575 ordinary shares, undertook not to exercise such options (subject to certain exceptions) within the 12-month period from admission.

Notes to the financial statements continued

for the year ended 31 July 2016

20. Share-based payment reserve continued

Weighted average exercise price of options

The Group and Company	2016 Pence	2015 Pence
Outstanding at 1 August	22.55	5.41
Granted during the year	77.00	83.50
Forfeited/cancelled	83.50	—
Outstanding at 31 July	32.33	22.55

The weighted average fair value of options granted during the year to 31 July 2016 was 77.0 pence (2015: 83.5 pence). The range of exercise prices for options outstanding at the end of the year was 2.05 pence–83.5 pence (2015: 2.05 pence–83.5 pence).

For the share options, outstanding as at 31 July 2016, the weighted average remaining contractual life is 7.8 years (2015: 8.4 years).

No share options were exercised during the year (2015: none).

The following table lists the inputs to the models used for the years ended 31 July 2016 and 31 July 2015.

The Group and Company	2016	2015
Expected volatility (%)	52.5%	52.5%
Risk-free interest rate (%)	0.78%–1.75%	1.34%–2.00%
Expected life of options (years average)	3 years	4 years
Weighted average exercise price (pence)	77.00	83.50
Weighted average share price at date of grant (pence)	32.33	22.55

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

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

21. Merger reserve

The Group	£000
At 31 July 2014, 31 July 2015 and 31 July 2016	920

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

22. Capital contribution reserve

The Group	£000
At 31 July 2014	—
Waiver of loan interest payable	195
At 31 July 2015 and 2016	195

23. Revenue reserve

The Group	£000
At 31 July 2014	(2,482)
Loss for the year	(3,064)
At 31 July 2015	(5,546)
Loss for the year	(5,321)
At 31 July 2016	(10,867)

24. Commitments

Operating lease commitments

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

	31 July 2016 Group £000	31 July 2015 Group £000
Land and buildings:		
Not later than one year	62	95
After one year but not more than five years	119	228
After five years	—	—
	181	323

25. Financial risk management

Overview

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

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

Capital risk management

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

The capital structure of the Group consists of equity attributable to equity holders of the parent, comprising issued share capital, reserves and retained earnings as disclosed in notes 19 to 23 and in the Group statement of changes in equity. Total equity was £4,305,000 at 31 July 2016 (£7,968,000 at 31 July 2015).

The Group is not subject to externally imposed capital requirements.

Liquidity risk

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

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

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

Notes to the financial statements continued

for the year ended 31 July 2016

25. Financial risk management continued

Categorisation of financial instruments

Financial assets/(liabilities)	Loans and receivables £000	Financial liabilities at amortised cost £000	Group £000	Company £000
31 July 2016				
Trade receivables	39	—	39	—
Inter-company short-term loan to subsidiary	—	—	—	12,075
Cash, cash equivalents and deposits	1,328	—	1,328	—
Trade and other payables*	—	(591)	(591)	—
	1,367	(591)	776	12,075

Financial assets/(liabilities)	Loans and receivables £000	Financial liabilities £000	Group £000	Company £000
31 July 2015				
Trade receivables	31	—	31	—
Inter-company short-term loan to subsidiary	—	—	—	12,147
Cash, cash equivalents and deposits	7,485	—	7,485	—
Trade and other payables*	—	(616)	(616)	—
	7,516	(616)	(6,900)	12,147

* Excluding accruals.

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

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

Credit risk

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

The Group trades only with recognised, creditworthy third parties. Receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The Group's maximum exposure is the carrying amount of trade receivables as disclosed in note 15, which was neither past due nor impaired. All trade receivables are ultimately overseen by the Chief Executive Officer and are managed on a day-to-day basis by the finance team. Credit limits are set as deemed appropriate for the customer.

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

Foreign currency risk

The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currency of the Group. These are primarily US Dollars ("USD") and Euros. Transactions outside of these currencies are limited.

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

There were no open forward contracts as at 31 July 2016 or at 31 July 2015 and the Group did not enter into any such contracts during 2016 nor 2015.

25. Financial risk management continued

Foreign currency risk continued

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

The Group	GBP £000	USD £000	EUR £000	2016 Total £000	GBP £000	USD £000	EUR £000	2015 Total £000
Cash, cash equivalents and deposits	1,328	—	—	1,328	7,485	—	—	7,485
Trade receivables	39	—	—	39	31	—	—	31
Trade payables	(378)	(12)	(2)	(392)	(445)	(1)	(2)	(448)
	989	(12)	(2)	975	7,071	(1)	(2)	7,068

Sensitivity analysis to movement in exchange rates

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

Interest rate risk

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

	31 July 2016			31 July 2015		
	Fixed rate £000	Floating rate £000	Total £000	Fixed rate £000	Floating rate £000	Total £000
The Group						
Cash, cash equivalents and deposits	—	1,328	1,328	7,000	485	7,485
The Company						
Cash, cash equivalents and deposits	—	1	1	—	1	1

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

Maturity profile

Set out below is the maturity profile of the Group's financial liabilities at 31 July 2016 based on contractual undiscounted payments including contractual interest.

2016	Less than one year £000	One to five years £000	Total £000
Financial liabilities			
Trade and other payables*	591	—	591
	591	—	591

2015	Less than one year £000	One to five years £000	Total £000
Financial liabilities			
Trade and other payables*	616	—	616
	616	—	616

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

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

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

Notes to the financial statements continued

for the year ended 31 July 2016

26. Related party transactions

During the year, shareholder Aquarius Equity Partners Limited charged the Group £15,450 (2015: £20,000) for monitoring fees and was owed £1,545 at 31 July 2016 (2015: £1,545).

During the year, The Aquarius IV Fund LLP, a fund managed by shareholder Aquarius Equity Partners Limited, held 2,025,000 deferred shares of £1 each (2015: £2,025,000).

The Group:

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

The Company:

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

	Notes	31 July 2016 £000	31 July 2015 £000
Short-term loans owed to C4X Discovery Holdings plc by:			
C4X Discovery Limited	15	12,075	12,147
C4X Drug Discovery Limited		—	—
Adorial Limited		—	—
		12,075	12,147

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

None of the loans are interest bearing.

27. Compensation of key management personnel (including Directors)

	2016 £000	2015 £000
Short-term employee benefits	906	561
Pension costs	59	5
Benefits in kind	—	—
Share-based payments	45	16
	1,010	582

Corporate information

Directors

Dr S C Williams	(Non-Executive Interim Chairman)
Dr C Dix	(Chief Executive Officer)
Dr H Finch	(Non-Executive Director)
Dr A Stevenson	(Non-Executive Director)

Secretary

Mr M J Sullivan

Nominated adviser and broker

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and

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Legal adviser

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Financial PR consultants

Consilium Strategic Communications

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Registrar

Capita Registrars Limited

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design-portfolio.co.uk @WeAre_DP

Design Portfolio is committed to planting trees for every corporate communications project, in association with Trees for Cities.

C4X Discovery Holdings plc

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