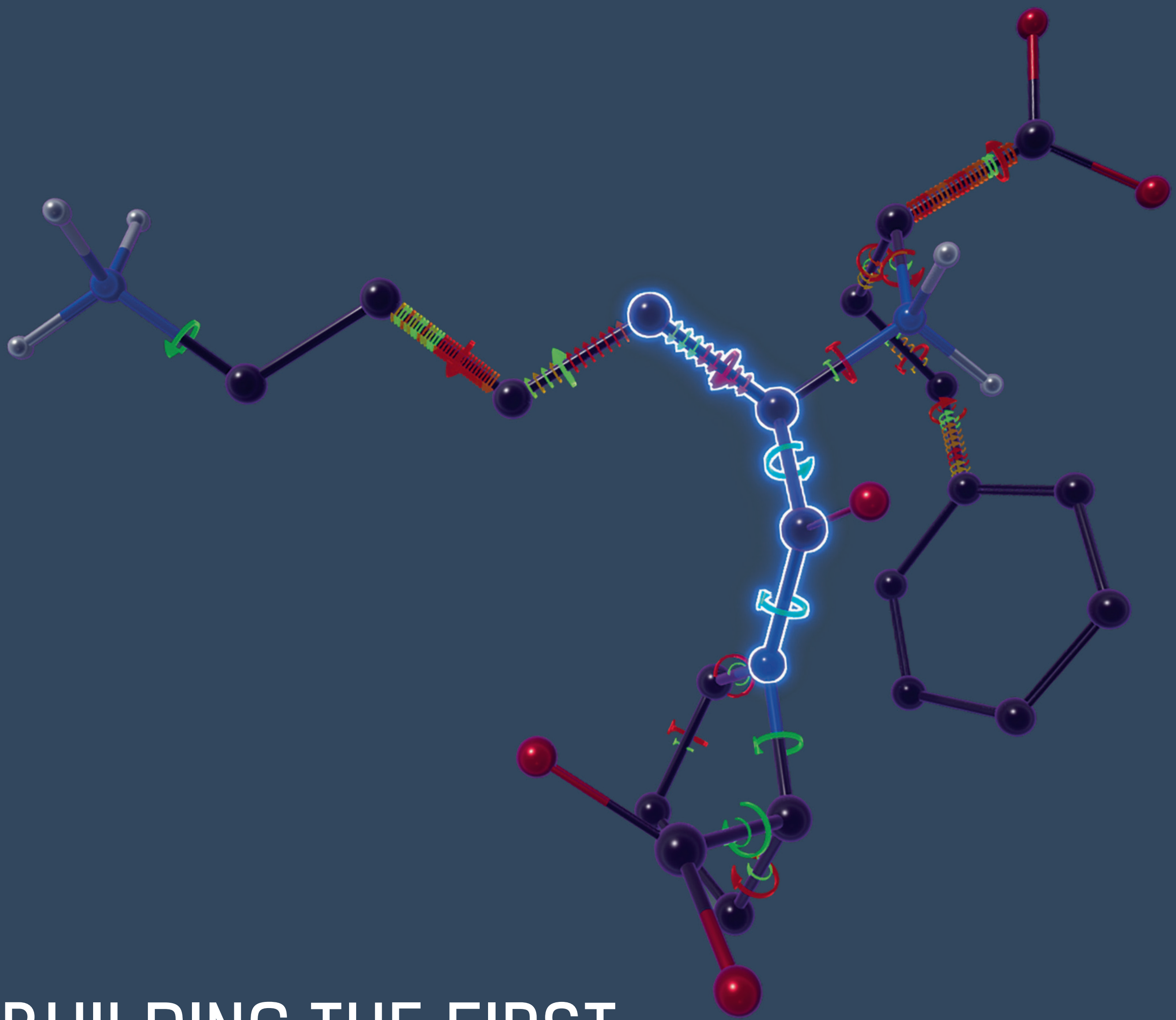


BUILDING THE FIRST SELF-SUSTAINING DRUG DISCOVERY ENGINE

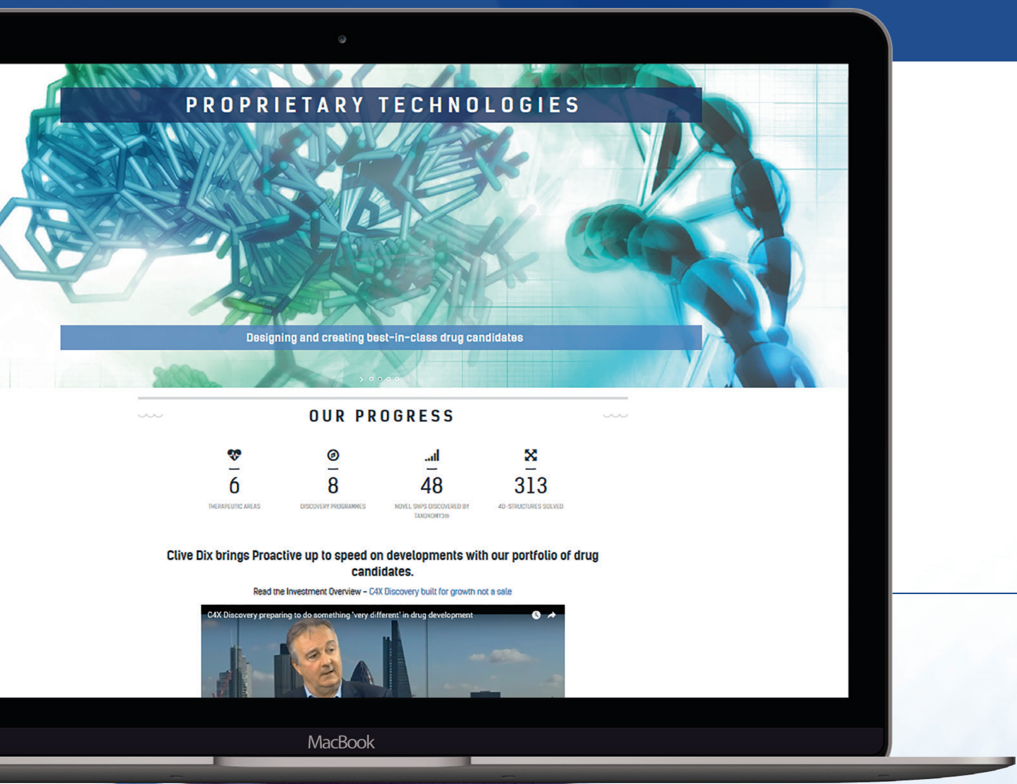
C4X Discovery Holdings plc
Annual report and accounts 2017

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 page 2



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

Highlights

Operational highlights

Corporate highlights

Strategy

- The Board is committed to the delivery of C4X Discovery's ("C4XD's") vision to become the world's most productive drug discovery engine by exploiting cutting-edge technologies to design and create best-in-class small molecule candidates targeting a range of high value therapeutic areas.
- C4XD focusses on generating a high value pre-clinical asset portfolio that will drive revenue through early stage licensing deals with the pharmaceutical industry. Existing fee-for-service agreements have been discontinued during the current financial year.

Partnerships

- The Company continues to enhance its core state-of-the-art target identification and drug design capabilities through strategic partnerships:
  - A multi-target risk-sharing alliance with Evotec AG ("Evotec") was announced in September 2016.

Discovery Engine progress

- C4XD's proprietary drug asset portfolio has grown from three programmes in 2014 to eight programmes across a number of therapeutic areas.
- Disease areas of focus are inflammation, neurodegeneration, and opportunistic areas (e.g. immuno-oncology, addiction and diabetes).

Senior appointments

- Brad Hoy, Chief Financial Officer, and Dr Craig Fox, Chief Scientific Officer, were appointed to the Board of Directors in November 2016.

Financial highlights

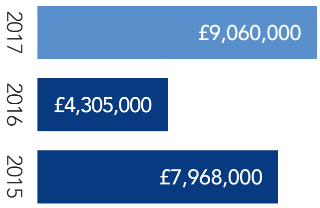
- Completion of a £5.0 million fundraise in September 2016 through the placing of 4,901,961 new ordinary shares in the capital of the Company ("Ordinary Shares") at a price of 102 pence per Ordinary Share, as reported in the 2016 annual report.
- Completion of a £7.0 million fundraise in March 2017 through the placing of 8,235,294 new Ordinary Shares with existing and new investors at a price of 85 pence per Ordinary Share.
- Year-end cash of £6,031,000 remains on the balance sheet following the £5 million and £7 million raised via placings.
- R&D expenditure rose 16% to £6,100,000 reflecting both the increase in drug discovery activity and the continued development of lead drug candidates towards commercialisation.

Post-period end

- New pre-clinical data on C4XD's leading Orexin-1 antagonist programme were presented at Neuroscience 2017 in November in Washington, DC.

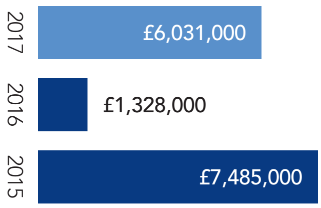
Net assets

£9,060,000



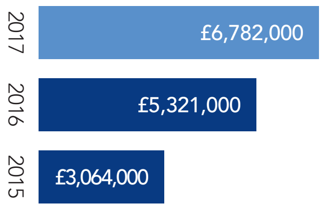
Cash

£6,031,000



Loss after tax

£6,782,000



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.

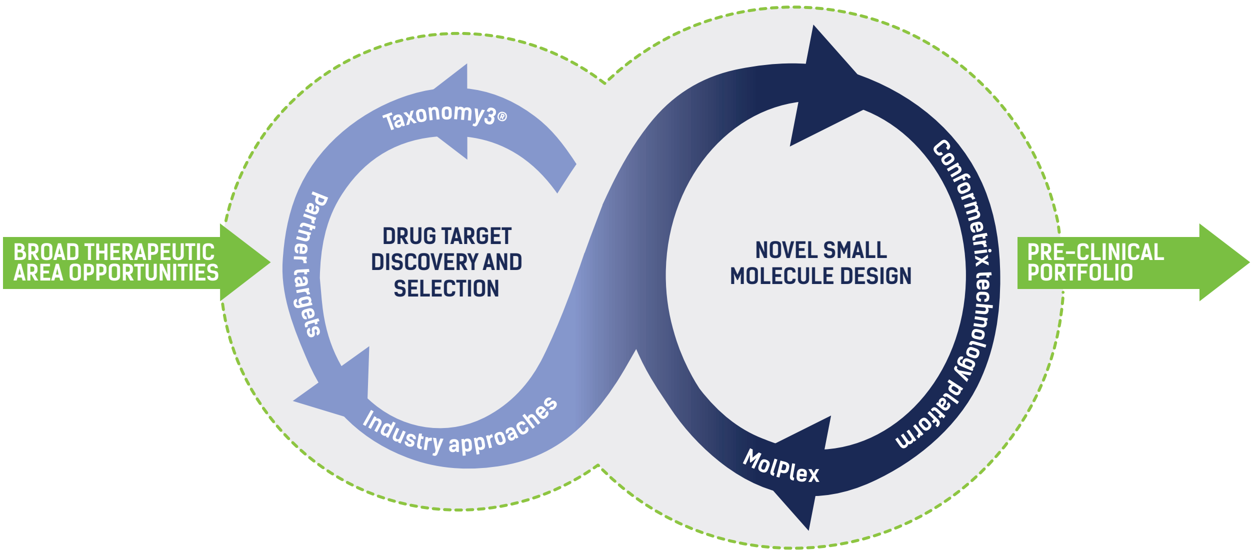
Our vision

C4XD is committed to becoming the world's most productive Drug Discovery Engine, supplying the pharmaceutical industry with a sustainable source of commercially attractive drug assets. We commit our resources to the early discovery of novel therapeutic targets for high value disease areas and generate new drug molecules against these targets rather than competing with others by running clinical studies. We are ambitious and aim to produce four or more pre-clinical candidates every year once the Company reaches "steady state". Our sustainability will be driven by licensing our assets to the pharmaceutical industry and using the revenue generated to drive our engine harder.

We continue to invest in our proprietary suite of drug discovery technologies and our highly experienced and uniquely trained scientific team. Combined, we believe this makes us uniquely positioned to achieve our goal.

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® is used to analyse complex "healthy versus disease" genetic datasets. It identifies and characterises defined patient groups and is able to identify 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.

Our pioneering drug design technology comprises both Conformetrix and MolPlex. These synergistic technologies enable C4XD to enter novel chemical space and rapidly gain knowledge about the bioactive form required for a successful drug, allowing the design of highly potent and selective molecules.

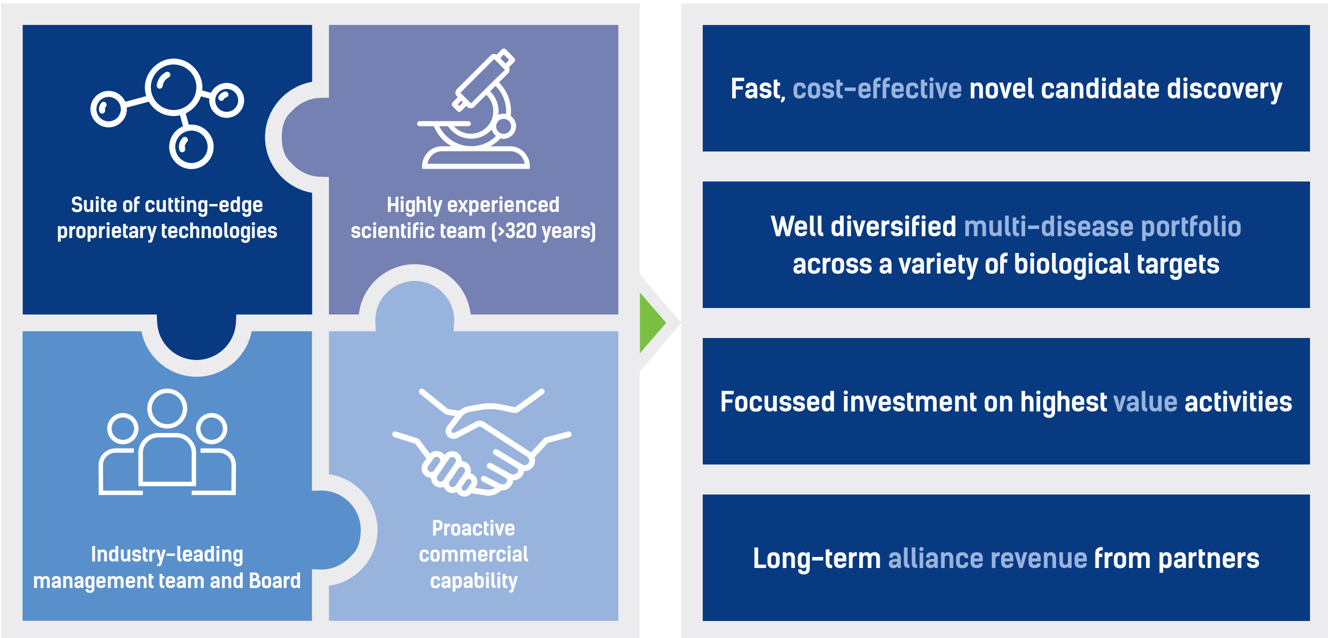
Our business model

A key aspect of our vision is our aim to become self-sustaining.

The pharmaceutical industry's demand for high quality, early stage drug candidates continues to grow and we are poised to take advantage of this growing trend by continuing to build a focussed commercial function that continually monitors the landscape for licensing opportunities. We only pursue new programmes in areas of high unmet medical need that are commercially attractive and focus on generating long-term partnerships with licensors. Revenue generated through early stage licensing deals will be reinvested into our Drug Discovery Engine to maximise value for our shareholders.

We remain on track to complete our first early stage licensing deal in early 2018.

Where beneficial we will continue to seek opportunities to build alliances with organisations that have capabilities complementary to our own.



Interim Chairman's statement

Sam Williams, Interim Chairman

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

Last year we set out our vision as the "architects" of drug discovery, constantly innovating and finding novel ways to solve challenges in biology and chemistry that confound others and, through this, building the world's most productive Drug Discovery Engine.

This has been an important year in delivering that vision. We have continued to strengthen the data package around our lead Orexin-1 antagonist and believe its broad applicability in addiction and related disorders such as anxiety, post-traumatic stress disorder and impulse control make it a compelling candidate for partnership.

Our agreement with Evotec will involve us working together on novel small molecule drug targets across a range of targets and stages of development.

We are also seeing the power of our Drug Discovery Engine with exciting new targets identified in inflammation/autoimmune diseases and neurodegenerative diseases. These, alongside our existing programmes, open new opportunities for future revenue-generating deals with the pharmaceutical industry.

During the year we have strengthened our financial position through the raising of a total of £12 million and added a wealth of knowledge and experience to our Board with Brad Hoy and Dr Craig Fox joining as Directors.

We continue to build towards becoming a significant self-sustaining business and look forward to further progress in the coming period in delivering on the potential of our model.

Sam Williams
Interim Chairman
14 December 2017

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

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."

This has been an important year for C4XD in implementing our vision as we have progressed our pipeline towards commercialisation, replenished our pipeline with new discovery programmes and raised the capital required to support our strategy.

Commercialisation

During the fundraise in March 2017 we stated that we fully expected to complete our first commercial deal within 12 months of that date. We believe and understand that this is a crucial element of successful implementation of our business model. We continue to believe that this important milestone will be met.

Our lead programme, Orexin-1, aims to treat addiction by targeting the "craving" process itself and, therefore, can be applied across a broad range of substance disorders. We have continued to build our pre-clinical data package, including the recent presentation of data at Neuroscience 2017 in Washington, DC.

We have seen high levels of pre-clinical partnering interest and have entered into late stage commercial discussions.

Forming strategic alliances

Last year we announced we would no longer continue providing any fee-for-service capabilities choosing instead to seek longer-term risk-sharing strategic alliances.

In September 2016 we entered a new multi-target, risk-sharing strategic collaboration with Evotec AG ("Evotec"), a leading drug discovery and development alliance company. This deal enables us to increase the output of our engine whilst reducing risk and cost.

Alongside our own proprietary suite of cutting-edge technologies, the alliance with Evotec will expand our ability to generate commercially attractive pre-clinical assets to meet the pharmaceutical industry's increasing demand for high quality, early stage drug candidates.

We will continue to seek similar, value-adding alliances.

Successful fundraises

In September 2016, we completed a £5 million fundraise at 102 pence per share bringing in several new investors, including Calculus Capital Limited and Polar Capital LLP.

In March 2017 we completed a £7.0 million fundraise at 85 pence per share bringing in several new investors including Legal & General and Hargreave Hale which have strong track records in investing in the life science sector. This new cash enables us to progress and add to our pre-clinical pipeline and provides working capital for operations.

Building our discovery portfolio

We are constantly building our portfolio and will continue to invest into C4XD's core discovery activities in order to support our ambitions.

Over the past 12 months, key drug discovery programmes in addiction and inflammation have advanced and our Taxonomy3® DNA-based target discovery technology continues to produce novel target data in a number of commercially valuable disease areas. These targets can be addressed through our drug design platform including our Conformetrix and MolPlex chemistry technologies.

Critically, robust scientific and commercial intelligence gathering continues to drive selection criteria for inclusion in our portfolio.

Outlook

C4XD's strategy is delivering value for our shareholders and positioning us well to achieve our ambitions in drug discovery. The next year will continue to focus on securing deal revenue from the commercial discussions initiated this year, progressing our discovery candidates to pre-clinical development and commercialisation and continuing to replenish and build the pipeline by identifying novel and exciting drug targets. I am excited about what we can achieve, and I look forward to sharing this journey with you.

CEO's statement continued

Clive Dix, Chief Executive Officer

Drug Discovery Engine and portfolio review

Neuroscience – addiction and neurodegeneration

Oral Orexin-1 Receptor Antagonist Programme

Our most advanced drug discovery programme aims to provide a novel oral medicine for addiction/substance use disorders, a substantial area of unmet medical need forecast to be worth an estimated $13 billion per annum by 2018[1]. Our pre-clinical candidate molecule, an oral selective Orexin-1 receptor antagonist, remains on schedule to be ready for clinical development by the end of 2017. Following completion of a successful 4.2Kg GMP manufacturing campaign of drug substance, the in-life phase of the pivotal GLP toxicology studies have been completed with the subsequent pathological analysis in progress. The pre-clinical profile of this candidate was recently presented at the annual conference organised by the Society for Neuroscience in Washington, DC, in November and was well received. This was the first scientific presentation of our candidate highlighting its strong efficacy in pre-clinical models of nicotine addiction.

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. In a recently conducted pre-clinical pilot study, C4XD's candidate attenuated cocaine-induced brain dopamine elevation supporting its potential in this important therapeutic area and adding to the compelling pre-clinical data already achieved in nicotine addiction.

The most advanced Orexin-1 antagonist currently in development was discovered by Actelion Pharmaceuticals Ltd ("Actelion") and following the acquisition of this company by Johnson & Johnson in 2017 for its advanced clinical portfolio is now being developed by Idorsia Ltd. Recently, the Orexin-1 pathway has also been strongly linked with the treatment of anxiety and it appears that this may be the focus of Idorsia's programme. Idorsia has completed the Phase 1 clinical study with this molecule in 2017 but not yet announced a Phase 2 study and so C4XD's programme remains very attractive and competitive. As a result, and in line with our stated goal, late stage commercial discussions are underway.

Parkinson's disease ("PD")

Towards the end of 2016, we completed our analysis on a publicly available PD dataset from the UK (Wellcome Trust) using C4XD's proprietary target discovery technology Taxonomy3®. This identified multiple novel disease associated genes in discrete patient sub-groups that could potentially provide an opportunity in stratified medicine. During 2017, we have extended our initial exciting results on understanding the genetic basis of this disorder and confirmed these discrete patient sub-groups. Using a US dataset, we have now found an additional 67 genetic variants not previously associated with PD, complementing the 47 novel genetic variants identified in our initial study. The identification of these new genetic associations further confirms the power of Taxonomy3® to generate novel genetic insights into disease. To put these findings into context, at the start of 2017 only 40 PD associated genes were known in the scientific literature, and in September, Genentech and 23andme published the results of their collaboration in the scientific journal Nature Genetics (Nature Genetics 49, 1511–1516, 2017), which identified a further 17 novel genetic associations.

Informatic analysis of proprietary genes discovered with Taxonomy3®, together with known genetic susceptibility genes, has flagged new pathways relevant to the disease aetiology: identification of such disease-relevant pathways is a pivotal step in drug discovery. We are now selecting the optimum drug targets from the genes we have discovered that map to these pathways, to progress these targets to drug discovery programmes.

Alzheimer's disease

Following the significant genetic discoveries in PD using our Taxonomy3® platform we initiated analysis of an Alzheimer's disease dataset in 2017 which is now starting to deliver its preliminary results. Excitingly, as observed with the PD dataset we have identified discrete patient sub-groups in this disease that have not been described previously and characterisation of the novel genetic associations are underway.

Oral NRF-2 Activator Programme

C4XD has designed and discovered novel potent activators of the NRF-2 pathway, which is important in mediating lung diseases such as chronic obstructive pulmonary disease ("COPD"), pulmonary arterial hypertension ("PAH") and other inflammatory diseases. 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 to the pharmaceutical industry. GSK has filed several further patents on their molecules against this target in the last 12 months and is likely to be close to clinical development. Recently, C4XD's lead compounds have been shown to significantly increase NRF-2 activation in the lungs in pre-clinical studies following oral administration. This has previously been a significant challenge in this area, demonstrating the valuable properties of our molecules and highlighting the recent progress made in this programme. Studies continue to further optimise these molecules to enable the selection of a pre-clinical candidate.

Oral IL-17 Inhibitor Programme

As previously reported, our small molecule programme against Interleukin-17 ("IL-17"), a high value clinically validated target for inflammation and autoimmune diseases such as psoriasis (estimated to be worth $9 billion per annum[3]), has identified small molecules that can selectively block IL-17 activity whilst keeping the molecular size of the molecule in the traditional "drug-like" range. To date, the identification of orally available small molecules has proved extremely challenging but they are highly sought after by the Pharma industry. Recently we identified potent compounds suitable for oral delivery and these are now the subject of in vivo studies. Commercially this is critical as current marketed drugs that target IL-17 are based on injectable monoclonal antibodies so an oral or topical treatment would increase the number of patients who can access drugs targeting this mechanism.

Rheumatoid arthritis

Analysis of a rheumatoid arthritis dataset using C4XD's proprietary target discovery technology Taxonomy3® identified 66 novel genes that have not previously been associated with this major disease. Of these, nine were prioritised based on corroborative biology in the scientific literature and druggability. These potential 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. Two of these drug targets were nominated for evaluation as potential new pipeline programmes and the first of these targets has progressed into the hit to lead stage of discovery with molecules showing activity in a disease-relevant cell system.

Opportunistic programmes

Immuno-oncology

C4XD's Drug Discovery Engine is currently being used to target two key therapeutic targets for the treatment of cancer in the immuno-oncology space and these programmes are at the evaluation stage. These programmes are being progressed as part of the multi-target risk-sharing alliance with Evotec AG ("Evotec") announced in September 2016.

Diabetes

In late 2016, C4XD was awarded a ~£140k Biomedical Catalyst feasibility study award from InnovateUK to progress hits for the GPR142 agonist programme for diabetes. Type-2 diabetes ("T2D") affects over 420 million people worldwide, creating an enormous healthcare and socio-economic burden. The GPR142 receptor has been recently reported to be an exciting new target for the treatment of T2D with several advantages. Firstly, its activation results in insulin secretion but only in the presence of high blood sugar levels, avoiding the life-threatening side effect of low blood sugar associated with insulin-based therapies. Secondly, GPR142-based medicines would be orally administered, avoiding compliance issues caused by injectable therapies. Lilly is the leader in this area and announced it had initiated a Phase 1 clinical study with its candidate in July 2017. Prosecution of this programme has gone well and a lead compound will soon be tested in a pre-clinical oral glucose tolerance test.

Proprietary technology development

Taxonomy3® platform development

In the last year C4XD has significantly invested in updating its Taxonomy3® software to enable the goal of being capable of analysing six disease datasets a year. A new version of the software was released in late 2017 which has doubled the analysis speed for gene-gene interaction analysis via refactoring the CPU code architecture. This will also facilitate a move to GPU analysis in the future should additional computational speed be required in the cloud environment.

Conformetrix data platform development including VR (virtual reality) visualisation

C4XD's novel drug design platform "Conformetrix" determines the 3D shapes of drug molecules from experimental data giving medicinal chemists new and unprecedented insights into the behaviour and physical properties of drug molecules. This enables the rapid design and discovery of better and safer drugs for diseases with high unmet medical need across broad therapeutic areas. During 2017, C4X's proprietary database of conformational 3D data surpassed the milestone of 300 drug molecules providing a rich resource for new drug design underpinning our unique and differentiated approach. One challenge with generating this data is that multiple 3D shape information is generated for each molecule (a "4D" ensemble of these individual 3D shapes) and scientific insights for design can be obtained from this data by comparing similar molecules that have different biological activity. Visualising comparisons such as these is difficult with current molecular software as data of this complexity is proprietary to C4XD.

C4XD has initiated the creation of a specialised visualiser to allow the viewing of C4XD's proprietary 4D molecular data to provide a revolutionary way of viewing and comparing molecules and collaborating with multiple users from both a 2D desktop environment and in a virtual world utilising the latest VR technology. C4XD has harnessed the "Unreal Engine" from the computer gaming firm Epic Games as a technological foundation for this visualiser. The choice was made to use this engine to provide a cutting-edge render originally built for the high-end gaming industry but applied to C4XD's proprietary data. This project has progressed well with the first release of this platform recently being deployed.

Clive Dix
Chief Executive Officer
14 December 2017

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.

Strategic review

Clive Dix, Chief Executive Officer

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 7.

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.

Brexit

C4XD has considered the potential impact of Brexit on the business and perceives the risk to be minimal. We will continue to review the situation, in particular the harmonisation of drug approval regulations and patent law, as well as any potential impact on existing staff and planned staff recruitment caused by any changes in immigration legislation.

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 and key financial metrics are reported on the highlights page.

Principal risks and uncertainties

The Group continues to manage 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.

Clive Dix
Chief Executive Officer
14 December 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 2017 amounted to £143,000 (2016: £279,000). These revenues were largely generated through collaborations with our partners. Last year the Group 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 research and development ("R&D") expenses.

R&D expenses, which comprise payroll costs, materials spend and third party contract development costs, have increased by 16% to £6,100,000 for the year ended 31 July 2017 (2016: £5,239,000). This reflects both the increase in drug discovery activity and the continued development of lead drug candidates towards commercialisation.

Administrative expenses increased by £716,000 during the year to £2,533,000 (2016: £1,817,000) reflecting additional non-scientific staff costs, in particular staff to build a commercial team, and additional premises costs to support growing activities.

The loss after tax for the year ended 31 July 2017 was £6,782,000 or 16.88 pence per share (2016: £5,321,000 or 16.83 pence per share).

The Group had net assets at 31 July 2017 of £9,060,000 (2016: £4,305,000) and cash, cash equivalents, short-term investments and deposits of £6,031,000 (2016: £1,328,000). The cash position reflects the £5 million and £7 million raised via placings in September 2016 and March 2017 respectively as detailed in the CEO's Statement.

Both cash and costs continue to be prudently managed.

Brad Hoy
Chief Financial Officer
14 December 2017

Board of Directors

Sam Williams PhD

Non-Executive Interim Chairman

Experience and qualifications

Sam has 20 years' experience in the biotechnology industry, both as a top-ranked equity analyst in the City and, subsequently, as an entrepreneur and chief executive. 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. Since leaving Lehman Brothers, he has been CEO of Istesso Limited (formerly Modern Biosciences), where he has been responsible for overseeing the development of drug development programmes through to Phase 2 clinical studies and signing major strategic partnerships with the global pharmaceutical industry. He holds a PhD in Molecular Biology from the University of Cambridge and a degree in biology from the University of Oxford.

External appointments

Sam is CEO of Istesso Limited, a non-executive director of Diurnal Group plc and chairman of Glythera Ltd.

Clive Dix PhD

Chief Executive Officer

Experience and qualifications

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

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

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

External appointments

Clive 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

Experience and qualifications

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 C4XD as Head of Biology in June 2015 before becoming Chief Scientific Officer in October later that year. Prior to joining C4XD, Craig was director of respiratory research at Pulmagen Therapeutics, a clinical stage company spun-out of Argenta in 2010. At Pulmagen, Craig managed several of its collaborations and partnerships, including those with AstraZeneca, Chiesi, Domantis, Dr Reddy's, Skyepharma and Teijin Pharma. Craig was part of the Etiologics Team that merged with Argenta Discovery in 2004 and prior to this he worked for Bayer as a research scientist.

Craig has a PhD in Respiratory Medicine from Birmingham University and a first-class biochemistry degree from the University of Surrey.

External appointments

None.

Brad Hoy

Chief Financial Officer

Experience and qualifications

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

External appointments

None.

Harry Finch PhD

Non-Executive Director

Experience and qualifications

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

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

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

External appointments

Currently Harry 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.

Alex Stevenson PhD

Non-Executive Director

Experience and qualifications

Alex began his career as a microbiologist, working in research for a number of years before joining an NYSE-quoted drug development company. He subsequently moved into pharmaceutical and healthcare investment and has fulfilled a number of board-level investment and operational management roles. He was a director and shareholder in Aquarius Equity from 2008, where he was responsible for identifying new investments and developing and implementing scientific strategies both pre and post-investment. These included Tissue Regenix Group plc, C4X Discovery Holdings plc and Brabant Pharma (subsequently sold to Zogenix, Inc.). Prior to joining Aquarius Equity, Alex worked for IP Group plc, where he specialised in life science investments, identifying, developing and advising a number of companies in its portfolio, some of which went on to list on AIM. He joined IP Group plc following its acquisition of Techtran Group Limited in 2005.

External appointments

Alex is currently chief scientific officer of 4D pharma plc.

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 2017, the Board comprised the Non-Executive Interim Chairman, the Chief Executive Officer, the Chief Financial Officer, the Chief Scientific 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 10 and 11. The Directors at 31 July 2017 served throughout the period under review, with the exception of the Chief Financial Officer and the Chief Scientific Officer, who joined the Board on 22 November 2016.

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 had a material business relationship with the Group; receives remuneration other than a Director's fee and share options (save as disclosed); has close family ties with any of the Group's advisers, Directors or senior employees; or holds cross-directorships. The independent Non-Executive Directors are 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	5
Attendance:	
Executive Directors	
Clive Dix	5
Brad Hoy	4
Craig Fox	4
Non-Executive Directors	
Sam Williams	4
Harry Finch	5
Alex Stevenson	4

Audit, Remuneration and Nominations Committees 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.

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 auditors' 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.

Corporate governance statement continued

Board Committees continued

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 15 to 17.

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 £6,031,000 at 31 July 2017 (2016: £1,328,000). 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 2017, in addition to his annual fee of £15,450 for his services as a Non-Executive Director, Harry Finch was paid £2,800 in connection with the services he provided as a technical consultant (2016: £11,550).

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 2017 were:

	Ordinary shares of 1 pence each			
	31 July 2017 Number	31 July 2017 %	31 July 2016 Number	31 July 2016 %
Dr Sam Williams	1,069,625	2.30%	1,069,625	3.29%
Dr Clive Dix	1,196,936	2.57%	691,250	2.13%
Brad Hoy	—	—	—	—
Dr Craig Fox	—	—	—	—
Dr Harry Finch	321,425	0.69%	321,425	0.99%
Dr Alex Stevenson*	485,403	1.04%	485,403	1.49%

* 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 2017, 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 £000
Executive Directors							
Dr Clive Dix	151	—	18	—	—	5	174
Brad Hoy	76	—	6	—	—	26	108
Dr Craig Fox	93	—	12	9	1	10	125
Non-Executive Directors							
Dr Sam Williams	16	—	—	—	—	1	17
Dr Harry Finch*	16	3	—	—	—	1	20
Dr Alex Stevenson**	16	—	—	—	—	—	16
	368	3	36	9	1	43	460

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

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

31 July 2016 comparative

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

Directors' share options

Directors' interests in share options to acquire ordinary shares of 1 pence in the Group as at 31 July 2017 were:

Share options	Date granted	Exercise price	At 31 July 2016	Exercised during the year	Lapsed	Granted during the year	At 31 July 2017
Dr Sam Williams	8 Jun 2015	£1.00	20,000	—	—	—	20,000
Dr Clive Dix	8 Jun 2015	£1.00	20,000	—	—	—	20,000
	8 Dec 2015	£0.77	500,000	—	(375,000)	—	125,000
Dr Harry Finch	8 Jun 2015	£1.00	20,000	—	—	—	20,000
Brad Hoy	23 Nov 2016	£1.05	—	—	—	300,000	300,000
Dr Craig Fox	8 Jun 2015	£1.00	150,000	—	—	—	150,000
Dr Craig Fox	1 Feb 2017	£0.91	—	—	—	50,000	50,000

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

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 options granted on 23 November 2016 are exercisable at any time between three years and ten years of them being granted.

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

The market price for C4XD shares as at 31 July 2017 was 88.0 pence per share; the highest and lowest prices during the year were 120.0 pence and 84.0 pence respectively.

No options were granted during the year below market value.

Harry Finch
Chairman of the Remuneration Committee
14 December 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 2017.

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 Statement and CEO's Statement on pages 4 to 7.

Total research and development spend was £6,100,000 (2016: £5,239,000). No development expenditure was capitalised in the period (2016: £nil) for the reasons provided in note 3(f) to the accounts.

Dividends

The Directors do not recommend payment of an ordinary dividend (2016: £nil).

Share capital and funding

As at 31 July 2017 share capital comprised 46.6 million ordinary shares of 1 pence each (2016: 32.5 million ordinary shares) and 2.0 million deferred shares of £1 each (2016: 2.0 million shares). Full details of the Group's and Company's share capital movements during the period are given in note 19 to the financial statements.

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

In March 2017 the Group raised £7.0 million via a placing of 8,235,294 ordinary shares at 85 pence each.

In June 2017 the Group issued 34,200 ordinary shares in satisfaction of loans made to Adorial Limited by its then directors, now employees of C4XD.

In June 2017 the Group issued 886,875 ordinary shares in connection with the exercise of options.

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

Directors and their interests

The following Directors held office throughout the year:

Dr Sam Williams

Dr Clive Dix

Dr Harry Finch

Dr Alex Stevenson

Dr Craig Fox
(Appointed 22 November 2016)

Brad Hoy
(Appointed 22 November 2016)

Biographies of the Directors can be found on pages 10 and 11.

Details of Directors' remuneration and interests in the share capital of the Group are shown in the Directors' remuneration report on pages 15 to 17.

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

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

Directors' indemnity insurance

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

Substantial shareholders

At 6 September 2017, the Directors were aware of the following interests amounting to 3% or more of the issued ordinary share capital of the Company:

	Number of 1 pence ordinary shares at 31 July 2017	% of issued share capital
The Aquarius IV Fund LLP	4,864,375	10.45%
Andrew Almond	3,010,000	6.47%
Charles Douglas Blundell	3,010,000	6.47%
Calculus Capital Limited	2,941,176	6.32%
Baillie Gifford & Co	2,933,061	6.30%
Legal & General Investments Management Limited	2,882,000	6.19%
Andrew Black	2,845,098	6.11%
The Aquarius Origin Fund LLP	2,595,050	5.57%
Hargreave Hale Limited	2,541,000	5.46%
City Financial Investments Company Limited	2,145,000	4.61%
Herald Investment	1,500,000	3.22%

Donations

No charitable or political donations were made in the year (2016: £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 12 to 14.

Going concern

The Interim Chairman's Statement and CEO's Statement on pages 4 to 7 outline the business activities of the Group along with the factors which may affect its future development and performance. The Group's financial position is discussed in the Financial Review on page 9 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 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 auditors

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

- so far as they are each aware there is no relevant audit information of which the Group's auditors are unaware; and
- that 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 Group's auditors are aware of that information.

Auditors

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

Annual General Meeting notice

The Annual General Meeting of the Company will be held on 16 January 2018, at 10.00 am, at Panmure Gordon & Co., One New Change, London EC4M 9AF. The notice convening the AGM, together with an explanation of the resolutions to be proposed at the meeting, is contained in the Notice of Annual General Meeting enclosed with the annual report and accounts 2017.

On behalf of the Board

Clive Dix
Chief Executive Officer
14 December 2017

Statement of Directors' responsibilities

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

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

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

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

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

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

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

Independent auditors' report

to the members of C4X Discovery Holdings plc

1. Our opinion is unmodified

We have audited the financial statements of C4X Discovery Holdings plc ("the Company") for the year ended 31 July 2017 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Company Statement of Changes in Equity, the Consolidated Statement of Financial Position, the Company Statement of Financial Position, the Consolidated Cash Flow Statement, the Company Cash Flow Statement, and the related notes, including the accounting policies in note 3.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 July 2017 and of the Group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Overview		
Materiality: Group financial statements	£65,000 (2016: £51,000) 0.75% (2016: 0.72%) of total expenses	
Coverage	99% (2016: 99%) of total expenses	
Risks of material misstatement vs 2016		
Recurring risks	Impairment of group goodwill and intangible assets and parent's investment in subsidiaries	No Change

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

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

	The risk	Our response
Impairment of group goodwill and intangible assets and parent's investment in subsidiaries (Group: £1.8 million; 2016: £1.9million; Parent: £2.1 million; 2016: £2.0 million) Refer to page 33 (accounting policy) and pages 41-42 (financial disclosures).	**Forecast based valuation:** Goodwill and intangible assets in the Group and the Parent's investment in subsidiaries are significant and at risk of impairment due to the current loss making position of the group. The estimated recoverable amount is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows.	Our procedures included: • **Benchmarking assumptions:** Comparing the group's assumptions to externally derived data relating to the key inputs of total expected licence value, success rates and discount rates; • **Sensitivity analysis:** Performing break even analysis on each of the assumptions noted above; • **Comparing valuations:** Comparing the sum of the discounted cash flows to the group's market capitalisation to assess the reasonableness of those cash flows; and • **Assessing transparency:** Assessing whether the group's and parent company's disclosures describing the sensitivity of the impairment assessment to changes in key assumptions accurately reflect the risks inherent in the valuation of goodwill and intangible assets and valuation of investment in subsidiaries respectively.

Independent auditors' report continued

to the members of C4X Discovery Holdings plc

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

Materiality for the group financial statements as a whole was set at £65,000 (2016: £51,000) determined with reference to a benchmark of group total expenses, of which it represents 0.75% (2016: 0.72%).

We consider total expenses to be the most appropriate benchmark as it is a more stable benchmark reflecting the group's focus on research activities.

Materiality for the parent company financial statements as a whole was set at £16,000 (2016: £50,000), determined with reference to a benchmark of company total assets of which it represents 0.75% (2016: 0.72%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £3,250 (2016: £3,000), in addition to other identified misstatements that we believe warranted reporting on qualitative grounds.

Of the group's six (2016: six) reporting components, two (2016: two), one of which is the parent Company, were subjected to full scope audits for group purposes, using component materialities, which ranged from £16,000 to £64,000 (2016: £50,000), having regard to the mix of size and risk profile of the Group across the components. The group audit team performed the audit of both components.

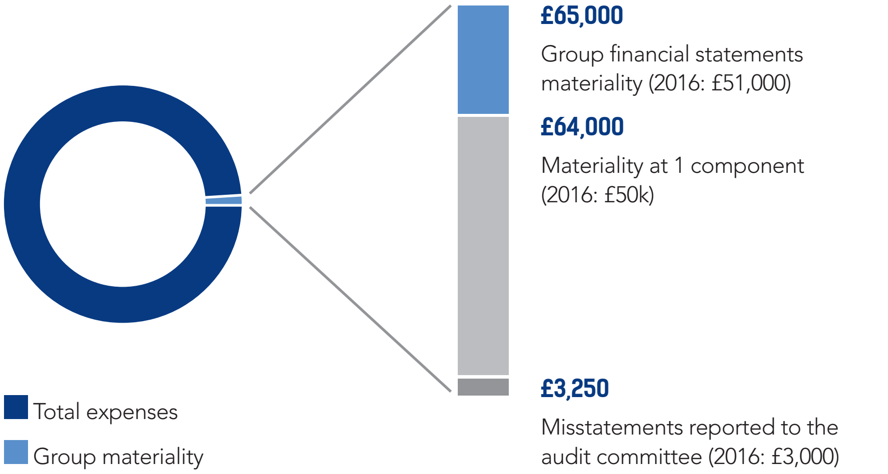
The components within the scope of our work accounted for the percentages illustrated opposite.

Total expenses

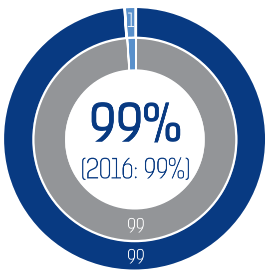
£8.7m (2016: 7.1m)

Group Materiality

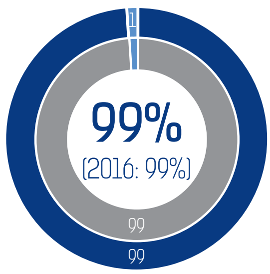
£65,000 (2016: £51,000)



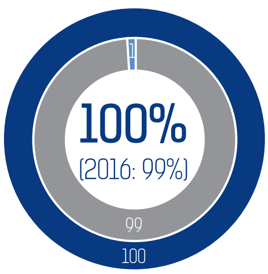
Group expenses



Group loss before tax



Group total assets



- Full scope for group audit purposes 2017
- Residual components
- Full scope for group audit purposes 2016

4. We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

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

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

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

Strategic report and directors' report

Based solely on our work on the other information:

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

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

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

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

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 20, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

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

Antony Whittle
(Senior Statutory Auditor)
for and on behalf of KPMG LLP,
Statutory Auditor
Chartered Accountants
One St. Peter's Square
Manchester
M2 3AE
14 December 2017

Consolidated statement of comprehensive income

for the year ended 31 July 2017

	Notes	2017 £000	2016 £000
Revenue	5	143	279
Cost of sales		(3)	(12)
Gross profit		140	267
Research and development expenses		(6,100)	(5,239)
Administrative expenses		(2,533)	(1,817)
Operating loss		(8,493)	(6,789)
Finance income	8	3	32
Loss before taxation		(8,490)	(6,757)
Taxation	9	1,708	1,436
Loss for the year and total comprehensive loss for the year		(6,782)	(5,321)
Loss per share			
Basic and diluted loss for the year	10	(16.88)p	(16.83)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 (2016: £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 29 to 52 form an integral part of these financial statements.

Consolidated statement of changes in equity

for the year ended 31 July 2017

	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 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
Loss for the year and total comprehensive loss for the year	—	—	—	—	—	(6,782)	(6,782)
Issue of share capital	140	11,939	—	—	—	—	12,079
Expenses of placing	—	(692)	—	—	—	—	(692)
Share-based payments	—	—	150	—	—	—	150
Transactions with owners	140	11,247	150	—	—	—	11,537
At 31 July 2017	2,490	22,844	260	920	195	(17,649)	9,060

Company statement of changes in equity

for the year ended 31 July 2017

	Issued equity capital £000	Share premium £000	Share-based payment reserve £000	Total £000
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**
Loss for the year and total comprehensive loss for the year	—	—	—	—
Issue of share capital	140	11,939	—	12,079
Expenses of placing	—	(692)	—	(692)
Share-based payments	—	—	150	150
Transactions with owners	140	11,247	150	11,537
At 31 July 2017	**2,490**	**22,844**	**231**	**25,565**

Statements of financial position

at 31 July 2017

Registered no. 09134041

	Notes	31 July 2017 Group £000	31 July 2017 Company £000	31 July 2016 Group £000	31 July 2016 Company £000
Assets					
Non-current assets					
Property, plant and equipment	11	90	—	94	—
Intangible assets	12	570	—	654	—
Goodwill	13	1,192	—	1,192	—
Investment in subsidiaries	14	—	2,102	—	1,952
		1,852	2,102	1,940	1,952
Current assets					
Trade and other receivables	15	548	23,462	429	12,075
Income tax asset	16	1,700	—	1,400	—
Cash and cash equivalents	17	6,031	1	1,328	1
		8,279	23,463	3,157	12,076
Total assets		10,131	25,565	5,097	14,028
Liabilities					
Current liabilities					
Trade and other liabilities	18	1,071	—	792	—
Total liabilities		1,071	—	792	—
Net assets		9,060	25,565	4,305	14,028
Capital and reserves					
Issued equity capital	19	2,490	2,490	2,350	2,350
Share premium	19	22,844	22,844	11,597	11,597
Share-based payment reserve	20	260	231	110	81
Merger reserve	21	920	—	920	—
Capital contribution reserve	22	195	—	195	—
Revenue reserve	23	(17,649)	—	(10,867)	—
Total equity		9,060	25,565	4,305	14,028

Approved by the Board and authorised for issue on 14 December 2017.

The notes on pages 29 to 52 form an integral part of these financial statements.

Clive Dix
Chief Executive Officer
14 December 2017

Cash flow statements

for the year ended 31 July 2017

	Notes	31 July 2017 Group £000	31 July 2017 Company £000	31 July 2016 Group £000	31 July 2016 Company £000
Loss after interest and tax		(6,782)	—	(5,321)	—
Adjustments for:					
Depreciation of tangible fixed assets	11	44	—	33	—
Amortisation of intangible assets	12	135	—	55	—
Share-based payments	20	150	—	59	—
Taxation		(1,708)	—	(1,436)	—
Changes in working capital:					
(Increase)/decrease in trade and other receivables		(119)	(11,357)	(40)	67
Increase/(decrease) in trade and other payables		392	—	(28)	—
Decrease in deferred revenue		(83)	—	(56)	—
Cash (outflow)/inflow from operating activities		(7,971)	(11,357)	(6,734)	67
Research and development tax credit received		1,408	—	736	—
Net cash (outflow)/inflow from operating activities		(6,563)	(11,357)	(5,998)	67
Cash flows from investing activities					
Purchases of tangible fixed assets	11	(40)	—	(42)	—
Purchases of intangible fixed assets	12	(51)	—	(50)	—
Acquisition of subsidiary (net of cash acquired)		—	—	(67)	(67)
Decrease/(increase) in cash placed on deposit	17	—	—	4,000	—
Net cash (outflow)/inflow from investing activities		(91)	—	3,841	(67)
Cash flows from financing activities					
Proceeds from issues of ordinary share capital	19	12,049	12,049	—	—
Expenses relating to share capital issue	19	(692)	(692)	—	—
Net cash inflow from financing activities		11,357	11,357	—	—
Increase/(decrease) in cash and cash equivalents		4,703	—	(2,157)	—
Cash and cash equivalents at the start of the year		1,328	1	3,485	1
Cash and cash equivalents at the end of the year		6,031	1	1,328	1
Cash, cash equivalents and deposits at the end of the year	17	6,031	1	1,328	1

The notes on pages 29 to 52 form an integral part of these financial statements.

Notes to the financial statements

for the year ended 31 July 2017

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 2017.

The financial statements of the Company and the Group for the year ended 31 July 2017 were authorised for issue by the Board of Directors on 14 December 2017 and the consolidated 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 2017 was £nil (2016: £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 2017.

(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 and CEO's Statements on pages 4 to 7 outline the business activities of the Group along with the factors which may affect its future development and performance. The Group's financial position is discussed in the Financial Review on page 9 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 and made appropriate enquiries, the Directors are satisfied that the Group has adequate resources for the foreseeable future. A majority of expenses are discretionary and within the control of management. 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 for continued development.

(d) Functional and presentational currency

These financial statements are presented in Pounds 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.

Notes to the financial statements continued

for the year ended 31 July 2017

2. Basis of preparation continued

(e) Use of estimates and judgements continued

Intangible fixed assets and goodwill

The Group tests annually whether intangible fixed assets and goodwill have suffered any impairment. The potential recoverable amounts of intangible fixed assets and goodwill have been determined based on value-in-use calculations. These calculations require the use of estimates both in arriving at the expected future cash flows and the application of a suitable discount rate in order to calculate the present value of these flows. There is a degree of judgement involved in making these assessments of attributable values on acquisition and making impairment assessments. The assumptions used in the value-in-use calculations are included in notes 12 and 13.

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.

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 2017 was £1,425,000 (2016: £830,000). The value of the net deferred tax asset not recognised at the year end is £14,000 (2016: net liability of £12,000). Management judgement is similarly required in estimating the value of the research and development income tax credit receivable of £1,700,000 (2016: £1,400,000). Further information is included in note 9.

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.

3. Significant accounting policies continued

(b) Foreign currency transactions

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

(c) Segmental reporting

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

(d) Revenue 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 administrative expenses in the consolidated statement of comprehensive income in line with the terms of the underlying grant agreement.

(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.

Notes to the financial statements continued

for the year ended 31 July 2017

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, 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, fixtures and fittings	–	straight line over three years

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

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

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 flows 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 its 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.

Notes to the financial statements continued

for the year ended 31 July 2017

3. Significant accounting policies continued

(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.

(p) Cash, cash equivalents, 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 2017 (2016: 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, 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 (2016: £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.

3. Significant accounting policies continued

(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.

(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 have been endorsed by the EU and are effective for annual periods commencing on or after 1 January 2017 or ending 31 July 2018 or thereafter and have not been applied in preparing these consolidated financial statements and those that are relevant to the Group are summarised below. None of these are expected to have a significant effect on the consolidated financial statements of the Group in the period of initial application.

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

	EU effective date
IFRS 9 Financial Instruments	1 January 2018
IFRS 15 Revenue from Contracts with Customers	1 January 2018
Effective date of IFRS 15 – Amendment to IFRS 15	1 January 2018
Accounting for Acquisitions of Interests in Joint Operations – Amendment 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	1 January 2016
Annual Improvements to IFRS – 2012–2014 Cycle	1 January 2016
Investment Entities: Applying the Consolidation Exception – Amendments to IFRS 10, IFRS 12 and IAS 28	1 January 2016
Disclosure Initiative – Amendment to IAS 1	1 January 2016
Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	To be confirmed

Notes to the financial statements continued

for the year ended 31 July 2017

4. Acquisitions of businesses

Acquisition of subsidiary

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.

In the five months to 31 July 2016 the subsidiary contributed a 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 at 31 July 2016.

	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 were included in administrative expenses in the Group's consolidated statement of comprehensive income in the prior year.

5. Segmental information

Operating segments

At 31 July 2017 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 2017 £000	31 July 2016 £000
Analysis of revenue		
Amounts earned under joint development agreements	143	279
	143	279

Included within amounts earned under joint development agreements is revenue from one material customer of £130,000 (2016: two material customers of £128,000 and £106,000 respectively).

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 2017 £000	31 July 2016 £000
Revenue		
UK	143	151
Europe (excluding UK)	—	128
	143	279

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 2017 £000	31 July 2016 £000
Operating loss is stated after charging/(crediting):		
Depreciation of property, plant and equipment (see note 11)	44	33
Amortisation of intangible assets (see note 12)	135	55
Research and development expense*	6,100	5,239
Cost of inventories recognised as an expense (included in cost of sales)	3	12
Grant income	(117)	(65)
Operating lease rentals:		
Land and buildings	201	62
Auditors' remuneration		
Audit services:		
– Fees payable to Company auditors for the audit of the parent and the consolidated accounts	35	25
Fees payable in respect of the audit of subsidiary companies:		
– Auditing the accounts of subsidiaries pursuant to legislation	15	25
– Other services	6	4
Total auditors' remuneration	56	54

* Included within research and development expense are staff costs totalling £2,286,000 (2016: £1,535,000) also included in note 7.

Notes to the financial statements continued

for the year ended 31 July 2017

7. Staff costs and numbers

	31 July 2017 £000	31 July 2016 £000
Wages and salaries	2,605	1,784
Social security costs	351	206
Pension contributions	213	101
Share-based payments	150	59
	3,319	2,150
Directors' remuneration (including benefits in kind) included in the aggregate remuneration above comprised:		
Emoluments for qualifying services	460	468

Directors' emoluments (excluding social security costs, but including benefits in kind) disclosed above include £174,000 paid to the highest paid Director (2016: £297,000). An analysis of the highest paid Director's remuneration is included in the Directors' remuneration report.

Retirement benefits are accruing to two Directors (2016: four Directors).

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

The Group	31 July 2017 Number	31 July 2016 Number
Directors	6	4
Technological staff	30	23
Administrative staff	6	1
	42	28

8. Finance income and expense

The Group	31 July 2017 £000	31 July 2016 £000
Finance income		
Bank interest receivable	3	32
	3	32

Bank interest receivable includes £nil (2016: £nil), which is receivable after the year end.

9. Income tax

The tax credit is made up as follows:

The Group	31 July 2017 £000	31 July 2016 £000
Current income tax		
UK corporation tax losses in the year	—	—
Research and development income tax credit receivable	(1,700)	(1,400)
Adjustment in respect of prior years	(8)	(36)
Total current income tax	(1,708)	(1,436)

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

The Group	31 July 2017 £000	31 July 2016 £000
Loss on ordinary activities before taxation	(8,490)	(6,757)
Tax at standard rate of 19.67% (2016: 20.67%)	(1,670)	(1,351)
Effects of:		
Expenses not deductible for tax purposes	27	25
Movement in unprovided deferred tax	—	(12)
Surrender of research and development relief for repayable tax credit	1,003	835
Research and development tax credit receivable	(1,700)	(1,400)
Share options exercised (CTA 2009 Pt 12 deduction)	(142)	—
Tax losses carried forward	782	503
Adjustment in respect of prior years	(8)	(36)
Tax credit in income statement	(1,708)	(1,436)

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

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

The Group has accumulated losses available to carry forward against future trading profits. The estimated value of the deferred tax asset, measured at a standard rate of 17% (2016: 18%) is £1,425,000 (2016: £830,000), of which £nil (2016: £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 17% (2016: 18%), is £30,000 (2016: £32,000).

The Group has a deferred tax asset for share-based payments, for which the tax, measured at a standard rate of 17% (2016: 18%), is £44,000 (2016: £20,000).

The net deferred tax asset of £14,000 has not been recognised (2016: the net deferred tax liability of £12,000 was not recognised as it was covered by accumulated tax losses).

Notes to the financial statements continued

for the year ended 31 July 2017

10. Earnings per share

The Group	31 July 2017 £000	31 July 2016 £000
Loss for the financial year attributable to equity shareholders	(6,782)	(5,321)
Weighted average number of shares		
Ordinary shares in issue	40,171,732	31,616,625
Basic loss per share (pence)	(16.88)	(16.83)

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 2015	91	38	129
Additions	42	—	42
At 31 July 2016	133	38	171
Additions	40	—	40
At 31 July 2017	173	38	211
Depreciation:			
At 31 July 2015	41	3	44
Provided during the year	25	8	33
At 31 July 2016	66	11	77
Provided during the year	36	8	44
At 31 July 2017	102	19	121
Net book value:			
At 31 July 2017	71	19	90
At 31 July 2016	67	27	94

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 2015	87	—	—	87
Additions	—	—	50	50
Additions – acquisition through business combinations	—	600	—	600
At 31 July 2016	87	600	50	737
Additions	51	—	—	51
At 31 July 2017	138	600	50	788
Amortisation:				
At 31 July 2015	28	—	—	28
Provided during the year	5	50	—	55
At 31 July 2016	33	50	—	83
Provided during the year	5	120	10	135
At 31 July 2017	38	170	10	218
Net book value:				
At 31 July 2017	100	430	40	570
At 31 July 2016	54	550	50	654

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

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

The recoverable amount of the combined value of intangible assets and goodwill exceeds the carrying value by 139%. The key assumptions considered most sensitive for the value-in-use calculations are those regarding the discount rate applied to the net present value calculations, the success rates of the project and the total expected licence value. Management has used a conservative discount rate of 25%. Due to the headroom which exists between the recoverable amount and the carrying value, there is no reasonable possible change in these assumptions that would cause the carrying value to exceed its recoverable amount.

The Company has no intangible assets.

Notes to the financial statements continued

for the year ended 31 July 2017

13. Goodwill

The Group	Purchased goodwill £000	Total £000
Cost:		
At 31 July 2015	—	—
Purchase of Adorial	1,192	1,192
At 31 July 2016 and 31 July 2017	1,192	1,192
Impairment:		
At 31 July 2015	—	—
Provided during the year	—	—
At 31 July 2016	—	—
Provided during the year	—	—
At 31 July 2017	—	—
Net book value:		
At 31 July 2017	1,192	1,192
At 31 July 2016	1,192	1,192

The goodwill which originated in the prior period is explained in note 4. Goodwill is allocated to one cash-generating unit being that described in note 5. The value at which goodwill is carried is reviewed annually. No impairment charge was provided during the period.

The recoverable amount of the combined value of intangible assets and goodwill exceeds the carrying value by 139%. The key assumptions considered most sensitive for the value-in-use calculations are those regarding the discount rate applied to the net present value calculations, the success rates of the project and the total expected licence value. Management has used a conservative discount rate of 25%. Due to the headroom which exists between the recoverable amount and the carrying value, there is no reasonable possible change in these assumptions that would cause the carrying value to exceed its recoverable amount.

The Company has no goodwill.

14. Investment in subsidiaries

The Company	Shares £000	Loans £000	Total £000
At 31 July 2016	1,871	81	1,952
Increase in respect of share-based payments	—	150	150
At 31 July 2017	1,871	231	2,102

By subsidiary			
C4X Discovery Limited	200	231	431
C4X Drug Discovery Limited	—	—	—
Adorial Limited	1,671	—	1,671
At 31 July 2017	1,871	231	2,102

14. Investment in subsidiaries continued

Subsidiary undertakings	Country of incorporation	Principal activity	Class of shares held	31 July 2017
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 2017 Group £000	31 July 2017 Company £000	31 July 2016 Group £000	31 July 2016 Company £000
Trade receivables	85	—	39	—
Prepayments	200	—	145	—
Inter-company short-term loan to subsidiary	—	23,462	—	12,075
Other receivables	263	—	245	—
	548	23,462	429	12,075

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 £199,000 VAT receivable (2016: £243,000).

16. Income tax asset

	31 July 2017 Group £000	31 July 2017 Company £000	31 July 2016 Group £000	31 July 2016 Company £000
Research and development income tax credit receivable	1,700	—	1,400	—
	1,700	—	1,400	—

17. Cash, cash equivalents and deposits

	31 July 2017 Group £000	31 July 2017 Company £000	31 July 2016 Group £000	31 July 2016 Company £000
Cash and cash equivalents	6,031	1	1,328	1
	6,031	1	1,328	1

Cash and cash equivalents at 31 July 2017 include deposits with original maturity of three months or less of £nil (2016: £nil).

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

Notes to the financial statements continued

for the year ended 31 July 2017

18. Trade and other payables

	31 July 2017 Group £000	31 July 2017 Company £000	31 July 2016 Group £000	31 July 2016 Company £000
Current payables	700	—	392	—
Other payables	101	—	116	—
Deferred revenue	—	—	83	—
Accruals	270	—	201	—
	1,071	—	792	—

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 shares:							
As 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 as at 31 July 2016	2,025,000	32,496,757	—	325	2,025	11,597	13,947
Issue of share capital	—	14,058,330	—	140	—	11,939	12,079
Expenses of placing	—	—	—	—	—	(692)	(692)
Ordinary and deferred shares as at 31 July 2017	2,025,000	46,555,087	—	465	2,025	22,844	25,334

The Group	Share capital £000	Deferred shares £000	Share premium £000	Total £000
Allotted, called up and fully paid ordinary shares of 1 pence:				
As at 31 July 2015	310	2,025	10,013	12,348
Issue of share capital	15	—	1,584	1,599
As at 31 July 2016	325	2,025	11,597	13,947
Issue of share capital	140	—	11,939	12,079
Expenses of placing	—	—	(692)	(692)
Ordinary and deferred shares as at 31 July 2017	465	2,025	22,844	25,334

On 1 March 2016, together with £72,000 cash, 1,508,207 shares were issued at a price of 106 pence, 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.

On 6 September 2016 4,901,961 shares were issued in a placing at a price of 102 pence resulting in share proceeds of £5,000,000. Share issue costs of £285,000 were incurred and have been deducted from share premium.

19. Issued equity capital continued

On 14 March 2017 8,235,294 shares were issued in a placing at a price of 85 pence resulting in share proceeds of £7,000,000. Share issue costs of £407,000 were incurred and have been deducted from share premium.

On 8 June 2017 34,200 ordinary shares were issued in satisfaction of loans made to Adorial Limited by its then directors, now employees of C4XD. The share price on the day of issue was 87 pence.

On 8 June 2017 886,875 ordinary shares were issued on exercise of options originally granted on 27 May 2014 at 5.58 pence per share.

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

20. Share-based payment reserve

The Group	£000
At 31 July 2015	**51**
Share-based payments	59
At 31 July 2016	**110**
Share-based payments	150
At 31 July 2017	**260**

The Company	£000
At 31 July 2015	**22**
Share-based payments	59
At 31 July 2016	**81**
Share-based payments	150
At 31 July 2017	**231**

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 £150,000 has been recognised in the consolidated statement of comprehensive income for the year (2016: £59,000).

Share option schemes

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

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

Grant in September 2009

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

Notes to the financial statements continued

for the year ended 31 July 2017

20. Share-based payment reserve continued

Share option schemes continued

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

Grant in August 2012

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

Grant in July 2013

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

Grant in May 2014

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

Grant in June 2015

Share options were granted to staff and Directors on 8 June 2015. The options granted are exercisable at any time between three years and 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.

Grant in November 2016

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

Grant in February 2017

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

20. Share-based payment reserve continued

Share option schemes continued

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

Grant in May 2017

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

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	2017 Number	2016 Number
Outstanding at 1 August	2,657,325	2,177,325
Granted during the year	1,802,464	500,000
Exercised during the year	(886,875)	—
Lapsed/cancelled	(387,500)	(20,000)
Outstanding at 31 July	3,185,414	2,657,325
Exercisable at 31 July	812,700	1,699,575

During the year ended 31 July 2017, 886,875 options were exercised (2016: nil).

Weighted average exercise price of options

The Group and Company	2017 Pence	2016 Pence
Outstanding at 1 August	32.33	22.55
Granted during the year	99.36	77.00
Exercised during the year	5.58	—
Forfeited/cancelled	77.00	83.50
Outstanding at 31 July	75.67	32.33

The weighted average fair value of options granted during the year to 31 July 2017 was 99.36 pence (2016: 77.00 pence). The range of exercise prices for options outstanding at the end of the year was 2.05 pence–105.00 pence (2016: 2.05 pence–83.50 pence).

For the share options outstanding as at 31 July 2017, the weighted average remaining contractual life is 8.1 years (2016: 7.8 years).

During the year ended 31 July 2017, 886,875 options were exercised (2016: none).

Notes to the financial statements continued

for the year ended 31 July 2017

20. Share-based payment reserve continued

Weighted average exercise price of options continued

The following table lists the inputs to the models used for the years ended 31 July 2017 and 31 July 2016.

The Group and Company	2017	2016
Expected volatility (%)	52.5%	52.5%
Risk-free interest rate (%)	0.44%–1.00%	0.78%–1.75%
Expected life of options (year's average)	3 years	3 years
Weighted average exercise price (pence)	5.58	n/a
Weighted average share price at date of grant (pence)	99.36	77.00

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
As at 31 July 2015, 31 July 2016 and 31 July 2017	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 2015, 31 July 2016 and 31 July 2017	195

23. Revenue reserve

The Group	£000
At 31 July 2015	(5,546)
Loss for the year	(5,321)
At 31 July 2016	(10,867)
Loss for the year	(6,782)
At 31 July 2017	(17,649)

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 2017 Group £000	31 July 2016 Group £000
Land and buildings:		
Not later than one year	150	62
After one year but not more than five years	143	119
After five years	—	—
	293	181

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 consolidated statement of changes in equity. Total equity was £9,060,000 at 31 July 2017 (£4,305,000 at 31 July 2016).

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 2017

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 2017				
Trade receivables	85	—	85	—
Inter-company short-term loan to subsidiary	—	—	—	23,462
Cash, cash equivalents and deposits	6,031	—	6,031	1
Trade and other payables*	—	(801)	(801)	—
	6,116	(801)	5,315	23,463

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

* 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 2017 or at 31 July 2016 and the Group did not enter into any such contracts during 2017 nor 2016.

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	2017 Total £000	GBP £000	USD £000	EUR £000	2016 Total £000
Cash, cash equivalents and deposits	5,986	40	5	6,031	1,328	—	—	1,328
Trade receivables	85	—	—	85	39	—	—	39
Trade payables	(629)	(20)	(51)	(700)	(378)	(12)	(2)	(392)
	5,442	20	(46)	5,416	989	(12)	(2)	975

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 2017			31 July 2016		
	Fixed rate £000	Floating rate £000	Total £000	Fixed rate £000	Floating rate £000	Total £000
The Group						
Cash, cash equivalents and deposits	—	6,031	6,031	—	1,328	1,328
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 2017 based on contractual undiscounted payments including contractual interest.

2017	Less than one year £000	One to five years £000	Total £000
Financial liabilities			
Trade and other payables*	801	—	801
	801	—	801

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

* 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 2017

26. Related party transactions

During the year, shareholder Aquarius Equity Partners Limited charged the Group £15,450 (2016: £15,450) for monitoring fees and were owed £1,545 at 31 July 2017 (2016: £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 (2016: £2,025,000).

During the year Harry Finch was paid £2,800 (2016: £11,550) in connection with services he provided as a technical consultant. No amounts were owed at the year end (2016: £nil).

The Group

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

The Company

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

	Notes	31 July 2017 £000	31 July 2016 £000
Short-term loans owed to C4X Discovery Holdings plc by			
C4X Discovery Limited	15	23,462	12,075
C4X Drug Discovery Limited		—	—
Adorial Limited		—	—
		23,462	12,075

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 is interest bearing.

27. Compensation of key management personnel (including Directors)

	2017 £000	2016 £000
Short-term employee benefits	1,032	906
Pension costs	72	59
Share-based payments	86	45
	1,190	1,010

Corporate information

Directors

Dr S C Williams	(Non-Executive Interim Chairman)
Dr C Dix	(Chief Executive Officer)
B R Hoy	(Chief Financial Officer)
Dr C Fox	(Chief Scientific 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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Financial PR consultants

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