falanx

INTELLIGENCE | TECHNOLOGY | RESILIENCE

Annual Report 2015

Report and financial statements year ended 31 March 2015 falanx

INTELLIGENCE | TECHNOLOGY | RESILIENCE

FALANX GROUP LIMITED

Security and cyber defence provider working with blue chip and government clients

Falanx Group Limited, listed on AIM is a global intelligence, security and cyber defence provider working with blue chip and government clients internationally to protect their assets from a range of threats.

The Group has three business divisions:

- **Falanx Assuria: Comprehensive cloud-based Cyber Defence services**
- **Falanx Intelligence: Political & Security Risk and Business Intelligence services**
- **Falanx Resilience: Security consultancy and protection services**

Falanx Assuria

Falanx Assuria provides world-leading Cyber Defence solutions that provide comprehensive assurance and protection for customer data and information infrastructure using advanced, British-developed, GPG13 compliant technology.

Falanx Intelligence

Stirling Assynt provides Political & Security Risk and Business Intelligence services globally, giving clients the information they need to make key business decisions.

Falanx Resilience

Falanx Resilience offers specialist security consultancy, especially in the area of advanced ballistic and blast mitigation products, and specialist advisory, training and procurement services for government departments and agencies internationally.

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CHAIRMAN'S STATEMENT

In this year we have achieved significant progress towards our aim of establishing a strong foundation for future growth.

Whilst the Group strategy remains the acquisition of niche security providers, exploitation of the Falanx Intelligence client base, and building on contacts in the Middle East, our firm focus now is to exploit the long-term growth potential of our Cyber Defence business. To achieve this we have invested significant resources in the Falanx Cyber Division enabling us to create an impressive operational capability and deploy a strong, experienced sales force.

Falanx Cyber

Falanx Cyber, operating under the Falanx Assuria brand, formally launched its new Cyber Defence managed service in March 2015 with the establishment of a well-appointed Security Operations Centre using advanced software provided under licence by our partner Assuria Limited. A £2.49m net fund-raise was concluded in May 2015 to enable the extension of Assuria software licences to April 2018 as well as to support joint development with Assuria of some new specialist software for monitoring multiple clients on the Cloud.

Having established an excellent operational capability and taken on its first prestigious client (the UK Government's CERT UK) the Division's focus is now firmly on building revenues. This is taking longer than expected, however with our newly established professional sales team, G Cloud listing and engagement with strategic partners including Principia Underwriting, to develop a range of insurance products, ZeroDayLab, a leading provider of cyber security solutions, and Digital Shadows, the Cyber Intelligence company, we expect to make progress this year.

In addition to offering the only British developed, Government compliant Protective Monitoring capability on the market, Falanx Cyber has a number of differentiators which provide significant benefits to clients:

- Clients only pay for the service they receive based on a simple monthly fee.
- Our highly-automated service offers a comprehensive and cost-effective capability for all types of client, including to SMEs who currently lack an affordable solution.
- 'Insider' malicious activity is recorded in a format acceptable as evidence in court.
- The service is deployed through the Cloud: no intrusive hardware is installed in client networks.

Falanx Cyber's objective within the next year is to become a key provider of protective monitoring managed services to UK Government and financial services. To achieve this we have been actively engaged in discussions with a number of potential clients on their detailed requirements over the past three months. Our pipeline also includes a major European intergovernmental agency and two overseas financial services groups.

Falanx Intelligence

Falanx Intelligence, operating under the Stirling Assynt brand, has been trading successfully for over seven years and has established itself as a credible and reliable provider of political and security risk assessments and business intelligence reports.

In this year the division achieved profits of £225k with a profit margin of 12.7% and growth in turnover of 13.5%. Its international client base includes governments, oil and gas companies, financial services, insurance, utilities, airlines, legal firms and technology companies. Many of these are long-term clients who have remained loyal to the business over five years or more. We have further invested in the division's sales team and expect revenues to remain solid in all areas. Services include:

Assynt Services

The Assynt Report is a highly-regarded, fortnightly predictive political and security risk service covering 33 countries that goes out to an extensive client base of major companies, international organisations and governments around the world. Most clients pay an annual subscription and the business achieves a high percentage of renewals. The service also provides bespoke political and security risk assessments according to client requirements for an agreed fee and seconds analysts who work alongside client companies on annually renewed contracts.

Business Intelligence Service

Business intelligence reports provide due diligence for clients on suppliers, acquisition targets and partners internationally. This is a project based business in which tasks often arise at short notice requiring rapid response. The business offers a highly competitive and well-regarded service and has a number of long-term clients.

Falanx Resilience

Falanx Resilience is a project-based consultancy operating largely in the Middle East, primarily offering training and advisory services and blast and ballistic mitigation products. Resilience has no permanent staff and consultants are brought in for specific roles when a contract is signed. As a project-based business the revenue stream is unpredictable, but contracts can be highly profitable.

The business conducted a successful one-year training and advisory project in the Middle East that ended in May 2014. Although the contract was due to be renewed, as is the custom in the region, the death of the leader led to a change of ministers and a moratorium on all commercial activity for a period while the new top team is established. We remain hopeful that in due course Falanx will be invited back to finish the job and we continue actively to seek other opportunities in the region.

Financial Summary

Falanx Group's turnover for the year ended 31 March 2015 was £1.92 million (2014: £4.4 million), with Falanx Intelligence and Falanx Resilience's turnover being £1.76 million (2014: £1.56 million) and £156k (2014: £2.88 million) respectively. Falanx Group's loss before taxation for the year was £2.20 million. The Group incurred £297,000 set up costs associated with conducting commercial, legal and technical due diligence on an acquisition target, and legal costs related to Falanx resilience.

Of our three Divisions, Falanx Intelligence made a pre-tax profit of £225k in the reporting year. Falanx Cyber in its build-up phase made a loss of £1.14 million in the reporting year. Falanx Resilience made a loss of £231k.

Following the placing in May 2015 the Company had cash balances of £1.7 million at 30 June 2015.

Summary and Outlook

This has been a year of significant investment in the Group's capabilities. In addition to its Intelligence and Resilience propositions it now has an outstanding Cyber Defence capability supported by a strong, professional sales team as a solid platform for growth.

Approved by the Board on 14 July 2015 and signed on its behalf by

K P A Barclay
Executive Chairman

DIRECTORS

Karl Barclay
Karl Barclay (Executive Chairman) spent 6 years as the Head of Global Security and Fraud Risk for HSBC Holdings plc, where he headed a team of 3,000 responsible for combating international organised crime and terrorism. He is a Fellow of the Security Institute and a visiting lecturer at Cranfield University in Security and Risk Management. Karl spent 16 years in the Foreign and Commonwealth Office and prior to that spent 20 years in the army serving in a variety of management roles in Berlin, West Germany, Northern Ireland, Gibraltar and Hong Kong.

Desmond Carr
Desmond Carr (Non-executive Director) is a retired Chairman and CEO of ExxonMobil Saudi Arabia Inc after 11 years of service in the Kingdom. Desmond has 40 years of international commercial experience overseeing large capital projects requiring alignment of interests of investors, governments, international finance agencies and NGOs. He holds a First Class Bachelor of Science degree in Civil Engineering and Master of Science degree in Hydrology and Water Resources Engineering.

John Blamire
John Blamire (Chief Executive Officer) is a former officer of the British Army, having served in Northern Ireland, Iraq, Cyprus, Canada, USA and the Falkland Islands, gaining a wealth of operational experience. In 2001 he created a strategic-level intelligence unit within a high-risk area of Iraq, leading over 60 highly qualified intelligence personnel. After leaving the Army he co-founded Praetorian Protection Ltd, a company providing specialist services to clients in Africa. He holds a degree in Law and Business.

Emma Shaw
Emma Shaw (Non-executive Director) is the Managing Director of Esoteric Ltd, an Electronic Sweeping, Counter-Espionage and Intelligence gathering company. An MBA graduate, and a Chartered Security Professional (CSyP) Emma’s early career was spent with the Royal Military Police, followed by a career in the Ministry of Defence. Emma is also the former Chairman and Fellow of the Security Institute; a Board member of the Defence Industry Security Association (DISA); a Fellow of the Chartered Management Institute and member of the Advisory Council for CSARN.

Iain Manley
Iain Manley (Non-executive Director) is an experienced corporate financier and chartered accountant, with a successful 15 year career in capital raising in public and private markets. Iain previously worked at Coopers & Lybrand, Arthur Andersen Corporate Finance (specialising in public company M&A), Cobalt Corporate Finance, a TMT advisory firm, as well as acting as CFO of a number of private and public companies.

DIRECTORS' REPORT

The Directors present their report and the audited Financial Statements for the year ended 31 March 2015.

Business Review

The Group's results for the period are set out in the consolidated statement of comprehensive income on page 13 of these financial statements.

A review of the business, significant contracts, progress and the Group's future prospects can be found in the Chairman's statement.

Key Performance Indicators

Performance Indicator	Description	Why Measured	2015	2014	Comment
Group revenue	Changes in total revenue compared to prior year	Revenue growth gives a quantified indication of the rate at which the Group's business activity is expanding over time	£1,922,049	£4,436,639	A decrease of 56.68% resulting from reduced revenue in the resilience segment
Gross margin	Percentage of total revenue retained by the group after direct costs deduction	Provides indication of sales profitability and proportion of revenue available to cover other running costs	5.76%	31.70%	Increase in variable costs mainly attributable to Cyber security operations in developmental phase
EBITDA	A measure of profits	Offers a clearer reflection of the value of operations	£(2,055,802)	£21,839	Increased overhead cost largely due to the costs incurred for Cyber security operations

Dividends

The consolidated statement of comprehensive income for the year is set out on page 13, and shows the loss for the year.

The Directors do not recommend the proposal of a final dividend in respect of the current year.

Events after reporting date

Information relating to events since the end of the period is disclosed in note 29 to the financial statements.

Directors

The Directors who served the Company during the year and up to the date of this report were as follows:

Executive Directors

J R Blamire
K P A Barclay

Non-Executive Directors

I A Manley
D P Carr
E Shaw

Directors continued

Directors' interests

The Directors' interests in the share capital of the Company at the year end were as stated below:

	2015		2014	
	Number of shares	% Held	Number of shares	% Held
J R Blamire	7,900,000	15.14%	7,900,000	19.89%
K P A Barclay*	5,765,500	11.05%	5,765,000	14.52%
I A Manley	200,000	0.38%	200,000	0.39%
D P Carr	200,000	0.38%	200,000	0.39%

* Of which 2,182,500 (4.18%) are held by Dounreay Management and a further 666,666 (1.28%) by Andrea Barclay.

Directors' interests in transactions

No director had, during or at the end of the period, a material interest in any contract which was significant in relation to the group's business, except in respect of service agreements.

Directors' remuneration

	Salary	Benefits in kind	Pension contribution	2015 Total	2014 Total
Executive Directors:					
J R Blamire	60,000	–	–	60,000	60,000
K P A Barclay	100,000	–	–	100,000	100,000
Non-executive Directors:					
I A Manley	43,500	–	–	43,500	30,500
E Shaw	12,000	–	–	12,000	12,000
D P Carr	12,000	–	–	12,000	12,000
	227,500	–	–	227,500	214,500

Group's policy on payment of creditors

It is the Group's policy to pay suppliers in accordance with the terms and conditions agreed between the Group and its suppliers, provided that the goods and services have been supplied in accordance with the agreed terms and conditions. In respect of the financial period ended 31 March 2015, creditors' days have been calculated at 92 days (2014: 40 days).

Political and charitable donations

There were no political and charitable donations made by the Group during the year.

Financial Instruments

The Group's financial risk management objectives are to minimise debt and to ensure sufficient working capital for the Group's overheads and capital expenditure commitments.

Financial instruments are disclosed and discussed in note 23 to the financial statements.

Employees

The Group recognises the benefit of keeping its employees informed of all relevant matters on a regular basis. The Group is an equal opportunities employer and all applications for employment are considered fully on the basis of suitability for the job.

Health and Safety

Group companies have a responsibility to ensure that all reasonable precautions are taken to provide and maintain working conditions for employees and visitors alike, which are safe, healthy and in compliance with statutory requirements and appropriate codes of practice. The avoidance of occupational accidents and illnesses is given a high priority.

Key Risks and Uncertainties

The following are the risk factors associated with the Group's business and industry:

Reliance on Key Contracts and Business Relationships

Several of the Group's major customer contracts are in the form of single purchase order arrangements and the majority of the engagements that are more formally documented are terminable on one month's notice. In addition, the Group has or anticipates having several large contracts that represent a significant proportion of its total revenue. There can be no guarantee that the Group's major customers will continue to engage its services.

Pipeline opportunities

The Group has a number of major contracts in contemplation in the form of a pipeline of opportunities. However there is no certainty that these opportunities will be entered into or converted into concluded contracts or that the expected level of work will in fact if converted to contracts be awarded to the Group. In addition there can be no certainty that any contracts resulting from conversion of the opportunity will be profitable or even not loss-making.

The Company may need additional access to capital in the future

The Group's capital requirements depend on numerous factors, including its ability to expand its business and its strategy of making complementary acquisitions. If its capital requirements vary materially from its current plans, the Group may require further financing. Any additional equity financing may be dilutive to Shareholders, and debt financing, if available, may involve restrictions on financing and operating activities and adversely affect the Group's dividend policy. In addition, there can be no assurance that the Group will be able to raise additional funds when needed or that such funds will be available on terms favourable or acceptable to the Group. If the Group is unable to obtain additional financing as needed, the Group may be required to reduce the scope of the Group's operations or anticipated expansion or to cease trading.

Management of future growth

The Group's plans for growth will challenge the Group's management team, customer support, marketing, administrative and technological resources. If the Group is unable to manage its growth effectively its business, operations or financial condition may deteriorate. The Group will consider future acquisition opportunities. If the Group is unable successfully to integrate an acquired company or business, the acquisition could lead to disruptions to the business. If the operations or assimilation of an acquired business does not accord with the Group's expectations, the Group may have to decrease the value afforded to the acquired business or realign the Group's structure.

Going Concern

On 8 May 2015 the Group announced that it had raised net proceeds of approximately £2.49 million after deducting commission and transaction related expenses through the issue of the Placing and Subscription Shares at the placing price of 14 pence per ordinary share. The Directors have reviewed forecasts and budgets based on current expected levels of expenditure and have concluded that the Group has sufficient funds available to meet its commitments for at least the next twelve months from the date of the approval of financial statements. The Directors regularly review the funding position of the Group and its cash flow forecasts. The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Information to shareholders – Website

The Group has its own web site (www.falanxgroup.com) for the purposes of improving information flow to its shareholders and potential investors.

Substantial shareholdings

On 14 July 2015, the following were holders of 3% or more of the Group's issued share capital:

Registered holder	Ordinary shares	Percentage of issued share capital
J R Blamire	7,900,000	11.12%
Ruffer LLP	7,142,857	10.05%
K P A Barclay*	5,765,500	8.11%
K C Investments	5,129,944	7.22%
Walker Crips	4,677,086	6.58%
K Renyard	3,500,000	4.93%
R Giles	3,077,778	4.33%
Myers Portfolio Limited	3,070,977	4.32%
J Campbell-Jones	2,440,475	3.43%

* Of which 2,182,500 (3.07%) are held by Dounreay Management and a further 666,666 (0.94%) by Andrea Barclay.

Save as set out above, the Directors are not aware of any other persons with a holding of 3% or more of the Group's issued share capital.

Auditors

The auditors Kingston Smith LLP were re-appointed by the Audit Committee on 12 May 2015 and have indicated their willingness to continue in office.

Disclosure of information to the auditors

So far as the Directors are aware, there is no relevant audit information of which the Group's auditors are unaware and they have taken all steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Statement of Directors' responsibilities

The statement of Directors' responsibilities can be found on page 9 of these financial statements. The statement of Directors' responsibilities forms part of the Directors' report.

On behalf of the Board

J R Blamire
Director
14 July 2015

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations and, as regards the Group financial statements, International Financial Reporting Standards (IFRS) as adopted by the European Union.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. 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 the financial performance and cash flows of the Group for that year. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether, in preparation of the Group financial statements, the Group has complied with IFRS as adopted by the European Union, subject to any material departures disclosed and explained in the Group financial statements; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with all applicable legislation and as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

CORPORATE GOVERNANCE REPORT

Statement of Compliance

Save for the Companies Act, there is no mandatory corporate governance regime in the British Virgin Islands with which the Group must comply. However, the Directors recognise the importance of sound corporate governance and intend to comply with appropriate recognised corporate governance standards as far as practicable and to the extent appropriate given the Group's size, assets, liabilities and other relevant information. In practice this means that the Group will be complying with the QCA Guidelines for AIM Companies.

Board of Directors

The Board's principal responsibilities include assisting in the formulation of corporate strategy, reviewing and approving all significant corporate transactions, monitoring operational and financial performance, reviewing and approving annual budgets and generally assisting management to enhance the overall performance of the Group in order to deliver maximum value to its shareholders. The Group holds Board meetings at least eight times each financial year and at other times as and when required.

Committees

The Group has in the operation the following committees: an Audit Committee, a Remuneration Committee and a Nomination Committee.

Audit Committee

The Audit Committee comprises Desmond Carr (Chairman), Iain Manley and Emma Shaw and meets at least two times a year. Executive Directors are permitted to attend meetings at the discretion of the Chairman of the Committee. There is an opportunity for any meeting to be in private between the Non-Executive Directors and the Company's auditor to consider any matter they wish to bring to the attention of the Committee. The terms of reference and areas of delegated responsibility of the Audit Committee are in the consideration and approval of the following matters:

- monitoring the quality and effectiveness of the internal control environment, including the risk management procedures followed by the Group;
- reviewing the Group's accounting policies and ensuring compliance with relevant accounting standards;
- reviewing the Group's reporting and accounting procedures;
- ensuring that the financial performance of the business is properly measured, controlled and reported on;
- reviewing the scope and effectiveness of the external audit and compliance by the Group with statutory and regulatory requirements;
- approving the external auditors' terms of engagement, their audit plan, their remuneration and any non-audit work;
- considering reports from the auditor on the outcome of the audit process and ensuring that any recommendations arising are communicated to the Board and implemented on a timely basis;
- reviewing the Board's statement on internal control in the Annual Report; and
- ensuring compliance with the relevant requirements of the AIM Rules.

Remuneration Committee

The Remuneration Committee comprises Desmond Carr (Chairman), Iain Manley and Emma Shaw and meets as and when necessary. It sets and reviews the scale and structure of the executive Directors' remuneration packages, including share options and the terms of the service contracts. The remuneration and the terms and conditions of the non-executive Directors are determined by the Directors with due regard to the interests of the Shareholders and the performance of the Group. The Remuneration Committee also makes recommendations to the Board concerning the allocation of share options to employees.

Nomination Committee

The Nomination Committee comprises Desmond Carr (Chairman), Iain Manley and Emma Shaw and meets as and when necessary. It keeps under review the skill requirements of the Board and the skill, knowledge, experience, length of service and performance of the Directors. It also reviews their external interests with a view to identifying any actual, perceived or potential conflicts of interests, including the time available to commit to their duties to the Group.

The Committee also monitors the independence of each non-executive Director and makes recommendations concerning such to the Board. The results of these reviews are important when the Board considers succession planning and the re-election and reappointment of directors. Members of the Committee take no part in any discussions concerning their own circumstances.

The Nomination Committee is also responsible for keeping under review the senior management team of the organisation to ensuring the continued ability of the organisation to compete effectively in the marketplace.

Internal Control

The Board has overall responsibility for ensuring that the Group maintains a system of internal control to provide it with reasonable assurance regarding the reliability of financial information used within the business and for publication. The Board is also responsible for ensuring that assets are safeguarded and risk is identified as early as practicably possible. As noted, the Audit Committee has a significant role in this area. The internal control systems established are designed to manage rather than completely eliminate risk and can only provide reasonable but not absolute assurance against misstatement or loss. The Group does not currently have an internal audit function and this will be kept under review as the Group progresses. The Board reviews the effectiveness of the systems of internal control and its reporting procedures and augments and develops these procedures as required to ensure that an appropriate control framework is maintained at all times. The principal control mechanisms deployed by the Group are:

- Board approval for all strategic and commercially significant transactions;
- detailed scrutiny of the monthly management accounts with all material variances investigated;
- executive review and monitoring of key decision-making processes at subsidiary board level;
- Board reports on business performance and commercial developments;
- periodic risk assessments at each business involving senior executive management;
- standard accounting controls and reporting procedures; and
- regularly liaising with the Group's auditor and other professionals as required.

Shareholder Communication

The Group's website (www.falanxgroup.com) is the primary source of information on the Group. This includes an overview of the activities of the Group, information on the Group's subsidiaries and details of all recent Group announcements.

Corporate Responsibility

Falanx Group Limited operates responsibly with regards to its shareholders, employees, other stakeholders, the environment and the wider community. The Group is committed to the well-being of all employees and ensures that their health, safety and general welfare is paramount at all times. We also maintain open and fair relationships with all clients and suppliers while ensuring that all transactions are operated on an arm's length, commercial basis.

The Directors are responsible for preparing the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial period. The Directors have elected to prepare these financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and applicable by law.

Approved by the Board on 14 July 2015 and signed on its behalf by

J R Blamire
Director

INDEPENDENT AUDITORS' REPORT

to the members of Falanx Group Limited

We have audited the financial statements of Falanx Group Limited for the year ended 31 March 2015 which comprise the Group Statement of Comprehensive Income, the Group Statements of Financial Position, the Group Statements of Cash Flows, the Group Statements of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

This report is made solely to the Group's members, as a body. Our audit work has been undertaken for no purpose other than to draw to the attention of the Group's members those matters which we are required to include in an auditor's report addressed to them. To the fullest extent permitted by law, we do not accept or assume responsibility to any party other than the Group and Group's members as a body, for our work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 9 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's affairs as at 31 March 2015 and of the Group's loss for the year then ended; and
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union.

Matthew Meadows
for and on behalf of Kingston Smith LLP, Statutory Auditor
Devonshire House
60 Goswell Road
London
EC1M 7AD

14 July 2015

CONSOLIDATED INCOME STATEMENT

for the year ended 31 March 2015

	Note	2015 £	2014 £
Continuing operations			
Revenue	4	1,922,049	4,436,639
Cost of sales		(1,811,324)	(3,030,192)
Gross profit		110,725	1,406,447
Administrative expenses		(2,223,897)	(1,397,080)
Exceptional item	30	(92,626)	–
Operating (loss)/profit		(2,205,798)	9,367
Finance income	8	525	122
Finance costs	8	–	(1)
Finance income – net		525	121
(Loss)/Profit before income tax		(2,205,273)	9,488
Income tax expense	9	(217,855)	(54,399)
Loss for the year from continuing operations		(2,423,128)	(44,911)
Loss for the year		(2,423,128)	(44,911)
Earnings per share			
Basic earnings per share – continuing and total operations	10	(4.75)p	(0.12)p
Diluted earnings per share – continuing and total operations	10	(4.75)p	(0.12)p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2015

	2015 £	2014 £
Loss for the year	(2,423,128)	(44,911)
Other comprehensive income:	–	–
Other comprehensive income for the year, net of tax	–	–
Total comprehensive income for the year	(2,423,128)	(44,911)
Attributable to:		
Owners of the parent	(2,423,128)	(44,911)
Total comprehensive income for the year	(2,423,128)	(44,911)

Items in the statement above are disclosed net of tax. The income tax relating to each component of other comprehensive income is disclosed in note 9.

The notes on pages 17 to 35 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 March 2015

	Note	2015 £	2014 £
Assets			
Non-current assets			
Property, plant and equipment	12	69,964	9,033
Intangible assets	13	300,167	30,000
Deferred tax	15	–	203,862
		370,131	242,895
Current assets			
Inventories	16	56,977	33,075
Trade and other receivables	17	660,159	1,260,306
Cash and cash equivalents	18	428,084	210,414
		1,145,220	1,503,795
Total assets		1,515,351	1,746,690
Equity			
Capital and reserves attributable to equity holders of the Company			
Share premium account	20	2,841,797	540,964
Translation reserve		(29,224)	–
Shares to be issued reserve		91,875	–
Retained earnings	21	(2,368,614)	54,514
Total equity		535,834	595,478
Liabilities			
Current liabilities			
Trade and other payables	22	965,524	1,151,212
Deferred tax liability	15	13,993	–
Total liabilities		979,517	1,151,212
Total equity and liabilities		1,515,351	1,746,690

The notes on pages 17 to 35 are an integral part of these consolidated financial statements.

The financial statements on pages 13 to 16 were authorised for issue by the Board of Directors on 14 July 2015 and were signed on its behalf by:

J R Blamire
Director

Company number: 1730012 (British Virgin Islands)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2015

	Note	Share premium £	Retained earnings £	Translation reserve £	Shares to be Issued reserve £	Total £
Balance at 1 April 2013		128,150	99,425	–	–	227,575
Loss for the period		–	(44,911)	–	–	(44,911)
Transactions with owners:						
Issue of share capital		900,956	–	–	–	900,956
Costs of issue of share capital		(488,142)	–	–	–	(488,142)
Balance at 31 March 2014		540,964	54,514	–	–	595,478
Balance as at 1 April 2014		–	–	–	–	–
Loss for the year		–	(2,423,128)	–	–	(2,423,128)
Transactions with owners:						
Issue of share capital		2,368,333	–	–	–	2,368,333
Costs of issue of share capital		(67,500)	–	–	–	(67,500)
Translation of foreign subsidiary		–	–	(29,224)	–	(29,224)
Share options issued	11	–	–	–	91,875	91,875
Balance as at 31 March 2015		2,841,797	(2,368,614)	(29,224)	91,875	535,834

Share premium account represents the excess of the amount subscribed for share capital over the nominal value of these shares, net of share issue expenses. Share issue expenses comprise the costs in respect of the issue by the Company of new shares.

Retained earnings represent the cumulative earnings of the Group attributable to the owners of the parent.

The notes on pages 17 to 35 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 March 2015

	Note	2015 £	2014 £
Cash flows from operating activities			
(Loss)/Profit before tax		(2,205,273)	9,367
Adjustments for:			
Depreciation		8,862	4,972
Amortisation of intangibles		141,134	7,500
Share based payment		91,875	–
Loss on disposal of equipment/fixtures & fittings		183	–
Net finance income recognised in profit or loss		(525)	122
		(1,963,744)	21,961
Changes in working capital:			
Increase in inventories		(23,902)	(33,075)
Decrease/(Increase) in trade and other receivables		600,148	(571,683)
(Decrease)/Increase in trade and other payables		(185,692)	268,484
Cash used in operations		(1,573,190)	(314,313)
Interest paid		–	(1)
Net cash used in operating activities		(1,573,190)	(314,314)
Cash flows from investing activities			
Interest received		525	–
Acquisition of equipment/fixtures and fittings		(69,923)	(4,739)
Acquisition of intangibles		(411,301)	–
Net cash used in investing activities		(480,699)	(4,739)
Cash flows from financing activities			
Net proceeds from issue of shares		2,300,833	412,814
Net cash generated from financing activities		2,300,833	412,814
Net increase in cash equivalents		246,944	93,761
Cash and cash equivalents at beginning of year		210,414	116,653
Foreign exchange losses on cash and cash equivalents		(29,274)	–
Cash and cash equivalents at end of year		428,084	210,414

The notes on pages 17 to 35 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March 2015

1. General information

Falanx (the "Company") and its subsidiaries (together the "Group") operate in the security (including cyber) and intelligence markets.

The Company is a public limited company which is listed on AIM on the London Stock Exchange and is incorporated and domiciled in the British Virgin Islands. The address of its registered office is PO Box 173, Road Town, Tortola, British Virgin Islands.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been applied consistently to all the years presented unless otherwise stated.

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and International Financial Reporting Interpretations Committee ("IFRIC") interpretations. The functional and presentational currency for the financial statements is GBP Sterling. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available for sale financial assets, financial assets and financial liabilities at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

2.1.1 Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement and Directors' Report on pages 2 to 8. In addition, note 23 to the Financial Statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk. The Directors regularly review the funding position of the Group and its cash flow forecasts.

On 8 May 2015 the Group announced that it had raised net proceeds of approximately £2.49 million after deducting commission and transaction related expenses through the issue of the Placing and Subscription Shares at the placing price of 14 pence per ordinary share.

The Directors have reviewed forecasts and budgets based on current expected levels of expenditure and have concluded that the Group has sufficient funds available to meet its commitments for at least the next twelve months from the date of the approval of financial statements. The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

2.1.2 New and Revised Standards

Standards in effect in 2015

The following new and amended standards, and interpretations are mandatory for the first time for the financial year beginning 1 April 2014 but are not currently relevant to the group (although they may affect the accounting for future transactions and events):

- IFRS 10, 'Consolidated financial statements', effective date 1 January 2014
- IFRS 11, 'Joint arrangements', effective date 1 January 2014
- IFRS 12, 'Disclosures of interests in other entities', effective date 1 January 2014
- IAS 32, (amendment) 'Financial instruments presentation' effective date 1 January 2014
- IAS 36, (amendment) 'Recoverable amount disclosures for non-financial assets' effective date 1 January 2014

IFRS in issue but not applied in the current financial statements

The following IFRS and IFRIC Interpretations have been issued but have not been applied by the Group in preparing these financial statements as they are not as yet effective. The Group intends to adopt these Standards and Interpretations when they become effective, rather than adopt them early.

- IFRS 9, 'Financial instruments', effective date 1 January 2018
- IFRS 15, 'Revenue from contracts with customers', effective date 1 January 2017

A number of IFRS and IFRIC interpretations are also currently in issue which are not relevant for the Group's activities and which have not therefore been adopted in preparing these financial statements.

2. Summary of significant accounting policies continued

2.2 Consolidation

Subsidiaries

Subsidiary undertakings are all entities over which the Group has the power to govern the financial and operating policies of the subsidiary and, therefore, exercise control. The existence and effect of both current voting rights and potential voting rights that are currently exercisable or convertible are considered when assessing whether control of an entity is exercised. Subsidiaries are consolidated from the date at which the Group obtains the relevant level of control and are de-consolidated from the date at which control ceases.

The acquisition method of accounting is used for all business combinations. On acquisition, the cost is measured at the aggregate of their fair values at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group in exchange for control of the acquire. Any costs directly attributable to the business combination are expensed as incurred. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (Revised), "Business Combinations" are recognised at fair values at the acquisition date.

Goodwill represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the difference is recognised directly in profit or loss. Any subsequent adjustment to reflect changes in consideration arising from contingent consideration amendments are recognised in profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 Segment reporting

In accordance with IFRS 8, segmental information is presented based on the way in which financial information is reported internally to the chief operating decision maker. The Group's internal financial reporting is organised along product and service lines and therefore segmental information has been presented about business segments. A business segment is a group of assets and operations engaged in providing products and services that are subject to risks and returns which are different from those of other business segments.

2.4 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised, when it is probable that the economic benefits will flow to the Falanx Group Limited and when the revenue can be measured reliably, on the following bases:

Class of revenue	**Recognition criteria**
Subscription fee	straight line basis over the life of the contract
Consultancy	on rendering of service to customers
Supply of products	when effective title passes to the customer
Maintenance income	straight line basis over the life of the contract
Training courses	on delivery of training course

2.5 Taxation

The tax expense for the year represents the total of current taxation and deferred taxation. The charge in respect of current taxation is based on the estimated taxable profit for the year. Taxable profit for the year is based on the profit as shown in the income statement, as adjusted for items of income or expenditure which are not deductible or chargeable for tax purposes. The current tax liability for the year is calculated using tax rates which have either been enacted or substantively enacted at the balance sheet date.

Deferred tax is provided in full, using the liability method on temporary differences arising between the tax base of assets and liabilities and their carrying values in the financial statements. The deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates which have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carrying forward of unused tax assets and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the statement of financial position date.

2.6 Foreign Currency

Assets and liabilities in foreign currency are translated into sterling at the rate of exchange ruling on the reporting date. Transactions in foreign currency are translated into sterling at the rate of exchange ruling at the date of transaction. Exchange differences are taken into account in arriving at the operating loss.

(a) Functional and presentation currency

Items included in the financial statements of the Falanx Group are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in GBP sterling, which is the Falanx Group's functional and presentation currency.

(b) Translation of foreign currencies

In preparing the financial statements of each individual Group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions.

Transactions in foreign currencies during the year are converted at exchange rates ruling at the transaction dates. Monetary assets and liabilities items in foreign currencies at the year end are translated at rates of exchange ruling on the reporting date. All exchange differences are dealt with in the income statement in the period in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of monetary items.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Falanx Group's foreign operations are translated into Currency Units using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity.

2.7 Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

All assets are depreciated in order to write off the costs, less anticipated residual values of the assets over their useful economic lives on a straight line basis as follows:

- Fixtures and fittings: 5 years
- Computer equipment: 3 years

2. Summary of significant accounting policies continued

2.8 Intangible assets

Acquired intangible assets are shown at historical cost. Acquired intangible assets have a finite useful life and are carried at cost, less accumulated amortisation over the finite useful life. All charges in the year are shown in the income statement in administrative expenses.

Software licences

Acquired software licences are shown at historical cost. Software licences have a finite life useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight line method to allocate the cost of software licences over their estimated useful lives of 3 years.

Other intangibles

Acquired intangible assets are shown at historical cost. Acquired intangible assets have a finite useful life and are carried at cost, less accumulated amortisation over the finite useful life. All charges in the year are shown in the income statement in administrative expenses. Intangible assets are amortised over 10 years.

2.9 Impairment of non-financial assets

Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. A review for indicators of impairment is performed annually. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Any impairment charge is recognised in the income statement in the year in which it occurs. When an impairment loss, other than an impairment loss on goodwill, subsequently reverses due to a change in the original estimate, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, up to the carrying amount that would have resulted, net of depreciation, had no impairment loss been recognised for the asset in prior years.

2.10 Inventory

Inventory mainly comprises of licences held for resale. They stated at the lower of cost and net realisable value. Cost is based on purchase price and net realisable value is based on estimated selling price less disposal costs.

2.11 Financial assets

The Group classifies its financial assets as cash and cash equivalents and trade and other receivables. The classification is dependent on the purpose for which the financial assets are acquired.

(a) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits, including liquidity funds, with an original maturity of three months or less. For the purpose of the statement of consolidated cash flow, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(b) Trade and other receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They arise principally from the provision of goods and services to customers. Trade receivables are initially recognised at fair value less an allowance for any uncollectible amounts. A provision for impairment is made when there is objective evidence that the Group will not be able to collect debts. Bad debts are written off when identified.

2.12 Share capital

Ordinary shares of the Company are classified as equity. Costs directly attributable to issue of new shares are shown in equity as a deduction.

2.13 Reserves
The Group financial statements include the following reserves: share premium account, warrants reserve and retained earnings. Premiums paid on the issue of share capital, less any costs relating to these, are posted to the share premium account.

2.14 Trade payables
Trade payables are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest method. As the payment period of trade payables is short future, cash payments are not discounted as the effect is not material.

2.15 Leases
Leases where the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, are charged to the income statement on a straight line basis over the term of the lease.

Rental income received under operating leases is credited to the income statement on a straight line basis over the lease term.

2.16 Pensions
The Company operates a defined contribution pension scheme under which fixed contributions are payable. Pension costs charged to the income statement represent amounts payable to the scheme during the year.

2.17 Share-based payments
The cost of share-based payment arrangements, which occur when employees receive shares or share options, is recognised in the income statement over the period over which the shares or share options vest.

The expense is calculated based on the value of the awards made, as required by IFRS 2, 'Share-based payment'. The fair value of the awards is calculated by using the Black-Scholes option pricing model taking into account the expected life of the awards, the expected volatility of the return on the underlying share price, the market value of the shares, the strike price of the awards and the risk-free rate of return. The charge to the income statement is adjusted for the effect of service conditions and non-market performance conditions such that it is based on the number of awards expected to vest. Where vesting is dependent on market-based performance conditions, the likelihood of the conditions being achieved is adjusted for in the initial valuation and the charge to the income statement is not, therefore, adjusted so long as all other conditions are met.

Where an award is granted with no vesting conditions, the full value of the award is recognised immediately in the income statement.

2.18 Provisions
Provisions are recognised in the balance sheet where there is a legal or constructive obligation to transfer economic benefits as a result of a past event. Provisions are discounted using a rate which reflects the effect of the time value of money and the risks specific to the obligation, where the effect of discounting is material.

Provisions are measured at the present value of expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time, value of money and the risks specific to the obligation. The increase in provision due to the passage of time is recognised as interest expense.

3. Critical accounting estimates and judgements

The preparation of the Group Financial Statements in conformity with IFRSs as adopted by the European Union requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the present circumstances. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Group Financial Statements are disclosed below.

Deferred tax asset

The extent to which deferred tax assets can be recognised is based on an assessment of the probability of the group's future taxable income against which the deferred tax assets can be utilised. This is based on projected forecasts and budgets which are reviewed by the directors and a judgement is made as to the whether the tax asset can be recognised.

Impairment of intangible assets

Management have assessed indicators of impairment and conducted an impairment review of intangible assets. They have made judgements as to the likelihood of them generating future cash flows, the period over which those cash flows will be received and the costs which are attributable against them. The recoverable amount is determined using the value in use calculation. The use of this method requires the estimation of future cash flows and the selection of a suitable discount rate in order to calculate the present value of these cash flows.

In support of the assumptions, management use a variety of sources. In addition, management have undertaken scenario analyses, including a reduction in sales forecasts, which would not result in the value in use being less than the carrying value of the cash-generating unit. However, if the business model is not successful, the carrying value of the intangible assets may be impaired and may require writing down.

Management have exercised judgement in selecting the appropriate discount rate for application to intangible assets when carrying out impairment calculations and have applied a pre-tax discount rate of 24%.

The other intangible asset detailed in note 13 is being written down over a 10 year period with a remaining useful life of 5 years.

The directors feel that this is a realistic period given that the Stirling Assynt (Europe) Limited subscriber base formed from the original purchase of Assynt Associates continues to expand.

Impairment of trade receivables

Impairments against trade receivables are recognised where a loss is probable. As the business has a short trading history there is little historical evidence available to assess the likely level of bad debts and management have therefore based their assessment of the level of impairment on prior industry experience as well as the collection rates being experienced. The estimates and assumptions used to determine the level of provision will be regularly reviewed and such a review could lead to changes in the assumptions, which may impact the income statement in future periods.

4. Segmental reporting

As described in note 2, the Directors consider that the Group's internal financial reporting is organised along product and service lines and, therefore, segmental information has been presented about business segments. The categorisation of business activities into segments has changed from analysing per company to analysing per division to be in line with the views of the chief operating decision maker as highlighted in the Chairman's statement. The segmental analysis of the Group's business was derived from its principal activities as set out below. The information below also comprises the disclosures required by IFRS 8 in respect of products and services as the Directors consider that the products and services sold by the disclosed segments are essentially similar and, therefore, no additional disclosure in respect of products and services is required. The other segment below and overleaf is made up of the parent company's administrative operation.

Reportable segments

The reportable segment results for the year ended 31 March 2015 are as follows:

	Intelligence £	Resilience £	Cyber £	Other segments £	Total £
Revenues from external customers	1,765,933	156,116	–	–	1,922,049
Total revenue	1,765,933	156,116	–	–	1,922,049
Operating expenses	(1,528,834)	(386,970)	(1,002,585)	(1,059,332)	(3,977,721)
Finance income	394	–	–	131	525
Depreciation and amortisation	(12,654)	–	(137,472)	–	(150,126)
Segment profit/(loss) for the year	224,839	(230,854)	(1,140,057)	(1,059,201)	(2,205,273)

The reportable segment results for the year ended 31 March 2014 are as follows:

	Intelligence £	Resilience £	Cyber £	Other segments £	Total £
Revenues from external customers	1,555,826	2,880,813	–	–	4,436,639
Total revenue	1,555,826	2,880,813	–	–	4,436,639
Operating expenses	(1,456,353)	(2,181,753)	–	(776,694)	(4,414,800)
Finance income	121	–	–	–	121
Depreciation and amortisation	(12,472)	–	–	–	(12,472)
Segment profit/(loss) for the year	87,122	699,060	–	(776,694)	9,488

Segment assets consist primarily of plant and equipment, intangible assets, inventories, trade and other receivables and cash and cash equivalents. Unallocated assets comprise deferred taxation, available for sale financial assets, financial assets held at fair value through profit or loss and derivatives. Segment liabilities comprise operating liabilities; liabilities such as deferred taxation, borrowings and derivatives are not allocated to individual business segments.

4. Segmental reporting continued

Segment assets and liabilities as at 31 March 2015 and capital expenditure for the year then ended are as follows:

	Intelligence £	Resilience £	Cyber £	Other segments £	Total £
Total assets	732,809	70	507,417	275,055	1,515,351
Liabilities	400,403	226,007	162,798	190,309	979,517
Capital expenditure	3,206	–	478,204	–	481,410

Segment assets and liabilities as at 31 March 2014 and capital expenditure for the year then ended are as follows:

	Intelligence £	Resilience £	Cyber £	Unallocated £	Total £
Total assets	824,383	761,405	33,075	127,827	1,746,690
Liabilities	600,071	124,284	–	426,859	1,151,214
Capital expenditure	4,739	–	–	–	4,739

Geographical information

The Group's business segments operate in six geographical areas, although managed on a worldwide basis from the Group's head office in the United Kingdom.

A geographical analysis of revenue and non-current assets is given below. Revenue is allocated based on location of customer; non-current assets are allocated based on the physical location of the asset.

Revenue	2015 £	2014 £
United Kingdom	883,969	3,571,236
Europe	518,203	326,575
Australasia	154,865	280,875
United States	169,229	131,325
Middle East	138,525	89,759
Other Countries	57,258	36,869
	1,922,049	4,436,639

Non-current assets	2015 £	2014 £
United Kingdom	370,131	242,577
Australasia	–	318
	370,131	242,895

Major customers

Included within revenue arising from the intelligence segment are revenues approximately £nil (2014: £2,880,813) which arose from sales to the Group's largest customer. No other single customer contributed 10% or more to the Group's revenue in 2015 or 2014.

5. Operating profit

Operating profit for the year is stated after charging the following:

	2015 £	2014 £
Depreciation of owned property, plant and equipment	8,862	4,972
Amortisation of intangibles	141,134	7,500
Operating lease rentals – other	29,908	27,061

6. Auditors' remuneration

During the year the Group obtained the following services from the Company's auditors:

	2015 £	2014 £
Remuneration receivable by the Company's auditors for the audit of consolidated and Company financial statements	18,500	17,500
Remuneration receivable by the Company's auditors and its associates for the supply of other services to the Company and its associates, including remuneration for the audit of the financial statements of the Company's subsidiaries:		
– the audit of the Company's subsidiaries pursuant to legislation	15,500	7,500
– other services pursuant to legislation	16,930	8,250
– tax services	4,500	–
	55,430	33,250

7. Employee benefit expense

	2015 £	2014 £
Wages and salaries, including termination benefits	1,386,954	1,309,428
Social security costs	139,863	128,088
Other pension costs	7,077	6,148
Share options granted to employees	91,875	–
	1,625,769	1,443,664

The average monthly number of employees, including Directors, employed by the Group during the year was:

	2015	2014
Researchers & analysts	9	7
SOC operations & analysts	2	–
Sales	2	2
Administration and management	13	12
	26	21

Directors' emoluments

	2015 £	2014 £
Emoluments, including benefits in kind	227,500	214,500
Pension costs	–	–
	227,500	214,500

The emoluments of the highest paid Director were as follows:

	2015 £	2014 £
Emoluments, including benefits in kind	100,000	100,000
Pension costs	–	–
	100,000	100,000

8. Finance income and costs

	2015 £	2014 £
Interest received	525	122
Interest payable – other	–	(1)
Net finance income recognised in profit/(loss)	525	121

9. Income tax expense

Group	2015 £	2014 £
Current tax		
Current tax on profits for the year	–	–
Total current tax	–	–
Deferred tax		
Deferred tax charge for the year	217,855	54,339
Total deferred tax	217,855	54,399
Income tax expense	217,855	54,399

The tax charge for the year is different from the standard rate of corporation tax in the United Kingdom of 20%. The difference can be reconciled as follows:

	2015	2014
(Loss)/Profit before tax	(2,205,273)	9,488
Tax calculated at the applicable rate based on the profit for the year 20% (2014: 20%)	(441,054)	1,898
Tax effects of:		
Creation/(Utilisation) of tax losses	406,247	(5,112)
Expenses not deductible for tax purposes	33,035	3,308
Accelerated capital allowances	–	(853)
Re-measurement of deferred tax	–	55,158
Short term timing differences	1,772	–
Tax charge	–	54,399

10. Basic and diluted earnings per share

Basic earnings per share is calculated by dividing the profit/(loss) attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year. There are no dilutive share options at present as these would currently increase the loss per share.

	2015	2014
Earnings attributable to equity holders of the Company (£)	(2,423,128)	(44,911)
Weighted average number of ordinary shares in issue	50,992,482	37,343,121
Basic and diluted loss per share (pence per share)	(4.75)	(0.12)

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue to assume the conversion of all dilutive potential ordinary shares. The Company's dilutive potential ordinary shares arise from warrants. In respect of the warrants, a calculation is performed to determine the number of shares that could have been acquired at fair value, based upon the monetary value of the subscription rights attached to the outstanding warrants. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the warrants.

At the year ended 31 March 2015, the potentially dilutive ordinary shares were anti-dilutive because the Group was loss-making. The basic and diluted earnings per share as presented on the face of the income statement are therefore identical. All earnings per share figures presented above arise from continuing and total operations and, therefore, no earnings per share for discontinued operations is presented.

11. Share based payment expense

The Company operates share-based payment arrangements to remunerate key employees in the form of a share option scheme. Vesting of the options is conditional on the completion of three years' service from the date of grant of the options (the vesting period). The exercise price of the option is normally equal to the market price of an ordinary share in the Company at the date of grant. The options may be exercised over periods ranging from one to ten years from the date of grant and lapse if not exercised by that date.

	2015		2014	
	Average exercise price (pence)	Options	Average exercise price (pence)	Options
At 1 April	–	–	–	–
Granted	42.88	2,106,583	–	–
Forfeited	–	–	–	–
Exercised	–	–	–	–
Expired	–	–	–	–
At 31 March	42.88	2,106,583	–	–

Share options outstanding at the end of the year have the following expiry date and exercise prices:

		Shares	
Expiry date – 31 March	**Exercise price (pence)**	**2015**	**2014**
2016–2023	–	–	–
2024	44.5	1,899,440	–
2024	28.0	207,143	–
		2,106,583	–

The weighted average fair value of the 2,106,583 options granted during the year was determined using the Black-Scholes option pricing model and was 10.70 pence per option. The significant inputs to the model were exercise price as shown above, an expected option life of three and a half years, expected volatility of 50% and a risk-free rate of return estimated between 1.2% and of 1.59%. The volatility is based on analysis of the volatility of the company's historical share price.

The total share-based payment expense recognised in the income statement in respect of share options granted to Directors and employees is £91,875.

12. Property, plant and equipment

	Fixtures and fittings £	Computer equipment £	Total £
Cost			
At 1 April 2014	3,177	14,149	17,326
Additions	43,225	26,885	70,110
Disposals	–	(475)	(475)
At 31 March 2015	46,402	40,559	86,961
Depreciation			
At 1 April 2014	916	7,377	8,293
Charge for the year	1,356	7,506	8,862
Released on disposal	–	(158)	(158)
At 31 March 2015	2,272	14,725	16,997
Net book value			
At 31 March 2015	44,130	25,834	69,964
At 31 March 2014	2,261	6,772	9,033

13. Intangible assets

	Software licence	Other intangibles £	Total £
Cost			
At 1 April 2014	–	75,000	75,000
Additions	411,301	–	411,301
Disposals	–	–	–
At 31 March 2015	411,301	75,000	486,301
Amortisation and impairment			
At 1 April 2014	–	45,000	45,000
Amortisation charge for year	133,634	7,500	141,134
Impairment charge	–	–	–
At 31 March 2015	133,634	52,500	186,134
Net book value			
At 31 March 2015	277,667	22,500	300,167
At 31 March 2014	–	30,000	30,000

The other intangible asset arose as a result of the purchase of Assynt Associates by Stirling Assynt (Europe) Limited in April 2008. The customer base acquired consisted of a number of companies that subscribed to the Stirling Assynt (Europe) reporting service.

Impairment review

The Group has undertaken impairment review of cash generating units (CGU's) and identified CGU subject to impairment testing, listed below.

Business	Subsidiary
Cyber Security	Falanx Assuria Limited

Management performed impairment testing of software licenses at the balances sheet date. The recoverable amount of software licenses relating to this operation is determined based on a value in use calculation which uses future cash flow projections over the estimated useful life (see note 2.8).

Key assumptions

Cyber Security

In determining value in use, financial and business forecasts have been prepared by management and approved by the Board. These forecasts also indicate growth rates that increase by various rates throughout the forecasted period. Management used pre-tax discount rate of 24% in estimating the value in use.

The key assumption used in the value in use calculations is the level of future cash flows estimated by management over the budget period, which does not exceed 2 years. Management notes that a 5 % increase in the discount rate or a 15% reduction in expected revenues would not give rise to impairment.

Following the impairment testing of the CGU Directors do not believe that the carrying value of software licences need to be impaired and, hence, no charge has been made. However, if the business model is not successfully implemented, the carrying value of the intangible may be impaired and may require writing down in the future.

14. Subsidiaries

Principal subsidiaries

The Company holds more than 20% of the share capital of the following companies:

Name	Country of incorporation	Nature of business	Proportion of ordinary shares held by parent
Stirling Assynt (Acquisition) Limited	British Virgin Islands	Holding of investments	100%
Stirling Assynt (Europe) Limited	England and Wales	International business intelligence consultancy	100%
Stirling Risk (Asia) Limited	Hong Kong	Provision of risk assessments and investigation services	100%
Falanx Assuria Limited	England and Wales	Cyber defence solution	100%
Falanx Protection Limited	British Virgin Islands	Blast protection and security consultancy	100%
FG Consulting Services DMCC	United Arab Emirates	Management consultancy	100%
Falanx (UK) Limited	England and Wales	Dormant	100%

Falanx Assuria Limited was incorporated on 14 April 2014 and FG Consulting Services DMCC was incorporated on 7 July 2014.

15. Deferred taxation

	2015 £	2014 £
UK Subsidiary		
Balance at 1 April	203,862	258,261
Deferred tax asset (net) recognised through acquisition	–	–
Charge to the income statement	(217,855)	(54,399)
Effect of change in tax rate in the income statement	–	–
Balance at 31 March	(13,993)	203,862

The deferred tax asset (net) represents:

	2015 £	2014 £
Deferred tax asset	–	205,605
Deferred tax liability	(13,993)	(1,743)
	(13,993)	203,862

The deferred tax liability relates to accelerated capital allowances on capital expenditure. In the year ended 31 March 2014, the deferred tax asset was recognised on the expectation of related entities generating sufficient trading profit.

Under IFRS, deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the tax rates (and tax law) that have been enacted or substantively enacted by the balance sheet date.

The above deferred tax liability was calculated based on the expected UK corporation tax rate of 20%, being the rate which we expect to apply in the future when the liability is settled.

16. Inventories

	2015 £	2014 £
Work in progress	23,902	–
Finished goods	33,075	33,075
	56,977	33,075

17. Trade and other receivables

	2015 £	2014 £
Trade receivables	263,447	1,035,537
Less: provision for doubtful receivables	(6,225)	–
	257,222	1,035,537
Other receivables	158,067	28,900
Prepayments and accrued income	244,870	195,869
	660,159	1,260,306

The current portion of trade and other receivables is stated at fair value.

18. Cash and cash equivalents

	2015 £	2014 £
Cash at bank and in hand	428,084	210,414
Cash and cash equivalents in statement of cash flows	428,084	210,414

19. Share capital

	2015		2014	
	Number of shares	Nil par value	Number of shares	Nil par value
Allotted, called up and fully paid at the beginning	39,704,583	–	32,500,000	–
New shares issued	12,472,221	–	7,204,583	–
	52,176,804	–	39,704,583	–

On 17 April 2014 the Company issued 11,166,667 at 18 pence each raising £2,010,000. Subscription proceeds were used to support the development and general working capital requirements of Falanx's international Cyber Security proposition. A further 277,778 ordinary shares valued at £50,000 were issued conditional upon admission in consideration for services in connection with the subscription. The Company also announced the issue of warrants to subscribe for 5,583,334 shares at an exercise price per of 30 pence per share with an exercise period of 3 years from 17 April 2014.

On 28 July 2014 the Board resolved to issue share options to employees under the EMI scheme. The share option pool will be no larger than a number equal to 10% of the total number of shares in issue.

On 7 August 2014 the Company issued 13,888 ordinary shares at 30 pence each from the exercise of warrants.

On 1 December 2014 the Company issued 1,013,888 ordinary shares at 30 pence each from the exercise of warrants.

At 31 March 2015 a total of 5,493,058 warrants issued to various shareholders remained outstanding. 937,500 were issued at an exercise of price of 18 pence per share expiring on 23 September 2016 and the remaining 4,555,558 were issued at an exercise price of 30 pence expiring on 17 April 2017.

20. Share Premium

	2015 £	2014 £
At 1 April	540,964	128,150
Premium on issue of shares	2,368,333	900,956
Costs of share issue	(67,500)	(488,142)
At 31 March	2,841,797	540,964

21. Retained earnings

	2015 £	2014 £
At 1 April	54,514	99,425
Loss for the year	(2,423,128)	(44,911)
At 31 March	(2,368,614)	54,514

22. Trade and other payables

	2015 £	2014 £
Trade payables	458,333	329,669
Other payables	11,619	326,412
Taxation and social security	45,478	118,330
Accruals and deferred income	450,094	376,801
	965,524	1,151,212

Included in other payables is a 2015: £nil (2014: £300,000) advance receipt for ordinary shares subscription. The shares were issued on 17 April 2014 (see note 19).

23. Financial instruments

The Group is exposed through its operations to one or more of the following financial risks that arise from its use of financial instruments. A risk management programme has been established to protect the Company against the potential adverse effects of these financial risks.

Market risk

The main risks arising from the Group's financial instruments are liquidity risk, credit risk and foreign currency risk. The Directors regularly review and agree policies for managing each of these risks and are set out in the subsections below. The totals for each category of financial instruments and the carrying amounts, measured in accordance with IAS 39 as detailed in the policies, are as follows:

Loans and receivables

	2015 £	2014 £
Trade and other receivables	285,903	1,064,437
Cash and cash equivalents	428,084	210,414
	713,987	1,274,851

Trade and other payables

	2015 £	2014 £
Trade and other payables	469,952	656,081
	469,952	656,081

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting these obligations associated with financial liabilities.

The responsibility for liquidity risks management rests with the Board of Directors, which has established an appropriate liquidity risk management framework for the management of the Group's short term and long-term funding and liquidity requirements.

The Group manages liquidity risks by maintaining adequate reserves by continuously monitoring monthly expected forecasts and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

The trade and other payables maturity profile, based on contractual undiscounted cash flows, of the Group is as follows:

	2015 £	2014 £
Trade and other payables due in:		
Less than one month	460,785	329,669
Six months to one year	9,167	326,412
Total	469,952	656,081

Credit risk

Credit risk is the risk that a counter-party will cause a financial loss to the Group by failing to discharge its obligation to the Group.

The Group manages its exposure to this risk by applying Board approved limits to the amount of credit exposure to anyone counter-party and employs strict minimum credit worthiness criteria as to the choice of counter-party thereby ensuring that there are no significant concentrations of credit risk.

The carrying amount of financial assets represents the maximum credit exposure; therefore, the maximum exposure to credit risk at the balance sheet date was £713,987 (2014: £1,274,851). The amount represents the total of the carrying amount of current assets.

The maximum amount exposure to credit risk for trade receivables at the balance sheet date was £257,222 (2014: £1,035,537). As at the date of signing these financial statements, the Group does not expect to incur material credit losses of its financial assets or other financial instruments; therefore credit exposure is considered minimal.

Credit quality of financial assets

The Group's credit risk is mainly attributable to trade receivables. The Group's customers are spread across a wide range of industries and service sectors and consequently the Group is not exposed to material concentrations of credit risk on trade receivables with there being a preponderance of blue chip companies.

The credit quality of financial assets can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

		2015 £	2014 £
Cash at bank and short term deposits			
Counterparties with external credit rating (Moody's)			
A2	Barclays Bank plc	10,263	73,550
Aa2	HSBC Bank	365,601	136,864
Baa2	Mashreq Bank	51,162	–
Total		427,026	210,414

23. Financial instruments continued

Foreign currency risks

The Group's exposure to foreign currency risk is as follows. This is based on the carrying amount for monetary financial instruments:

Financial assets

	Sterling £	US Dollar £	Euro £	Canadian Dollar £	Hong Kong Dollar £	Total £
At 31 March 2015						
Cash and cash equivalent	149,585	75,247	201,603	–	1,649	428,084
Trade receivables	204,524	42,138	10,173	387	–	257,222
Other receivables	23,194	–	–	–	5,487	28,681
	377,303	117,385	211,776	387	7,136	713,987

Financial liabilities

	Sterling £	US Dollar £	Euro £	Canadian Dollar £	Hong Kong Dollar £	Total £
At 31 March 2015						
Trade payables	423,741	32,366	2,226	–	–	458,333
Other payables	11,619	–	–	–	–	11,619
	435,360	32,366	2,226	–	–	469,952

Foreign exchange sensitivity analysis

A 10 percent strengthening of £ sterling against the above currencies would increase the loss by £30,209 (2014: £14,192) in the coming financial year.

The Group currently does not utilise swaps or forward contracts to manage its currency exposures, although such facilities are considered and may be used where appropriate in the future.

24. Capital risk management

Total capital managed in the Group is the shareholders' funds as shown in the statement of financial position.

The Group aims to manage its overall capital so as to ensure that it continues to operate as a going concern, whilst providing an adequate return to its shareholders.

The Group set the amount of capital in proportion to its overall financing structure, i.e. equity and financial liabilities. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debts.

The Group is not subject to any externally imposed capital requirements.

Other risks management

The Group operations expose it to a variety of financial risks that include the effects of changes in interest rates, liquidity risk and credit risk. Given the size of the Group, the Directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the Board. The policies set by the Board of Directors are implemented by the Group's finance department.

25. Pension

The Group does not operate a Group pension scheme. However, one of its subsidiaries, Stirling Assynt (Europe) Limited, contributes 8% of the gross salary of one of its Directors to a pension scheme of the Directors' choice. Total contribution for the year £6,400 (2014: £6,148).

26. Financial commitments

The Group's total obligations under operating leases are as follows:

	2015 £	2014 £
Due within one year	70,115	21,196
Between two and five years	27,625	47,125
	97,740	68,321

Operating lease payments represent rentals payable by its subsidiaries (Stirling Assynt (Europe) Limited and Falanx Assuria Limited) for its office premises at The Europoint Centre in London and Green Park in Reading.

27. Control

No ultimate party controls Falanx Group Limited.

28. Related party transactions

The following transactions were carried out with related parties during the year:

Key management compensation

Key management includes Directors (Executive and Non-executive) and members of the Executive Committee.

£nil (2014: £10,000) representing remuneration to J R Blamire, the Chief Executive Officer (director of the company), was paid to Kay Reynard (his sibling and a shareholder).

Payment for services

Andrea Barclay, the partner of K P A Barclay, Executive Chairman was paid £10,650 (2014: £11,862.50) in respect of research and report writing for the 100% owned subsidiary Stirling Assynt (Europe) Limited.

Fees and commissions

On 18 August 2014 the Company signed an agreement with KC Investments (a shareholder) to pay £28,750 being a 5% commission on funds raised from third parties in September 2013 and April 2014. Of this amount £17,500 has been included in the accounts for the year under review (2014: £11,250).

29. Events after the reporting period

Equity transactions

On 8 May 2015 the Company announced the issue of 18,878,564 new ordinary shares of no par value at a price of 14 pence each raising net proceeds of £2.49m after deducting commission and transaction related costs. £500,000 of the subscription proceeds to be used to extend the global licence agreement with Assuria with the remainder to be used for continued sales and marketing development of Falanx's cloud-based cyber managed services.

30. Exceptional items

During the year the Group settled a legal dispute with a consultant sub-contractor. The Group incurred £92,626 in legal fees and settlement costs.

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