Falanx Group Limited

Report and financial statements year ended 31 March 2017

Company number 1730012 (British Virgin Islands)

Falanx Group Limited

Falanx Group Limited, listed on AIM, is a cyber defence and intelligence services 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 Cyber Defence:** Comprehensive cloud-based cyber defence services, born from the amalgamation of the Falanx Cyber Defence and Falanx Assuria businesses

• **Falanx Intelligence:** Political & Security Risk and Business Intelligence services operating as Stirling Assynt

• **Falanx Technologies:** Reseach and development capability for rapid innovation to support the cyber and intelligence divisions

Falanx Cyber Defence

Falanx Cyber Defence brings together **Falanx Cyber Defence** and **Falanx Assuria** to provide comprehensive Cyber Defence services to government and commercial organisations worldwide.

Falanx Cyber Technologies

Falanx Cyber Techonologies is a research and development capability that supports the techonology needs of the cyber and intellingence divisions.

Falanx Intelligence

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

Business Overview

Revenue Growth 50%

£2.7M

FY16: £1.8M

Ebitda Progress

-£1.2M

FY16: -£2.3m

Cash £430k

before May 2017 £2M equity issue

Cyber Acceleration

£937K

FY16: £0.23M

Cyber Acquisition

Integration of ASC

Debt Free

All loans repaid in Sept 2016

Intelligence Up 13%

£1.8M

FY16: £1.59M

Cyber Tech

MidGARD, our new Threat Detection and Response Platform

Expansion

Tripled capacity at new SOC. New Channel Partnerships

Business Overview

Our Business

We help clients manage global security and cyber threats. Our clients include major corporates, airlines, banks, government departments and international NGOs. We help clients understand the people they work with, the countries they operate in and how to protect and defend from cyber-attack.

Our team provides geo-political analysis, corporate intelligence and cyber defence services including ethical hacking, security consulting, strategy development, incident response and security event monitoring. Many clients choose us to monitor their networks to help prevent cyber-attacks through our advanced detection capabilities and to provide rapid incident response when the client needs us the most. We partner with our clients to collaborate on the most relevant risk reduction solution for them and typically engage with clients though initial consultation and assessment, followed by long term annuity contracts for *Geo-Political Analysis* and for *Managed Detection and Response*.

Our value proposition is to reduce client risk in return for predictable Opex payments and to work in partnership to balance budget and risk for our clients. Clients leverage our investment in staff, intelligence & technology to reduce capital spend, in-house implementation, and to avoid retention risks.

For investors, Falanx is a vehicle for direct investment in Cyber, one of the fastest growing markets in the world. Falanx is already listed on the London Stock Market (Ticker: FLX) and we aim to be the leading provider of managed cyber and geo-political services on the London Alternative Investment Market (AIM).

Highlights

- Strong Growth across all service lines.
- Group revenue grows 50% to £2.7M.
- Cyber revenue grows 300%+ to ~£1M.
- Intelligence revenue grows 13% to £1.8M

- EBITDA - progress toward profitability as planned
- Company debt-free having redeemed all loans in October 2016
- Cyber and Security Operations Centre opened in Birmingham, tripling capacity without customer disruption
- Strengthened Company Board with new CEO, and Executive Director Cyber Defence

- New and existing channel partnerships used to drive growth
- Channel partners now include CDW (UK), Nasstar, Sentronex, and several NHS Audit agencies.
- Advanced Security Consulting Limited acquired to enable a full advisory and managed security service business
- Falanx Cyber Technologies Limited established to deliver rapidly prototyped security solutions

- MidGARD, our own proprietary Threat Detection and Response System, launched its pilot in February 2017
- Awarded UK Government CHECK accreditation
- Maintained existing CREST membership and ISO 27001 accreditations
- Appointed SPARK Partners as NOMAD, DWF as Legal Advisors, and Whitman Howard and Turner Pope as Joint Brokers and IFC to provide marketing and communications – a first rate team for corporate support.

Chairman's Statement

We are pleased to report a period of significant development and robust growth, driven by our highly-experienced team, focused on a rapidly expanding security market. At our Annual General Meeting in December 2016, we were delighted to announce the re-organisation of the business, with the business focused exclusively on Cyber Defence and Intelligence. These developments have become manifest in our Birmingham Cyber Defence Centre, which includes our Security Operations Centre, our Technology Development hub and our new Sales and Marketing Team.

The benefits of these developments are already apparent. We now possess our own proprietary monitoring platform MidGARD, which offers exciting opportunities to scale through small and medium sized companies and also deliver enterprise grade security to FTSE 250 organisations. Our Cyber Defence Centre, based in the heart of Birmingham has opened the doors to a largely untapped source of Cyber talent, vitally important as we grow in an industry where talent is in short supply and the hiring market is highly competitive. Our new Sales and Marketing team has quickly developed an enviable group of channel partners who are taking our technology and services to their large client bases.

Our Security as a Service business model is now recognised as a new and emerging segment within the IT industry - which Gartner call *Managed Detection and Response*, placing us in a small but illustrious pool of organisations. We are excited and confident we chose the right time and right model for Falanx Group.

Directors

This year has seen two new appointments to our Board of Directors. Stuart Bladen, Chief Executive Officer, was appointed in October 2016, and brings a wealth of experience in the digital security sector. Jay Abbott, Executive Director Cyber Defence, was appointed in January 2017. Jay is a widely-recognised thought leader in the Cyber Security industry. I welcome the knowledge and experience both Stuart and Jay bring to the Board.

Outlook

The market conditions for the growth of Cyber Security and Intelligence for the new year are extremely favorable. The Board anticipates Falanx Group will reach breakeven within the next twelve months, with another period of client acquisition and robust, organic growth. Cyber and political risks continue to dominate our headlines and are highly likely to grow, placing security issues at the forefront of people's minds. Unaffected by Brexit, the General Data Protection Regulation (GDPR) comes into force in May 2018 and will impact all businesses across the UK and Europe, forcing management to address their security requirements or potentially face fines of up to €20m or 4% of global turnover. We intend to use our channel partnerships to enable scale-deployment of MidGARD. We are building momentum and our revenue is expected to continue to grow. We are excited by the prospects generated from being partnered with the likes of CDW (UK), one of the world's largest IT suppliers, and Nasstar, one of the UK's leading Cloud Service vendors.

The Cyber market, although growing rapidly, is still relatively immature. Our primary focus will be to grow Falanx organically, only examining accretive and capability enhancing acquisitions, such as the post-period purchase of Cloudified Ltd, on an opportunity basis. The combination of our own proprietary technology, channel partnerships, 360-degree service model and intelligence insights, set us apart from other smaller security vendors. Therefore, it is our belief we will continue to grow, and over time, become a highly credible contender to larger vendors.

Approved by the Board on 10 July 2017 and signed on its behalf by

M D Read

M D Read

Non-Executive Chairman

Chief Executive Officer's Report

Falanx has experienced robust revenue increases across all lines of business driven by geopolitical instability, rising cyber-crime, and increasing regulatory requirements such as GDPR, PCI-DSS and the Cyber Essentials programme.

Falanx Cyber Defence

The Falanx Cyber Defence division was formed this year when Falanx Cyber Defence Limited (FCD), previously Advanced Security Consulting Limited was acquired and merged with our Falanx Assuria business. The unit relocated from Reading to Birmingham in November 2016, tripling capacity whilst reducing real estate costs. The move from the London/M4 corridor gives us access to a different market for technical skills and enables us to draw on Universities and Higher Education in the centre of the country. Our Cyber Centre is in the heart of Birmingham's bustling inner-city regeneration zone, and is attracting local businesses and talented young technologists from across the Midlands. The Birmingham Cyber Centre now supports the full cyber lifecycle covering assessment services such as penetration testing, threat and risk reviews, gap assessments through to consulting to improve the client security strategy and a Security Operations Centre that can monitor client assets and enable rapid response to incidents.

FCD has grown revenue and customers significantly this year. In May 2016, FCD held 6 clients and 3 channels; all retained, generating circa £40k per month in consulting revenue. By March 2017, FCD had expanded to 29 customers and doubled Assess and Consult revenue. This resulted in the Falanx Cyber Defence division generating 300% growth and almost £1m in the 11 months from ASC acquisition up to 31 March 2017. Sales growth is being driven by the newly formed Sales and Consultancy team and by a strong focus on Channel Partnerships. The following, highly regarded, channel partners provide access to over 5,000 potential new Cyber Security and Intelligence clients:

- CDW Corporation: $9bn NASDAQ solution provider, who recently bought Kelway, a leading UK supplier;
- Stone Group: leading provider of IT services and infrastructure to Education and public services;
- NASSTAR Plc: The AIM listed, managed IT services provider;
- Sentronex: One of the UK's leading Financial Services IT solutions providers; and
- Mersey Internal Audit Agency and Audit Yorkshire: providing access to over 100 NHS Trusts in the UK.

Towards the end of the financial year, FCD was awarded the highly sought-after CHECK accreditation from the UK National Technical Authority for Information Assurance (also known as CESG and a part of GCHQ). This adds to our existing GPG13, CREST membership and ISO 27001 accreditations and creates the opportunity for Falanx to provide IT health check services for Her Majesty's Government and wider public sector. UK Central government spends circa £7bn a year on IT, 27% spent on information assurance and security. Demand from Government departments is high for accredited suppliers and we see this as a significant growth opportunity for Falanx Cyber Defence services.

Falanx Intelligence

During the past year Falanx Intelligence, trading as Stirling Assynt, has continued to see high levels of client retention and strong demand for subscription products and consulting due to the quality of our products and current geo-political volatility.

We have seen profitable growth continue with over 70 blue chip clients demanding geo-political analysis, business intelligence, consultancy and Intelligence reporting. Stirling Assynt generated revenue of £1.8M (FY16: £1.59M 13% increase), and EBITDA of £260k (FY16: £185k, 41% increase) for the financial year.

This year has brought continued and new subscriptions for our flagship intelligence product: *The Assynt Report.* Coverage includes the Middle East, North Africa, Western Europe, Latin America and CIS (former Soviet Union) states. It is prepared using a global network of well-connected people, and provides regular updates and commentary on geo-political events covering 33 emerging and growing economies.

We have a deep and respected specialism in Jihadism and this is also in strong demand. We comment extensively on developments in the Islamic world and our 'Black Banners Monthly' periodical is well-regarded.

The Embedded Analyst business has been particularly strong this year. The business has renewed 100% of existing contracts, for embedded intelligence analysts – embedded staff being hosted within prominent FTSE100 and 'Blue Chip' firms in the financial, insurance and telecoms sectors. In addition, new contracts to provide embedded analysts have been won with a major US insurer, a major mobile telecoms company and a well-known US food and beverage retailer. A strong pipeline exists to provide further embedded analysts to several current and prospective clients. The Business Intelligence practice has also seen continued strong demand, driven partly by rising international regulatory requirements, and by shareholder expectations relating to risk management, avoiding corruption and compliance with international sanctions.

Falanx Cyber Technology

Falanx Cyber Technology (FCT) was established this year to provide our core technology and deliberately placed alongside our SOC to promote rapid development and response to emerging needs and threats, FCT is focused on creating flexible, scalable, and cost-effective security solutions for both the SME market and major enterprises. FCT launched MidGARD in February 2017.

Chief Executive Officer's Report

MidGARD is our own proprietary technology for *Managed Detection and Response*. It differs significantly from existing SIEM products in that it is designed from the ground up: as a service platform, to support multiple clients, and uses open source technology, big data analytics and machine learning to share the benefits of security learning on one client with all clients. MidGARD eliminates our dependency on outside technology providers and substantially reduces our licensing costs, initially by £0.5M and increasing thereafter with volume.

MidGARD detects and alerts potential cyber threats, and provides analysts with the ability to investigate and intervene as threats occur on client's networks and systems. The MidGARD platform will also deliver MicroSOC, a 'plug-n-play' version built for the SME market. With a low-cost entry point and easy client self-setup, we believe that MicroSOC holds the key to a reliable and highly scalable mid-market Cyber Security-as-a-Service solution.

Post Period Events

On the 4 May 2017, Falanx placed 29,090,909 new ordinary shares in the Company. The placement was oversubscribed at a price of 6.875 pence per share raising £2 million before expenses.

On 3 July 2017, Falanx acquired Cloudified Ltd for £180,000 in shares and cash, including £100,000 cash. Danny Waite, Cloudified's Managing Director will be Head of Software Development for Falanx Cyber Technology, driving research, innovation and development of our MidGARD platform and future Cyber Defence products. Cloudified's core connectivity technology and data management and monitoring platform complements Falanx's MidGARD. The acquisition of these technologies allows Falanx to accelerate launch of its SME offering: MicroSOC.

Approved by the Board on 10 July 2017 and signed on its behalf by

P S A Bladen

Chief Executive Officer

Directors and Advisers

Mike Read

Mike Read (Non-executive Chairman) has over 30 years experience in the global Telecommunications, Media and Technology (TMT) sector and has been a director of eight public companies. He has held numerous 'C' level roles in the UK and USA, including, CEO of Pipex Communications, Executive Director at Daisy Group Plc, Non-Executive Director at Nasstar Plc, and Non-Executive Chairman at IntY Limited. Mike has significant experience helping to build international technology companies, having been involved on over 50 M&A transactions.

Stuart Bladen

Stuart Bladen (Chief Executive Officer) has a deep understanding of the Cyber Security industry, in particular the arena of consulting and managed security services. Under his stewardship, Vistorm Limited (now HP Information Security UK Limited, part of the Hewlett Packard Group) a provider of managed security services and network solutions to companies needing a specialist security partner, doubled in size to 400 staff and annual turnover of £120m. He has held leadership roles at Hewlett Packard as Vice President of UK Public Sector and for the Middle East, Mediterranean and Africa, where he managed a US$2Bn+ turnover operation. In addition he has held senior roles at EDS, Hitachi, Unisys and PwC where he led teams of up to 18,000 people with business units delivering revenue of more than US$3Bn.

John Blamire

John Blamire (Founder Director) is a former officer in the British Army, having served for 10 years in Europe, Middle East and the Americas gaining a wealth of operational experience in challenging circumstances and environments. After leaving the Army he co-founded Praetorian Protection Limited, a company providing specialist security services to clients around the globe. He went on to found Falanx in 2012, leading the IPO of Falanx Group in June 2013 and the acquisition of Stirling Assynt. John has a strong track record of innovation, thought leadership and raising growth capital in challenging markets. He holds a degree in Law and Business.

Emma Shaw

Emma Shaw (Non-executive Director) is the Managing Director of Esoteric Limited, 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.

Jay Abbott

Jay Abbott (Managing Director, Falanx Cyber) is a celebrated key-note speaker on the subject of Cyber Security with 20 years experience in the industry. His work and leadership with the UK Cyber Security Challenge, alongside some of the biggest names within the commercial Cyber market and Government, has developed creative solutions to solving the skills shortage in the cyber industry. Innovations including the development of the "PoD online gaming platform" and the "Cyphinx - Immersive 3D Gaming platform", engaging the next generation of talent to ensure the future of the industry and protect the interests of the country.

Company number
1730012 (British Virgin Islands)

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Directors' report

The Directors present their report and the audited financial statements for the year ended 31 March 2017.

Business Review

The Group's results for the year are set out in the consolidated statement of comprehensive income on page 14 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*	**2017**	*2016*	*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	**£2,743,217**	*£1,815,394*	Increase of 51.11% resulting from increased revenue in the intelligence and cyber divisions. Number of customers the in cyber division increased from 5 to 29 in the year.
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	**20.00%**	*(3.32)%*	Decrease in variable costs mainly attributable to efficiency savings in Cyber security operations.
EBITDA	A measure of profits	Offers a clearer reflection of the value of operations	**£(1,221,617)**	*£(2,311,141)*	Decrease in overhead cost largely due to implementation of Group wide cost savings.
G & A ratio	Percentage of total revenue spent on overheads	Provides indication of amount of expenses needed to support Group operations	**77.54%**	*142.28%*	A significant decrease in cost as a result of general cost saving measures implemented

Dividends

The consolidated statement of comprehensive income for the year is set out on page 16, 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 year is disclosed in note 30 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

P S A Bladen appointed 17 October 2016

J D Abbott appointed 24 January 2017

Non-Executive Directors

I A Manley resigned 28 October 2016

D P Carr resigned 20 June 2016

E Shaw

M D Read

Directors' report

Directors' interests

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

	2017		2016	
	Number of shares	**% Held**	Number of shares	% Held
J R Blamire	**7,900,000**	**6.28%**	7,900,000	11.09%
J D Abbott	**7,125,536**	**5.66%**	—	—
M D Read	**1,250,000**	**0.99%**	—	—
D P Carr*	**1,075,000**	**0.85%**	200,000	0.28%
P S A Bladen	**310,000**	**0.25%**	—	—
E Shaw	**200,000**	**0.16%**	200,000	0.28%
I A Manley**	**—**	**—**	200,000	0.28%

* D P Carr resigned on 20 June 2016

** I A Manley resigned on 28 October 2016

The interests of Directors' holding office at 31 March 2017 in options over the share capital of the Company were as stated below:

5.00 pence options	**2017**	2016
	Number	Number
P S A Bladen	**3,000,000**	—

5.875 pence options	**2017**	2016
	Number	Number
P S A Bladen	**1,250,000**	—
J R Blamire	**500,000**	—
J D Abbott	**500,000**	—
E Shaw	**750,000**	—

At 31 March 2017, M D Read had 6,000,000 warrants at 4 pence each over the share capital of the Company.

Directors' interests in transactions

No director had, during or at the end of the year, 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 and fees	Benefits in kind	Pension contribution	Bonus	**2017 Total**	2016 Total
	£	£	£	£	**£**	£
Executive Directors:						
P S A Bladen	68,846	—	155	—	**69,001**	—
J R Blamire	78,413	—	155	30,000	**108,568**	60,000
J D Abbott *	16,667	—	—	8,333	**25,000**	—
K P A Barclay	—	—	—	—	**—**	73,333
Non-executive Directors:						
I A Manley	23,000	—	—	—	**23,000**	32,500
E Shaw	28,000	—	—	—	**28,000**	50,110
D P Carr	1,000	—	—	—	**1,000**	12,000
M D Read	25,000	—	—	25,000	**50,000**	4,000
	240,926	—	310	63,333	**304,569**	231,943

* J D Abbott was appointed as director of the Company on 24 January 2017.

Directors' report

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 year ended 31 March 2017, creditors' days have been calculated at 64 days (2016: 96 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.

Principal 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. There can be no guarantee that the Group's major customers will continue to engage its services. The Group anticipates having significantly higher volumes of small to medium contracts and an increase in recurring business that will represent a significant proportion of total revenue, reducing the risk of dependency on large customers.

Pipeline opportunities

The Group has a significant number of small, medium and major contracts in contemplation in the form of a pipeline of opportunities. However there is no certainty 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 4 May 2017 the Group announced that it had raised net proceeds of approximately £1.955m after deducting commission and transaction related expenses through the issue of the Subscription Shares at the placing price of 6.875 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 and have carried out a review of the current and future operating costs of the Group and are focussed on seeing the Group to break-even within the next twelve months. Key to achieving this will be the continued growth of the Cyber division to break-even within twelve months together with enhancing the existing profitability of the Intelligence division. The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least twelve months from the date of the approval of these financial statements. 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.falanx.com) for the purposes of improving information flow to its shareholders and potential investors.

Substantial shareholdings

On 28 June 2017, the following were holders of 3% or more of the Group's issued share capital:

Registered holder	Ordinary shares	Percentage of issued share capital
Steven Myers	12,701,000	8.17%
Ruffer LLP	11,095,130	7.14%
W B Nominees Limited	10,741,760	6.91%
Barclayshare Nominees Limited	9,732,386	6.26%
JIM Nominees Limited*	8,193,318	5.27%
John Blamire	7,900,000	5.08%
Jay David Abbott	7,125,536	4.58%
KC Investments Limited	5,338,611	3.44%

* Excluding the declared holding for Steven Myers. 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 10 May 2017 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 12 of these financial statements. The Statement of Directors' Responsibilities forms part of the Directors' report.

On behalf of the Board

J R Blamire
Director

10 July 2017

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.

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 and a Remuneration Committee and Nomination Committee.

Audit Committee

The Audit Committee comprises John Blamire (Chairman), Emma Shaw and Mike Read 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 and Nomination Committee

The Remuneration and Nomination Committee (previously 2 separate committees) comprises Emma Shaw (Chairman) and Mike Read 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. 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 Executive Directors with due regard to the interests of the Shareholders and the performance of the Group. The Committee also makes recommendations to the Board concerning the allocation of share options to employees.

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 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.

Corporate Governance Report

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.falanx.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 10 July 2017 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 2017 which comprise the Group Statement of Comprehensive Income, the Group Statement of Financial Position, the Group Statement of Cash Flows, the Group Statement 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 12 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 2017 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
Senior Statutory Auditor
for and on behalf of Kingston Smith LLP
Devonshire House
60 Goswell Road
London
EC1M 7AD

10 July 2017

Consolidated income statement

for the year ended 31 March 2017

	Note	2017 £	2016 £
Continuing operations			
Revenue	4	**2,743,217**	1,815,394
Cost of sales		**(2,194,564)**	(1,875,689)
Gross profit / (loss)		**548,653**	(60,295)
Administrative expenses		**(2,062,570)**	(2,582,988)
Administrative expenses – Research		**(64,517)**	—
Operating loss		**(1,578,434)**	(2,643,283)
Finance income	8	**196**	373
Finance costs	8	**(110,000)**	(8,149)
Finance costs – net		**(109,804)**	(7,776)
Loss before income tax		**(1,688,238)**	(2,651,059)
Income tax (expense) / credit	9	**(12,416)**	16,880
Loss for the year from continuing operations		**(1,700,654)**	(2,634,179)
Loss for the year		**(1,700,654)**	(2,634,179)
Earnings per share			
Basic earnings per share – continuing and total operations	10	**(1.52)p**	(3.79)p
Diluted earnings per share – continuing and total operations	10	**(1.52)p**	(3.79)p

Consolidated statement of comprehensive income

for the year ended 31 March 2017

	2017 £	2016 £
Loss for the year	**(1,700,654)**	(2,634,179)
Other comprehensive income:	**—**	—
Other comprehensive income for the year, net of tax	**—**	—
Total comprehensive income for the year	**(1,700,654)**	(2,634,179)
Attributable to:		
Owners of the parent	**(1,700,654)**	(2,634,179)
Total comprehensive income for the year	**(1,700,654)**	(2,634,179)

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 20 to 38 are an integral part of these consolidated financial statements.

Consolidated statement of financial position

as at 31 March 2017

	Note	2017 £	2016 £
Assets			
Non-current assets			
Property, plant and equipment	12	**131,456**	59,441
Intangible assets	13	**769,983**	495,771
Deferred tax asset	15	**—**	2,887
		901,439	558,099
Current assets			
Inventories	16	**8,500**	41,175
Trade and other receivables	17	**633,101**	529,686
Cash and cash equivalents	18	**430,459**	430,132
		1,072,060	1,000,993
Total assets		**1,973,499**	1,559,092
Equity			
Capital and reserves attributable to equity holders of the Company			
Share premium account	20	**7,410,507**	5,309,031
Translation reserve		**(100,285)**	(42,162)
Shares to be issued reserve		**196,606**	174,851
Retained earnings	21	**(6,703,447)**	(5,002,793)
Total equity		**803,381**	438,927
Liabilities			
Current liabilities			
Trade and other payables	22	**1,160,589**	1,120,165
Deferred tax liability	15	**9,529**	—
Total liabilities		**1,170,118**	1,120,165
Total equity and liabilities		**1,973,499**	1,559,092

The notes on pages 20 to 38 are an integral part of these consolidated financial statements.

The financial statements on pages 16 to 19 were authorised for issue by the Board of Directors on 10 July 2017 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 2017

	Note	Share premium £	Retained earnings £	Translation reserve £	Shares to be Issued reserve £	Total £
Balance at 1 April 2015		2,841,797	(2,368,614)	(29,224)	91,875	535,834
Loss for the year		—	(2,634,179)	—	—	(2,634,179)
Transactions with owners:						
Issue of share capital		2,662,259	—	—	—	2,662,259
Costs of issue of share capital		(195,025)	—	—	—	(195,025)
Translation of foreign subsidiary		—	—	(12,938)	—	(12,938)
Share options issued		—	—	—	82,976	82,976
Balance at 31 March 2016		**5,309,031**	**(5,002,793)**	**(42,162)**	**174,851**	**438,927**
Balance as at 1 April 2016						
Loss for the year		—	(1,700,654)	—	—	(1,700,654)
Transactions with owners:						
Issue of share capital		2,175,021	—	—	—	2,175,021
Costs of issue of share capital		(73,545)	—	—	—	(73,545)
Translation of foreign subsidiary		—	—	(58,123)	—	(58,123)
Share options issued	11	—	—	—	21,755	21,755
Balance as at 31 March 2017		**7,410,507**	**(6,703,447)**	**(100,285)**	**196,606**	**803,381**

The share premium account represents the excess of the amount subscribed for share capital over the nominal value of the 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 20 to 38 are an integral part of these consolidated financial statements.

Consolidated cash flow statement

for the year ended 31 March 2017

	Note	2017 £	2016 £
Cash flows from operating activities			
Loss before tax		**(1,688,238)**	(2,651,059)
Adjustments for:			
Depreciation		**43,874**	22,746
Amortisation		**312,943**	309,396
Share based payment		**56,755**	82,976
Loss / (profit) on disposal of property, plant and equipment		**697**	(109)
Net finance cost recognised in profit or loss		**109,804**	7,776
		(1,164,165)	(2,228,274)
Changes in working capital:			
Decrease in inventories		**32,675**	15,802
(Increase) / decrease in trade and other receivables		**(11,388)**	130,473
(Decrease)/ increase in trade and other payables		**(67,676)**	154,641
Cash used in operations		**(1,210,554)**	(1,927,358)
Interest paid		**(55,000)**	(8,149)
Net cash used in operating activities		**(1,265,554)**	(1,935,507)
Cash flows from investing activities			
Interest received		**196**	373
Acquisition of property, plant and equipment		**(109,365)**	(12,414)
Disposal of property, plant and equipment		—	300
Expenditure on capitilised development cost		**(152,967)**	—
Acquisition of subsidiary net of cash acquired		**(140,315)**	(505,000)
Net cash used in investing activities		**(402,451)**	(516,741)
Cash flows from financing activities			
Net proceeds from loan notes		**495,000**	—
Repayment of loan notes		**(550,000)**	—
Net proceeds from issue of shares		**1,781,455**	2,467,234
Net cash generated from financing activities		**1,726,455**	2,467,234
Net increase in cash equivalents		**58,450**	14,986
Cash and cash equivalents at beginning of year		**430,132**	428,084
Foreign exchange losses on cash and cash equivalents		**(58,123)**	(12,938)
Cash and cash equivalents at end of year		**430,459**	430,132

The notes on pages 20 to 38 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

for the year ended 31 March 2017

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 the AIM Market of the London Stock Exchange and is incorporated and domiciled in the British Virgin Islands. The address of its registered office is PO Box 173, Kingston Chambers, 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 2-9. In addition, notes 23 and 24 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 4 May 2017 the Group announced that it had raised net proceeds of approximately £1.955m after deducting commission and transaction related expenses through the issue of the Subscription Shares at the placing price of 6.875 pence per ordinary share.

The Directors have reviewed forecasts and budgets based on current, expected and future operating costs of the Group and are focussed on seeing the Group to break-even in the next twelve months. Key to achieving this will be the growth of the Cyber division which up to recently has been in its development phase and required significant cash resources. Revenues in the Cyber division have started to increase and the forecasts anticipate that with continued growth this division will achieve break-even within twelve months. Achieving break-even at a Group level will also be supported by enhancing the existing profitability of the Intelligence division and careful control over Group overheads. The Directors have therefore 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 these financial statements. Thus the Directors 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 2017

The following new and amended standards, and interpretations are mandatory for the first time for the financial year beginning 1 April 2017 but are not currently relevant to the group (although they may affect the accounting for future transactions and events):

- IAS 7 (Amended) 'Statements of Cash Flows', effective for periods commencing on or after 1 January 2017. These amendments are intended to clarify the information provided to users of financial statements about an entity's financing activities.
- IAS12 (Amended), 'Income Taxes', effective for periods commencing on or after 1 January 2017 but not yet adopted by the EU. This amendment relates to the recognition of deferred tax assets for unrealised losses and clarifies that estimations for future taxable profits exclude tax deductions arising from the reversal of temporary differences.

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 2 (Amended), 'Share-based payment', effective for periods commencing on or after 1 January 2018. These amendments clarify the classification and measurement of share-based payment transactions.
- IFRS9, 'Financial Instruments', effective for periods commencing on or after 1 January 2018 but not yet adopted by the EU. This is final version of the project to replace IAS39 'Financial Instruments: Recognition and Measurement'.
- IFRS15, 'Revenue from Contracts with Customers', effective for periods commencing on or after 1 January 2018 but not yet adopted by the EU. This standard focuses on a principles based model which is to be applied to all contracts with customers.

2.1.2 New and Revised Standards continued

- IFRS 16, 'Leases', effective for periods commencing on or after 1 January 2019 but not yet adopted by the EU. This standard focuses on recognising all leases on the balance sheet, thus eliminating the distinction between finance and operating leases.

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.

2.2 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 Group 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
Managed services	straight line basis over the life of the contract
Consultancy	on rendering of service to customers
Vulnerability assessment	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.

2.5. Taxation continued

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 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 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 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

Notes to the consolidated financial statements

for the year ended 31 March 2017

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.

Goodwill

Goodwill arising on acquisition is stated at cost. Goodwill is not amortised, but subject to an annual test for impairment. Impairment testing is performed by the Directors. Where impairment is identified, it is charged to the income statement in that period.

Software and brand licences

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

Research and development

Research expenditure is charged to the income statement in the year incurred.

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the the software so that it will be available for use;
- management intents to complete the software product and use or sell it;
- it can be demonstrated how the software product will generate probalabe future economic benefits;
- adequate technical, financial and other reseources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Other development expenditures that do not meet these criteria are charged to the income statement in the year incurred. Development costs recognised as assets are amortised over its estimated useful life, which does not exceed 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. All charges in the year are shown in the consolidated income statement in administrative expenses. Other 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 work in progress which is 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 consolidated cash flow statement, 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 to the share premium account.

2.13 Reserves

The consolidated financial statements include the following reserves: share premium account, translation reserve, shares to be issued 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 statement of financial position 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 deferred tax asset can be recognised.

3. Critical accounting estimates and judgements continued

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 13.2%.

The other intangible asset detailed in note 13 is being written down over a 10 year period with a remaining useful life of 1 year. The directors consider that this continues to be a realistic period given that the Stirling Assynt (Europe) Limited has been trading for 9 years.

Impairment of trade receivables

Impairments against trade receivables are recognised where a loss is probable. As the cyber division 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 is analysed per division to be consistent with the views of the chief operating decision maker, as highlighted in the Chairman's statement. The segmental analysis of the Group's business is 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 consists of the parent company's administrative operation.

Reportable segments

The reportable segment results for the year ended 31 March 2017 are as follows:

	Intelligence £	Cyber £	Other segment £	Total £
Revenues from external customers	1,802,180	936,009	5,028	2,743,217
Total revenue	**1,802,180**	**936,009**	**5,028**	**2,743,217**
Operating expenses	(1,530,068)	(1,563,951)	(870,815)	(3,964,834)
Finance costs-net	77	—	(109,881)	(109,804)
Depreciation and amortisation	(11,267)	(344,649)	(901)	(356,817)
Segment profit/(loss) for the year	**260,922**	**(972,591)**	**(976,569)**	**(1,688,238)**

The reportable segment results for the year ended 31 March 2016 are as follows:

	Intelligence £	Cyber £	Other segment £	Total £
Revenues from external customers	1,585,915	229,479	—	1,815,394
Total revenue	**1,585,915**	229,479	—	**1,815,394**
Operating expenses	(1,387,873)	(1,779,757)	(958,905)	(4,126,535)
Finance costs-net	39	—	(7,815)	(7,776)
Depreciation and amortisation	(12,110)	(319,972)	(60)	(332,142)
Segment profit/(loss) for the year	**185,971**	**(1,870,250)**	**(966,780)**	**(2,651,059)**

Notes to the consolidated financial statements

for the year ended 31 March 2017

4. Segmental reporting continued

Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, trade and other receivables and cash and cash equivalents. Unallocated assets comprise deferred tax assets, 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.

Segment assets and liabilities as at 31 March 2017 and capital expenditure for the year then ended are as follows:

	Intelligence	Cyber	Other segment	Total
	£	£	£	£
Total assets	565,931	919,766	487,802	1,973,499
Liabilities	542,814	362,341	264,963	1,170,118
Capital expenditure	3,085	256,917	2,330	262,332

Segment assets and liabilities as at 31 March 2016 and capital expenditure for the year then ended are as follows:

	Intelligence	Cyber	Other segment	Total
	£	£	£	£
Total assets	696,875	766,378	95,839	1,559,092
Liabilities	524,844	291,824	303,007	1,120,165
Capital expenditure	4,837	511,894	683	517,414

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	**2017**	2016
	£	£
United Kingdom	**1,873,078**	993,738
Europe	**371,775**	343,133
Australasia	**230,942**	204,317
United States	**189,236**	143,481
Middle East	**70,811**	108,624
Other countries	**7,375**	22,101
	2,743,217	1,815,394

Non-current assets	**2017**	2016
	£	£
United Kingdom	**901,439**	558,099
	901,439	558,099

Major customers

Two customers contributed 10% more to the Group's revenue in 2017 (2016: none).

Notes to the consolidated financial statements
for the year ended 31 March 2017

5. Operating loss
Operating loss for the year is stated after charging the following:

	2017	2016
	£	£
Depreciation of owned property, plant and equipment	**43,874**	22,746
Amortisation of intangible fixed assets	**312,943**	309,396
Loss / (profit) on disposal of property, plant and equipment	**697**	(109)
Operating lease rentals – Land & Buildings	**111,001**	94,957
Research expenditure	**64,517**	—

6. Auditors' remuneration

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

	2017	2016
	£	£
Remuneration receivable by the Company's auditors for the audit of consolidated and Company financial statements	**17,500**	18,500
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	**22,500**	15,500
– other services pursuant to legislation	**7,650**	832
– tax services	**3,250**	6,246
	50,900	41,078

7. Employee benefit expense

	2017	2016
	£	£
Wages and salaries, including termination benefits	**1,821,307**	1,776,492
Social security costs	**199,573**	184,560
Other pension costs	**11,872**	6,665
Share options granted to employees	**21,755**	82,976
	2,054,507	2,050,693

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

	2017	2016
Researchers and analysts	**14**	11
SOC operations and analysts	**6**	5
Sales	**3**	2
Administration and management	**12**	15
	35	33

Directors' emoluments

	2017	2016
	£	£
Emoluments, including benefits in kind	**304,259**	231,943
Pension costs	**310**	—
	304,569	231,943

7. Employee benefit expense continued

The emoluments of the highest paid Director were as follows:

	2017	2016
	£	£
Emoluments, including benefits in kind	108,413	73,333
Pension costs	155	—
	108,568	73,333

8. Finance income and costs

	2017	2016
	£	£
Interest receivable	196	373
Interest payable - other	(110,000)	(8,149)
Net finance (expense) / income recognised in profit/(loss)	(109,804)	(7,776)

9. Income tax expense

	2017	2016
	£	£
Current tax		
Current tax on loss for the year	—	—
Total current tax	—	—
Deferred tax		
Deferred tax expense / (credit) for the year	12,416	(16,880)
Total deferred tax	12,416	(16,880)
Income tax expense / (credit)	12,416	(16,880)

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:

	2017	2016
	£	£
Loss before tax	(1,688,238)	(2,651,059)
Tax calculated at the applicable rate based on the loss for the year 20% (2016: 20%)	(337,648)	(530,212)
Tax effects of:		
Creation of tax losses	543,923	527,693
Expenses not deductible for tax purposes	(239,228)	10,058
Accelerated/(decelerated) capital allowances	32,952	(7,539)
Current tax on loss for the year	—	—

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.

	2017	2016
Earnings attributable to equity holders of the Company (£)	(1,700,654)	(2,634,179)
Weighted average number of ordinary shares in issue	112,169,330	69,441,528
Basic and diluted loss per share (pence per share)	(1.52)	(3.79)

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 2017, 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 directors and 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.

	2017		2016	
	Average exercise price (pence)	Options	Average exercise price (pence)	Options
At 1 April	42.48	2,070,869	42.88	2,106,583
Granted	4.00	400,000	14.50	100,000
Granted	4.13	605,326	—	—
Granted	5.00	3,000,000	—	—
Granted	5.875	2,350,000	—	—
Granted	7.00	200,000	—	—
Forfeited	28.00	(71,429)	28.00	(135,714)
Forfeited	44.50	(200,000)	—	—
Exercised	—	—	—	—
Expired	—	—	—	—
At 31 March	13.33	8,354,766	42.48	2,070,869

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)	2017	2016
2017–2023	—	—	—
2024	44.5	1,699,440	1,899,440
2024	28.0	—	71,429
2025	14.5	100,000	100,000
2026	4.13	605,326	—
2026	4.00	400,000	—
2026	5.00	3,000,000	—
2026	5.875	2,350,000	—
2027	7.00	200,000	—
		8,354,766	2,070,869

11. Share based payment expense continued

The weighted average fair value of the 6,655,326 (2016: 100,000) options granted during the year was determined using the Black-Scholes option pricing model and was 1.22 pence per option (2016: 11.60p). 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% (2016: 50%) and a risk-free rate of return estimated between 0.10% (2016: 1.2%) and of 0.18% (2016: 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 £21,755 (2016: £82,976).

12. Property, plant and equipment

	Fixtures and fittings £	Computer equipment £	Total £
Cost			
At 1 April 2016	**48,182**	**50,132**	**98,314**
Additions through business combinations	1,191	11,694	12,885
Additions	10,328	99,037	109,365
Disposals	—	(760)	(760)
At 31 March 2017	**59,701**	**160,103**	**219,804**
Depreciation			
At 1 April 2016	**11,879**	**26,994**	**38,873**
Additions through business combinations	506	5,158	5,664
Charge for the year	10,601	33,273	43,874
Released on disposal	—	(63)	(63)
At 31 March 2017	**22,986**	**65,362**	**88,348**
Net book value			
At 31 March 2017	**36,715**	**94,741**	**131,456**
At 31 March 2016	**36,303**	**23,138**	**59,441**

13. Intangible assets

	Goodwill £	Software and brand licences £	Development costs £	Other intangibles £	Total £
Cost					
At 1 April 2016	—	**916,301**	—	**75,000**	**991,301**
Additions	434,188	—	152,967	—	587,155
At 31 March 2017	**434,188**	**916,301**	**152,967**	**75,000**	**1,578,456**
Amortisation and impairment					
At 1 April 2016	—	**435,530**	—	**60,000**	**495,530**
Amortisation charge for year	—	305,443	—	7,500	312,943
At 31 March 2017	—	**740,973**	—	**67,500**	**808,473**
Net book value					
At 31 March 2017	**434,188**	**175,328**	**152,967**	**7,500**	**769,983**
At 31 March 2016	—	**480,771**	—	**15,000**	**495,771**

13. Intangible assets continued

As noted in note 2.8 to the accounts, the Directors test annually for impairment by calculating the value in use of each cash generating unit using discounted cash flow techniques and comparing it to the carrying amount of goodwill. No impairments were identified in the year under review.

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) Limited reporting service.

Impairment review

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

Business	Subsidiaries
Cyber Defence	Falanx Assuria Limited and Falanx Cyber Defence Limited

Management performed impairment testing of goodwill and software and brand licences at the balance sheet date. The recoverable amount of goodwill and software and brand licences 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 Defence

In determining value in use, financial and business forecasts have been prepared by management and approved by the Board. These forecasts indicate growth rates that increase by various rates throughout the forecast period. Management used pre-tax discount rate of 13.2% (2016: 20.7%) in calculating 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 forecast period, which does not exceed 4 years. An increase in the discount rate from 13.2% to 14.25% or a decrease in revenue of 30% in the second year of the forecast would result in the net present value falling below carrying value.

Following the impairment testing of the CGU the Directors do not believe that the carrying value of goodwill and software and brand 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 assets 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 (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 Cyber Defence Limited	England and Wales	Cyber defence solution	100%
Falanx Protection Limited	British Virgin Islands	Dormant	100%
FG Consulting Services DMCC	United Arab Emirates	Management consultancy	100%
Falanx Cyber Technologies Limited	England and Wales	Dormant	100%

Falanx UK Limited was dissolved on 2 August 2016 and Stirling Assynt (Acquisition) Limited was dissolved on 7 December 2016.

15. Deferred taxation

	2017	2016
	£	£
Group		
Balance at 1 April	2,887	(13,993)
(Expense) / credit to the income statement	(12,416)	16,880
Balance at 31 March	(9,529)	2,887

The deferred tax (liability) / asset represents:

	2017	2016
	£	£
(Accelerated) / decelerated capital allowances	(9,529)	2,887
	(9,529)	2,887

A deferred tax asset, in respect of Group trading losses of £6.76m (2016: £5.48m) has not been recognised on the basis of the uncertainty of the timing of future taxable profits.

In accordance with 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 19% (2016: 19%), being the rate which is expected to apply in the future when the liability is settled.

16. Inventories

	2017	2016
	£	£
Work in progress	8,500	8,100
Finished goods	—	33,075
	8,500	41,175

17. Trade and other receivables

	2017	2016
	£	£
Trade receivables	440,969	368,975
Less: provision for doubtful receivables	—	—
	440,969	368,975
Other receivables	33,348	51,227
Prepayments and accrued income	158,784	109,484
	633,101	529,686

Trade and other receivables are stated at fair value.

18. Cash and cash equivalents

	2017 £	2016 £
Cash at bank and in hand	**430,459**	430,132
Cash and cash equivalents in statement of cash flows	**430,459**	430,132

19. Share capital

	2017		2016	
	Number of shares	**Nil par value**	Number of shares	Nil par value
Allotted, called up and fully paid at 1 April	**71,255,368**	—	52,176,804	—
New shares issued	**54,525,536**	—	19,078,564	—
Allotted, called up and fully paid at 31 March	**125,780,904**	—	71,255,368	—

On 5 May 2016 the Company announced the issue of 25,106,250 new ordinary shares of no par value at a price of 4 pence each raising net proceeds of £968,205 after deducting commission and transaction related costs. The subscription proceeds were used in funding the acquistion of Falanx Cyber Defence Limited (formerly known as Advanced Security Consulting Limited) with the remainder to be used for continued sales marketing development of the Falanx growth strategy. Subscribers were granted 1 for 1 warrant with an exercise price of 6 pence each and a three year time to expiry.

On 5 May 2016 the Company announced the issue of 7,125,536 ordinary shares of no par value at a price 4 pence each in partial satisfaction of the consideration of the acquisition of Falanx Cyber Defence Limited.

On 11 May 2016 the Company announced the issue of 2,125,000 new ordinary shares of no par value at a price of 4 pence each to M D Read and D P Carr (Directors of the Company in the year). 1,250,000 shares were issued to M D Read on a cash subscription basis raising £50,000 proceeds. 875,000 shares were issued to D P Carr in lieu of accrued Director fees of £35,000. The Directors were granted 1 for 1 warrant with the same terms as the share placing participants of 5 May 2016.

On 3 October 2016 the Company announced the issue of 18,750,000 new ordinary shares of no par value at a price of 4 pence each raising net proceeds of £712,500 for working capital purposes after deducting commission and transaction related costs. In addition, the Company announced the issue of 468,750 new ordinary shares of no par value at a price of 4 pence each to Turner Pope Investments in satisfaction of placing agent fees. The shares were subject to 6 month 'lock-in' period from date of issue.

On 11 November 2016 the Company announced the issue of 150,000 new ordinary shares of no par value at a price of 6 pence each following the exercises of warrants.

On 25 November 2016 the Company announced the issue of 625,000 new ordinary shares of no par value at a price of 6 pence each following the exercises of warrants.

On 9 January 2017 the Company announced the issue of 175,000 new ordinary shares of no par value at a price of 6 pence each following the exercises of warrants.

At 31 March 2017 a total of 41,420,142 warrants issued to various shareholders remained outstanding. 4,541,669 issued at an exercise of price of 30 pence per share expired on 17 April 2017. 30,864,584 were issued at an exercise price of 6 pence expiring in 2019; of this amount, 24,156,250 will expire on 4 May 2019, 4,583,334 will expire on 5 May 2019 and 2,125,000 will expire on 10 May 2019 (of this amount 1,250,000 are held by M D Read, Non-executive chairman). The remaining 6,000,000 (held by M D Read) were issued at an exercise price of 4 pence per share expiring on 22 August 2019.

20. Share Premium

	2017 £	2016 £
At 1 April	**5,309,031**	2,841,797
Premium on issue of shares	**2,175,021**	2,662,259
Costs of share issue	**(73,545)**	(195,025)
At 31 March	**7,410,507**	5,309,031

21. Retained earnings

	2017	2016
	£	£
At 1 April	**(5,002,793)**	(2,368,614)
Loss for the year	**(1,700,654)**	(2,634,179)
At 31 March	**(6,703,447)**	(5,002,793)

22. Trade and other payables

	2017	2016
	£	£
Trade payables	**385,608**	489,981
Other payables	**16,646**	11,454
Taxation and social security	**119,058**	93,286
Accruals and deferred income	**639,277**	525,444
	1,160,589	1,120,165

On 5 May 2016 the Company issued loan notes of £495,000 to Darwin Capital Limited. The loan notes had a six month term with a redemption value of £550,000. The loan notes were repaid in full on 14 October 2016 with a 5% early redemption fee.

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

	2017	2016
	£	£
Trade and other receivables	**474,317**	420,202
Cash and cash equivalents	**430,459**	430,132
	904,776	850,334

Trade and other payables

	2017	2016
	£	£
Trade and other payables	**402,254**	501,435
	402,254	501,435

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.

23. Financial instruments continued

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

	2017 £	2016 £
Trade and other payables due in:		
Less than one month	**209,517**	147,836
Six months to one year	**192,737**	353,599
Total	**402,254**	501,435

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 statement of financial position date was £904,776 (2016: £850,334). 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 £440,969 (2016: £368,975). 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:

		2017 £	2016 £
Cash at bank and short term deposits			
Counterparties with external credit rating (Moody's)			
A2	Barclays Bank plc	**192,548**	109,388
Aa2	HSBC Bank	**231,177**	308,741
Baa2	Mashreq Bank	**6,313**	10,731
Total		**430,038**	428,860

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 £	Hong Kong Dollar £	Emirati Dirham £	Total £
At 31 March 2017						
Cash and cash equivalents	297,492	81,600	50,707	660	—	430,459
Trade receivables	349,423	79,337	12,209	—	—	440,969
Other receivables	30,992	—	—	2,138	218	33,348
	677,907	**160,937**	**62,916**	**2,798**	**218**	**904,776**

23. Financial instruments continued

Financial liabilities

	Sterling	US Dollar	Euro	Hong Kong Dollar	Emirati Dirham	Total
	£	£	£	£	£	£
At 31 March 2017						
Trade payables	376,428	9,180	—	—	—	385,608
Other payables	16,646	—	—	—	—	16,646
	393,074	**9,180**	**—**	**—**	**—**	**402,254**

Foreign exchange sensitivity analysis

A 10% strengthening of £ sterling against the above currencies would increase the loss by £21,769 (2016: £35,897) 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 operates a defined contribution pension scheme in accordance with the Government Directive on Work Place Pensions. In addition, one of its subsidiaries, Stirling Assynt (Europe) Limited, contributes 8% of the gross salary of one of its employees to a pension scheme of the employee's choice. The total contributions for the year were £11,872 (2016: £6,665).

26. Financial commitments

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

	2017	2016
	£	£
Due within one year	**55,901**	77,096
Between two and five years	**19,907**	8,125
	75,808	85,221

Operating lease obligations represent rentals payable by the Group's subsidiaries (Stirling Assynt (Europe) Limited and Falanx Cyber Defence Limited) for the office premises at The Europoint Centre in London and Fazeley Studios in Birmingham respectively.

27. Business combinations

Falanx Cyber Defence Limited

Falanx Cyber Defence Limited is a business operating in the cyber security sector which was acquired to increase the scale of the cyber division business. As result of the acquisition, the Group is expected to increase its presence in the cyber security market. It also expects to reduce costs through economies of scale.

On 4 May 2016 the Group acquired 100% of the issued share capital of Falanx Cyber Defence Limited for a total consideration of £483,760. The business contributed £322,180 net profit and £683,632 revenue to the Group for the period from 5 May 2016 to 31 March 2017.

The following table summarises the fair value of assets acquired and liabilities assumed at the acquisition date.

	Book values	Fair value adjustments	Fair values
	£	£	£
Cash and cash equivalents	**58,424**	—	**58,424**
Property, plant and equipment	**7,220**	—	**7,220**
Trade and other receivables	**92,028**	—	**92,028**
Trade and other payables	**(108,100)**	—	**(108,100)**
	49,572	—	**49,572**

The consideration for the acquisition and goodwill arising on acquisition are as follows:

	£
Purchase consideration:	
Fair value of shares	285,021
Cash paid	198,739
	483,760
Goodwill arising on acquisition	434,188

Acquistion related costs of £39,670 have been charged to administrative expenses in the consolidated income statement for the year ended 31 March 2017.

The fair value of of the 7,125,536 ordinary shares issued as part of the consideration paid for Falanx Cyber Defence Limited was based on the share placing price of 4 pence per share for the fundraising completed on 5 May 2016.

28. Control

No ultimate party controls Falanx Group Limited.

29. Related party transactions

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

Payment for services

Andrea Barclay, the partner of K P A Barclay, (former Executive Chairman and shareholder) was paid £6,050 (2016: £12,100) in respect of research and report writing for Stirling Assynt (Europe) Limited.

K P A Barclay was paid £7,108 (2016: £nil) in respect of consultancy services for the Group.

Fees and commissions

During the year the Company paid KC Investments Limited (a shareholder) £20,000 (2016: £nil) as a retainer to use its best endeavours to assist the Company on a non-exclusive basis with its fundraising (including, but not limited to, procuring of subscribers for shares in the Company) during the 12 month period beginning on the date of payment of the retainer.

30. Events after the reporting period

Equity transactions

On 4 May 2017 the Company announced the issue of 29,090,909 new ordinary shares of no par value at a price of 6.875 pence each raising net proceeds of £1.954m after deducting commission and transaction related costs.

On 4 May 2017 the Company announced the issue of 545,455 new ordinary shares of no par value at a price of 6.875 pence each to Turner Pope Investments in satisfaction of placing agent fees. The share are subject to 6 month 'lock-in' period from date of issue.

Business acquisition

On 5 July 2017 the Company announced the acquisition of Cloudified Ltd. The purchase consideration was satisfied partly by shares of 1,122,807 issued at a price of 7.125p and cash payment of £100,000.

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