Falanx Group Limited

Report and financial statements
year ended 31 March 2022

Company number 1730012 (British Virgin Islands)

Falanx Group Limited ("Falanx" or the "Company" or the "Group"), listed on the AIM Market of the London Stock Exchange, is a cyber security services provider working with blue chip and SMEs to protect their businesses from ever increasing cyber security threats.

It provides comprehensive offensive (penetration testing, red teaming) and defensive (managed detection response (MDR) and managed endpoint detection and response (M-EDR)) cyber security services to its growing client base.

Falanx Cyber provides a full range of professional services and managed monitoring services to government and commercial organisations worldwide.

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“We are delighted that the demand for our cyber security services continues to grow. In addition to the recent high profile cyber security concerns, we are seeing even more attacks on Small to Medium size Enterprises (“SMEs”). These SMEs often receive initial support via their trusted IT providers (who are not Cyber Security specialists) and hence these are the channel for our cyber services. Therefore, we have added some key new partners to our existing base to expand our reach into these IT providers. This, together with strengthened marketing, increased PR and hard work from the sales and marketing team, has resulted in a significant increase in our pipeline and today it is in excess of £6.0m – 2/3rds of which is for our MDR Services.

“Within the Company, it has been a challenging backdrop as we came through the pandemic, sold our Assynt strategic intelligence business and raised our first significant round of debt. This has allowed us to focus on the cyber business and reposition accordingly. The Falanx team is very focused on growth in a buoyant market and, whilst H1 of FY23 revenues are expected to be similar to the same period in FY22, orders for our core services are already up by over 18% and we are expecting further growth in orders for the second half of FY23, and with ongoing significant growth thereafter.

“We are well financed and expect our existing financial resources to be sufficient to see us through to profitability.”

Mike Read, Chief Executive

Highlights

£3.54m

Revenues
(2021: £3.12m)

+25%

Closing Monthly Recurring Revenues

+41%

Gross margin
(2021: 33%)

£1.27m

Adjusted EBITDA loss*
(2021: £1.35m)

£1.48m

Overall profit
(2021: loss £3.55m)

£4.35m

Shareholders’ funds
(2021: £2.73m)

Highlights continued

Financial Highlights

Results for the year to 31 March 2022

- Revenues £3.54m (2021: £3.12m), an increase of 14%
- Closing Monthly Recurring Revenues ("MRR") 25% greater than prior year
- Gross margin increased to c41% (2021: c33%) following the rationalisation of cyber security monitoring technology platform and much improved professional services utilisation
- Reduction in adjusted EBITDA* loss to £1.27m (2021: £1.35m)
- Loss per share from continuing operations 0.37p (2021: 0.75p)
- Overall profit of £1.48m (2021: loss £3.55m) following the disposal of the Assynt Strategic Intelligence division ("Assynt") in October 2021
- £2.5m of debt raised from BOOST&Co
- Cash balances at 31 March 2022 £3.5m (2021: £0.55m), the vast majority of HMRC COVID19 backlog paid down in the year
- Shareholders' funds £4.35m (2021: £2.73m)

Operational Highlights

- Strategic focus on the high growth cyber security market including expansion of sales and marketing capabilities, product development and automation capabilities
- Restructured sales function with the creation of dedicated team focussed on winning new clients, channel growth and creation of further recurring revenue streams
- Initial launch of mass market Cyber Security Assessment tool - f:CEL (Cyber Exposure Level)

Post Period Highlights

- Strong growth in sales pipeline (**) to £6.0m as at 22 September 2022 (1 April 2022: £4.1m), including MRR pipeline increasing in the same period from £1.7m to £4.0m
- 18% growth in sales orders for core offensive and defensive services in the first five months of FY23 compared to FY22
- Ongoing investment in focussed and controlled sales growth
- Launch of new Retained Incident Response ("R-IR") and Continuous Vulnerability Scanning ("CVS") services

(*) Adjusted EBITDA is a non-IFRS headline measure used by management to measure the Group's and divisional performance and is based on operating profit before the impact of financing costs, IFRS16, share based payment charges, depreciation, amortisation, impairment charges and highlighted items. IFRS16 is excluded so that the underlying rental costs of the premises are reflected in this metric.

(**) Pipeline is the total contract value of all current sales prospects with a potential to close in the current financial year.

About Falanx Cyber

Enterprise-class cyber security services within reach of every organisation

We identify areas of cyber risk threatening the integrity of your business and provide complete end-to-end managed cyber security services to alleviate those risks.

Offensive Security (attack)

We emulate criminals attacking your systems to identify weaknesses that could potentially be exploited.

Defensive security (defend)

Strengthen your defences to withstand hostile attacks.

Protect

What we do

Attack

How secure are your systems and networks against targeted cyber attacks?

These are our ***Offensive*** Services and are primarily centred around Penetration Testing / ethical hacking ("PT"). Our comprehensive portfolio of PT services covers a wide range of skills and techniques which we use to emulate potential attackers looking for vulnerabilities in our client's infrastructure. These services are provided under a traditional professional services business model with a mix of day rate and fixed price contracts. This service benefits from a high level of repeat business, long term relationships and has negligible churn. We have provided these services to nearly 400 customers over the last four years, many on an annual repeat basis.

Defend

24 x 7 eyes on glass

Our ***Defensive*** managed services are provided by our Security Operations Centre ("SOC") based in Reading. The SOC operates a 24/7/365 service, continually watching our customers' IT estates, looking for unusual items which may be a sign of a cyber-attack or data theft. To achieve this, we monitor billions of client's log events, such as a user logon, each week and distil this down, via AI and our assembled skills, to the few actionable items which must be alerted to the client. Our growing client base, and the move to the online world has grown the number of log events by over 150% compared to previous years. This service is supplied on a monthly recurring basis and has a largely fixed cost base of people and infrastructure with some licence fees as a function of client volumes.

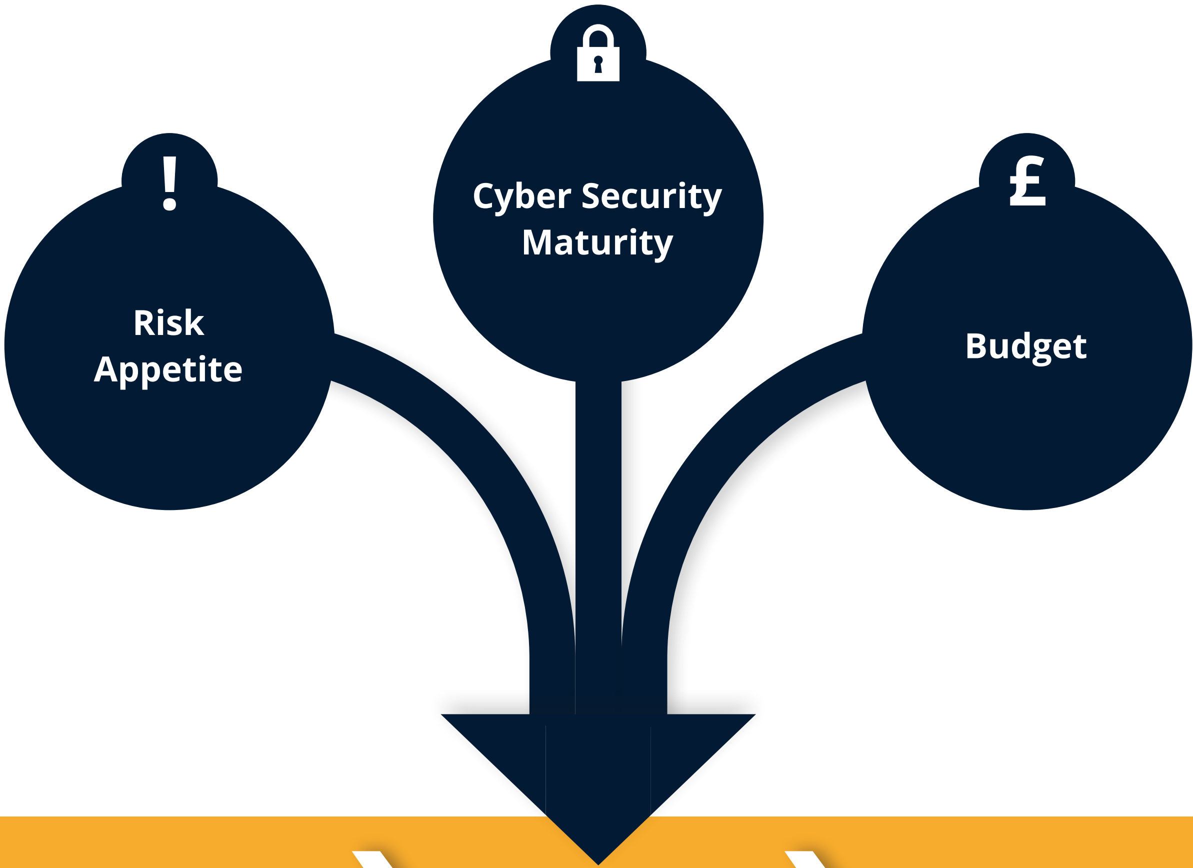
Protect

Combining the offensive and defensive

Through both our ***Offensive*** and ***Defensive*** services, we help our customers to protect themselves against cyber-attacks. Through the use of either or a combination of both Attack and Defend, we inform our customers as to their strengths and weaknesses, so that they can be better protected against hostile threats. To help SMEs understand their exposure to these threats, we introduced our Cyber Security posture scoring, f:CEL (the falanx Cyber Exposure Level). Through this self-service evaluation tool, customers can understand their weaknesses and see recommendations as to what they can do to improve their posture, all in a matter of minutes.

Buyer journey

Our services can assist customers at any stage of the cyber security journey:



Crawl	Walk	Run
F:CEL	Cyber Essentials Plus	Managed Detection & Response
Security assessments	Penetration testing	Retained Incident Response
Cyber security awareness training	Ethical phishing	
Cyber Essentials	Continuous Vulnerability Scanning	
Suspicious email analysis	Managed Endpoint Detection and Response	

Partnerships

Partnerships are valuable route to market for Falanx. We understand that our partner's clients rely on their judgement and expertise to deliver effective cyber security solutions specifically designed to protect their individual business needs. We also recognise that selecting the right cyber-security partner is vital to the successful delivery of those outcomes.

Why partner with us?

Expand your portfolio

Increase revenue

Remain in control

Trusted, pure-play cyber provider

Informed beyond your own network

Our partner programme

Our programme comprise of two partnership levels – Authorised and Premier. There is a low barrier to entry for Authorised partners. Premier partners require a certain level of training and commitment before they can access competitive pricing, technical, sales and marketing resources.

Benefit	Authorised	Premier
Sales		
Partner wholesale pricing	✔	✔
Deal Registration	✔	✔
Pre-sales technical support	✔	✔
Non-standard pricing for large, strategic or competitive take-out deals on a case-by-case basis		✔
Quarterly Business Planning		✔
Dedicated partner manager	✔	✔
UK SOC visits		✔
MARKETING		
Marketing content and templates	✔	✔
Proposal based joint/co-marketing activities		✔
Dedicated marketing support		✔

In The Media

Falanx cyber are go-to media commentators, featured in national news as well as industry magazines and podcasts providing cyber security thought leadership and practical advice and guidance for businesses of any size.

Sample coverage

National news:

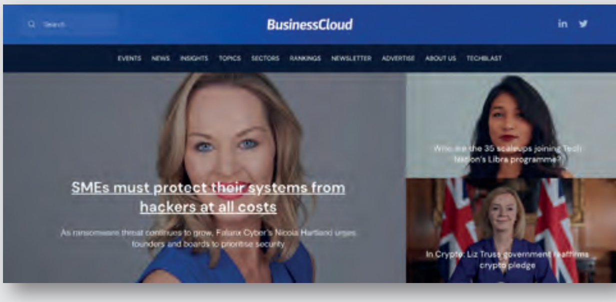
BBC News, April 2022

Daily Express (July, 2022)

Industry trade magazines:

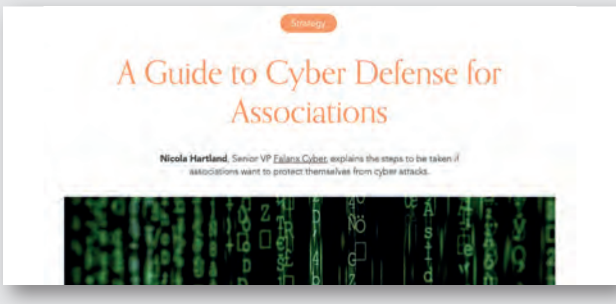
Cyber Defense Magazine, August 2022

Tech Blast & Business Cloud, September 2022



IFA Magazine Podcast, August 2022

Tech Blast & Business Cloud, September 2022



Life at Falanx

As a services business, our people and their expertise and dedication to keeping our clients safe is what keeps our customers with us year on year.

Retaining Talent

People are our primary asset and therefore we go above and beyond to recruit and retain top talent. We invest in our employees career progression through training and personal development programmes, a culture of promoting from within, company days that reflect our values and across social media under our hashtag #TeamFalanx.

This year we asked our staff what they liked about working at Falanx in our 2022 employee survey.

"If there is anything that you think Falanx does really well as an employer, we'd love to hear about it"

- Flexible working and individual support
- Support offered by Seniors
- Relationships with the Falanx Board
- Team spirit & community
- Social events
- Wellbeing support and benefit options
- Office energy
- Helpful & friendly colleagues

"Prior to starting at Falanx, I studied Cyber Security at University and was able to spend my placement year working with Falanx as an intern. I am now in my 3rd year at Falanx and enjoying every element of the role. My role as an Analyst, in summary, involves responding to detections, developing our alerting capabilities, and monitoring our SIEM tools through proactive hunting. Working at Falanx is a positively unique experience as I have been able to get involved with a broad range of tasks across cyber operations such as engineering, networking and more enabling me to expand my overall knowledge of the Cyber Security industry. Falanx look after their teams very well and offer a very high-spirited family like working environment which overall helps individual development and the ability to work more closely and effectively together."

SOC Analyst, Falanx Cyber

Chairman's Statement

I am pleased to present your Company's Annual Report & Accounts for the year ended 31 March 2022 ("FY22").

I am delighted to report that the high growth cyber sector market became Falanx's sole focus through the successful disposal for cash of our non-core Assynt business intelligence division in October 2021 for an enterprise value of £4.6m. I am also pleased to report that our cyber revenues have resumed their growth trend in the period under review, along with improved gross margins. We are also now well financed with the cash resources needed to fund our organic growth plans.

In last year's annual report, I highlighted the enormous opportunity for Falanx in cyber security, with its powerful social, technological, economic and regulatory drivers, especially with the growing threat of ransomware attacks and data thefts. Cyber security attacks have increased by over 30% in the last year and are showing no signs of receding. These factors, combined with recessionary pressures, create an environment where cyber-attacks and cybercrime will become even more prevalent, and organisations must step up their defences or suffer the potentially devastating financial and reputational consequences. Whilst inevitably exposed to the issues of the wider UK economy, we expect that this growing threat will require organisations to further invest in cyber security services and technologies.

Falanx is very much a service, as opposed to a technology development, company. Our focus is therefore on delivering client solutions as opposed to investing in the development of new technologies.

Falanx has become a trusted cyber security corporate advisor. This has been achieved by providing incisive and objective assessments of an organisations' cyber resilience position. In turn, this often results in us providing clients with monitoring services on a recurring basis under long term contracts thereby increasing the Company's contractual monthly recurring revenues.

The successful disposal of the Assynt division has provided us with the capital to fulfil our expansion plans for our cyber security business, specifically investing in our sales and marketing capabilities, product development and infrastructure to support this high growth opportunity. Our cash position has been further strengthened by the £2.5m loan received from BOOST&Co in October 2021, and all of this has been achieved without shareholder dilution.

Whilst our underlying cyber business is fundamentally solid, the significant investments we have been making and will continue to make, as outlined above, are already making a difference in terms of additional sales, creating a wider and more effective partner base as well as innovative service developments. We are optimistic that this investment will generate significant growth in the next year as sales momentum builds.

Approved by the Board on 28 September 2022 and signed on its behalf by

A Hambro
Non-Executive Chairman

Strategic Report

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Chief Executive Officer’s Statement

Falanx is a provider of *Offensive* and *Defensive* cyber security services, which protect around 400 customers worldwide. Customers include Managed Service Providers (“MSPs”), IT providers, public sector organisations, large multinationals and SMEs.

Attack

These are our *Offensive* Services and are primarily centred around Penetration Testing / ethical hacking (“PT”). Our comprehensive portfolio of PT services covers a wide range of skills and techniques which we use to emulate potential attackers looking for vulnerabilities in our client’s infrastructure. These services are provided under a traditional professional services business model with a mix of day rate and fixed price contracts. This service benefits from a high level of repeat business, long term relationships and has negligible churn. We have provided these services to nearly 400 customers over the last four years, many on an annual repeat basis.

Defend

Our *Defensive* managed services are provided by our Security Operations Centre (“SOC”) based in Reading. The SOC operates a 24/7/365 service, continually watching our customers’ IT estates, looking for unusual items which may be a sign of a cyber-attack or data theft. To achieve this, we monitor billions of client’s log events, such as a user logon, each week and distil this down, via AI and our assembled skills, to the few actionable items which must be alerted to the client. Our growing client base, and the move to the online world has grown the number of log events by over 150% compared to previous years. This service is supplied on a monthly recurring basis and has a largely fixed cost base of people and infrastructure with some licence fees as a function of client volumes.

Protect

Through both our *Offensive* and *Defensive* services, we help our customers to protect themselves against cyber-attacks. Through the use of either or a combination of both Attack and Defend, we inform our customers as to their strengths and weaknesses, so that they can be better protected against hostile threats. To help SMEs understand their exposure to these threats, we introduced our Cyber Security posture scoring, f:CEL (the falanx Cyber Exposure Level). Through this self-service evaluation tool, customers can understand their weaknesses and see recommendations as to what they can do to improve their posture, all in a matter of minutes.

Chief Executive Officer's Statement continued

Sales performance

Our sales performance in FY22 was achieved with a smaller team than in previous years, and despite this, sales orders were broadly similar at £3.3m (2021: £3.4m). Individual sales productivity increased by over 15%, and average spend per customer grew by 5%. In total, the Company received 369 (2021: 384) individual sales orders from 205 customers (2021: 225) out of a wider active client base of around 400. This includes 45 new clients won in the year. We have increased the number of clients who have been using both Offensive and Defensive services, and this remains an opportunity for significant further contract wins for monthly recurring revenue ("MRR") generation. The team was expanded towards the end of the financial year, and this is discussed below in the sales execution strategy.

Operational performance

Following the development of our XDR / MDR service ("Triarii") last year, we migrated our client base to it from previous platforms during the first half of FY22. This, combined with a stronger sales performance and much improved utilisation levels, enabled our cyber security business to record an adjusted EBITDA profit in the first half of FY22 following a loss in FY21. Since then (and as a result of the proven baseline profitability model for cyber) we are carrying out our planned investment in the cyber business.

The SOC experienced some managed churn during the year, typically from older contracts which required on-premises solutions as opposed to our cloud-based strategy. This technology consolidation enabled both a much more efficient service and a greatly enhanced client experience. We have now moved to a predominantly cloud-first environment, and we continue to develop our offering as the market evolves. We are now both well aligned with the market and able to push ahead with our high growth plans.

Cyber security growth strategy

The solid base that we have built for future growth is fully supported by the financial resources generated from the disposal of Assynt in October 2021 and the facility provided by BOOST&Co. This has allowed us to invest in the high growth phase, with significant additional resources across the business, but particularly in sales and marketing. Our goal is to more than double the size of our business organically, and we have adopted the strategies set out below to achieve this goal.

Sales execution strategy

We have operated two functional sales areas – the pre-existing team as Business as Usual ("BAU"), which is predominantly direct business, and a new team assembled under the Net New Names ("NNN") designation. This team is dedicated to winning new clients via both channel and direct models and their key task is to grow our Defensive SOC services leading to enhanced MRR. Nicola Hartland, an established cyber security entrepreneur, joined us towards the end of the financial year, to lead the NNN team and they have been solidly building an incremental pipeline of opportunities.

Our Partner Engagement Model has been restructured with the objective of generating regular deal flow across the mix of our Tier 1 and Tier 2 partners. Tier 1 partners generally require a higher level of attention, and our aim is to target £1m business per annum from each such client, limited to six overall. Tier 2 partners provide us with similar sales opportunities, but these are likely to be smaller in volume. We are actively trialling the use of co-funded resources within partners to demonstrate their commitment to expanding Falanx, thereby creating a larger and more diverse sales team dedicated to selling Falanx services. Through this restructured partnering model, we are no longer dependent on a single channel opportunity to drive our growth, instead spreading that opportunity across a broader network.

NNN's focus on partners is specifically to grow MRR from SOC and associated services with an approximate 75%/25% emphasis on Defensive (SOC & MRR) versus Offensive (i.e., Penetration Testing) services – almost the exact opposite (and therefore complementary to) our BAU team.

The use of f:CEL as an on-ramp tool, as well as a revenue opportunity in itself, is being well received for its completeness, ease of use and digestible output and recommendations. We have begun development of f:CEL '2.0', in which we will bring together all customer feedback from engagements so far. This will create an even more complete product and compelling use-case across a variety of industry sectors, including insurance and IT services and the sale of our cyber security offerings through channel partners.

As we focus in on our core offerings (SOC and PT), we have chosen to exit from any low-margin, non-core legacy consulting contracts and we expect to replace their margins from further SOC sales.

Chief Executive Officer's Statement continued

Service Innovation Strategy

As a service business, we focus on service innovation and delivery excellence and not on the development of proprietary technology. This allows us to use the most appropriate technology to deliver for our clients, whilst not carrying the development overhead. This means that we can invest in client delivery as opposed to developing solutions which are already provided by (often much larger) technology companies. We will develop functionality in certain niche areas (for example f:CEL), although this is built on standard technologies. As we are technology agnostic, we can explore additional managed services with new, strategic partnerships as well as opportunities to generate significant returns.

We are further expanding our services portfolio based on customer demand and feedback to drive incremental revenues. This includes the previously announced Continuous Vulnerability Scanning ("CVS") service and the Retained Incident Response ("R-IR") services. These complement our ad-hoc IR service and provide SLAs and guarantee our availability to support our customers when an incident occurs.

Our targeted MRR growth is planned to move the SOC to being cash generative on a stand-alone basis, and this will improve our overall margins. Our SOC currently has the necessary infrastructure (typically with a fixed cost), and therefore significant operational leverage, and we expect incremental sales to further improve performance. We are looking to make further automation investments aimed at improved client delivery and margin improvement.

As a knowledge-based business, we continue to attract and retain experienced and expert resources across all functions of the business. All attracted by the attractive growth opportunities in front of us as well as our excellent culture which offers support, training and career progression opportunities to people with much sought-after skills.

Post Period update

The NNN team is now established and consequently the overall cyber sales pipeline is now building on a weekly basis, and it is already at a record value of £6.0m (£4.1m on 1 April 2022). This also represents growth of 46% in the current financial year, and very significantly the pipeline is now c66% MRR compared to 40% in April 2022 (and 17% in April 2021). Our team has a high energy level and a strong execution focus and as well as building new partnerships, our existing relationships have been revitalised and expanded.

Sales orders for our core services in the first five months of FY23 were 18% ahead of the same period in FY22. This includes five new MDR deals which we sold, with a total minimum contract value of over £0.2m, with the potential for significant expansion and extension beyond this. Three of these MDR deals were signed in August 2022 when we also signed up two new Tier 1 partners. Furthermore, we have also won our first four clients for CVS and also sold more than 1000 f:CEL licenses.

Outlook

Our previous investment in Triarii has transformed our customer delivery in the SOC. We have a highly relevant set of services which are well aligned to client needs in a growing market. Our focus is now on growing market share, and we are achieving this through indirect and direct routes. Since Falanx became a pure play cyber business in October 2021, we have invested in an expanded sales and marketing capability, and this is now starting to deliver results. We have new partners on board and they are already generating sales from a strong pipeline of potential business. Our penetration testing business remains strong, and we have a growing customer base of around 400 organisations, which provides us with a good basis for cross selling of MRR generating services. With the conversion of this pipeline, which is now underway, and the planned cessation of certain spends incurred in the first half of FY23, we expect an improving financial performance in the second half of FY23.

Falanx is now firmly in growth mode, and our objective, which we are confident we will achieve, is to generate very significant, organic growth over the coming months and years. We are well financed and expect our existing financial resources to be sufficient to see us through to profitability.

Approved by the Board on 28 September 2022 and signed on its behalf by

M D Read
Chief Executive Officer

Chief Financial Officer's Report

Financial Review Continuing Operations

Revenue

Group revenues increased by 14% to £3.54m (2021: £3.12m). This was partly due to the recovery from the COVID-19 period and the consequential significant increase in professional services revenues which benefitted from much stronger utilisation levels. Recurring revenues from monitoring contracts were consistent with the prior year at £0.86m. Contract wins for monitoring business increased towards the end of FY22, with monthly recurring revenues growing by approximately 25% across FY22. This was despite a deliberate move away from legacy 'on premises' contracts serviced under the previous monitoring platforms to an all-cloud delivery on Triarii.

The pipeline of potential sales increased from £2.8m in August 2021, to £4.1m at the start of April 2022 and is now approximately £6.0m. The pipeline is the total contract value of all current sales prospects with a potential to close in the current financial year.

Cost of sales

This comprises of both people cost related to the delivery of customer services related to penetration testing, SOC monitoring and consultancy, as well as external software licencing and data services related to their delivery.

Gross margins

These strongly recovered in the year to 41% from 33% in FY21. This reflected much improved professional services utilisation following the end of COVID-19, and the benefits of moving to a single monitoring platform with lower external licence fees.

Operating costs

	31 March 2022 £'000	31 March 2021 £'000
Gross margin	1,443	1,017
Underlying operating costs*	(2,715)	(2,367)
Adjusted EBITDA loss	(1,272)	(1,350)
* Analysed as		
Sales and distribution	1,706	1,463
Corporate	1,009	904
	2,715	2,367

Underlying operating costs, were £2.71m (2021: £2.37m). The prior year benefitted by approximately £0.2m from COVID-19 related cost reductions (including salary sacrifice schemes and furlough), and the balance of the increase arose from investment in sales expansion post the disposal of Assynt in October 2021. Average headcount was 51 (2021: 55).

Chief Financial Officer's Report
continued

Share option charges

Share option charges were £0.02m (2021: £0.18m) with the comparative period reflecting the issue of share options under the COVID-19 salary sacrifice scheme.

Adjusting income items

As in previous years, highlighted items to credit adjustment on rental costs to exclude the impact of IFRS 16 on the Reading lease of £108,000 (2021: £108,000), with the prior year reflecting some restructuring which was mainly as a result of COVID-19.

Adjusted EBITDA

Adjusted EBITDA loss for the year was £1.27m (2021: £1.35m) after adjusting for the items highlighted above. Overall reported EBITDA loss (excluding share option charges) was £1.16m (2021: £1.34m) after adjusting for highlighted income.

Depreciation, amortisation, and impairment

This charge was £0.6m (2021: £1.9m). Customer intangible amortisation was slightly reduced to £0.25m (2021: £0.29m) following the completion of the amortisation of Securestorm. The impairment of goodwill (£0.13m) related to that acquisition of Securestorm being impaired in full. The prior period reflected the £1.44m impairment of the investment in Furnace Technologies which was spun out of Falanx in December 2019. The amortisation of the right of use asset represents IFRS16 charges arising from the Reading office lease and was £108,000 in each year.

Operating loss

The operating loss reduced to £1.78m (2021: £3.45m) with £1.44m of the reduction arising from the impairment of Furnace which was reflected in the previous year.

Financing costs

Net financing costs were £0.2m (2021: £0.03m) of which £0.17m represented interest payments (including amortised costs) on the £2.5m loan drawn down between August and October 2021, with the remainder representing financing costs associated with IFRS16: Leases.

Discontinued operations

On 6 October 2021 the Group disposed of the Assynt strategic intelligence division to focus on growing the cyber security division. The division recorded revenues of approximately £1.03m during the period (2021: £2.12m) and an adjusted EBTIDA loss of approximately £0.05m (2021: profit £0.10m). The purchaser was an organisation backed by US private equity investors. The terms of the transaction were an enterprise value of £4.6m payable in cash, adjusted for approximately £0.5m of working capital (mainly related to deferred incomes). Of this £0.35m is held in escrow until October 2022, and as of the date of this report the board is not expecting any claim against this. Overall, following advisory transaction costs including contingent success related items based on value achieved, the transaction produced a profit of £3.46m.

Result for the year

The overall result for the year was a profit of £1.48m (2021: loss £3.55m) due to the gain on the disposal of Assynt. Earnings per share were 0.28p (2021: loss 0.77p). The loss per share from continuing operations was 0.37p (2021: 0.75p).

Statement of Financial Position

Non-current assets

Goodwill arising on the acquisitions of Falanx Cyber Defence, First Base and Securestorm was £1.72m (2021: £1.85m) with the difference relating to the impairment of the entire balance of £0.13m related to Securestorm due to its small customer base and non-core nature of consultancy services.

Customer relationships from First Base were carried at a total of £1.42m (2021: £1.68m) with the reduction mainly arising from the 10-year straight line amortisation of this asset. The Group's non-current assets also include the future value of the five-year lease (commenced July 2019) of the Reading premises of £0.25m (2021: £0.35m). A creditor of £0.15m (2021: £0.25m) is carried to reflect future liabilities and £0.10m (2021: £0.09m) are included in current liabilities. Fixed assets which include furniture, plant and equipment were £0.10m (2021: £0.16m).

Chief Financial Officer's Report continued

Working capital

Trade receivables fell from £0.68m to £0.52m with the prior period reflecting Assynt balances. Cash collections were strong, and average debtor days for that division were 31 vs 47, and no bad debts were experienced in the year.

Other debtors (including prepayments) increased to £0.67m (2021: £0.39m) due to the £0.35m held in escrow till October 2022 relating to the disposal of Assynt.

Trade and other payables fell to £0.80m (2021: £1.59m) mainly due to the repayment of £0.62m HMRC deferred payments from the prior year in response to COVID-19 as well as the impact of the disposal of Assynt. HMRC is fully in terms on all liabilities, both current and agreed deferred payment plans, with only trivial amounts remaining outstanding on the latter.

Contract liabilities (deferred incomes) fell from £1.11m to £0.53m due to the disposal of the Assynt, which had a high level of advance payments from larger customers which were received before the year ended 31 March 2021. Contract liabilities in the ongoing cyber security business increased from £0.46m to £0.53m reflecting the growth in business volumes.

Non-current liabilities

Between August 2021 and October 2021, the Group drew down a loan of £2.5m from BOOST&Co. The principal terms of the loan are:

- 11% interest rate, secured over Group's assets fixed and floating charge
- Amortisation commencing over 4 years from October 2022
- No covenants or equity components

It is recorded at amortised cost under IFRS, and this increased the overall non-current liabilities from £0.31m to £2.25m.

Capital structure

During the year approximately 0.5m employee share options were exercised and consequently there were approximately 526m shares in issue at 31 March 2022. No other equity issues took place during the year.

Following the general meeting held in February 2021 and the reduction in the share premium account, a special non distributable reserve (the "2022 Liabilities Reserve") was credited with £1.0m. This is expected to be released back into retained losses in December 2022.

Overall, on 31 March 2022 the Company had approximately 76.7m (2021: 83.9m) employee share options and warrants outstanding representing approximately 14% of the issued capital.

The Group continues to rationalise legal entity structure to best align it with the current opportunity as well as to reduce costs and streamline tax management. The Group's incorporation status as a BVI entity is a legacy of its pre 2013 IPO business plan and the Board will review moving it to a UK status at an appropriate time, considering the significant professional fees which would be associated with such a change. The Group's memorandum and articles of association were revised in March 2019 to align with UK incorporated entities more closely. The Group is fully resident and registered in the UK from a tax perspective. Since the disposal of Assynt, the Group only operates through two main legal entitles as opposed to seven, before including four overseas companies.

Total equity

The profit on the disposal of Assynt enabled the total equity position to increase to £4.35m (2021: £2.73m).

Statement of cash flows

Cash balances were significantly strengthened to £3.48m (2021: £0.55m) by the disposal of Assynt for cash and the drawdown of the loan from BOOST&Co referenced above. This enabled a return to a normalised working capital position following the COVID-19 period and the repayment of HMRC liabilities. Overall cash performance remains closely correlated to operational EBITDA.

Post Balance Sheet Events

On 22 June 2022, the Company signed a deed of variation for the lease for the premises in Reading. The lease was varied to delete the break option and reduce the principal rent by 50% for the period from 1 August 2022 to 31 July 2023.

I R Selby
Chief Financial Officer

Governance

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Directors

Alex Hambro

Non-executive Chairman

Alex Hambro has been active in the investment sector both in the UK and the USA for some 30 years, during which time he has acted as a principal investor, manager and sponsor of private equity and venture capital management teams. As well as his responsibilities at Falanx, Alex is a founder and Chairman of Judges Scientific plc, a scientific instrumentation group. In addition to these two AIM company responsibilities, Alex is also Chairman of OTAQ plc and a Non-Executive Director of Octopus Apollo VCT plc and Oberon Investments Group plc.

Mike Read

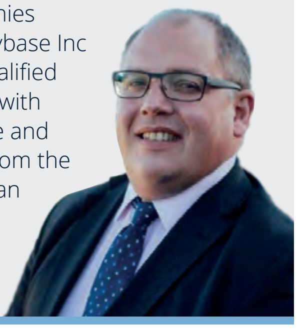
Chief Executive Officer

Mike Read 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.

Ian Selby

Chief Financial Officer and Company Secretary

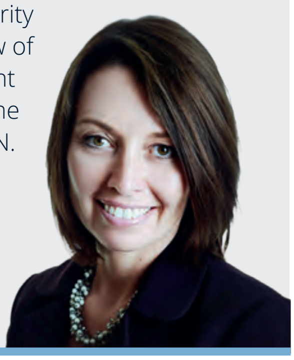
Ian Selby is a Chartered Accountant with significant experience in the technology, security, and business services sectors. He was previously the CFO of AIM listed Westminster Group plc where he supported the development of their successful managed services business and the raising of the associated financing. Prior to this, he was Group Finance Director of Zenith Hygiene Group plc, where he was instrumental in executing a successful trade sale and prior to this was the CFO of a listed software company focused on financial and public sectors. Ian has held international finance roles in listed technology companies including Halliburton Inc, Sybase Inc and Micro Focus plc. He qualified as a Chartered Accountant with Coopers & Lybrand Deloitte and holds a degree in Physics from the University of Birmingham. Ian is responsible for finance, premises, HR, and IT infrastructure.



Emma Shaw

Independent non-executive Director

Emma Shaw is the Managing Director of Esoteric Limited, an Electronic Sweeping, Counterespionage and Intelligence gathering company, which was acquired by Mitie plc in 2021. 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.



Directors' report

The Directors present their report and the audited financial statements for the year ended 31 March 2022.

Business review

The Group's results for the year are set out in the consolidated statement of comprehensive income on page 47 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 for continuing operations

Performance Indicator	Description	Why measured	2022	2021	Comment
Group revenue - £'m	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	£3.54	£3.12	Recovery in professional services revenues since Covid 19
Gross margin	Percentage of total revenue retained by the Group after direct costs deduction	Provides an indication of sales profitability and proportion of revenue available to cover other running costs	40.7%	32.6%	Stronger professional services utilisation and single cyber security monitoring platform
Adjusted EBITDA - £'m	A management measure of profits adjusted for non-underlying items such as restructuring, and acquisition related and excluding the impact of IFRS 16	Underlying performance of business operations	£(1.27)	£(1.35)	Investment in sales expansion in the year offset by greater revenues
Cash conversion	Operational cash flow / EBITDA	Measures the ability of the Group to convert profit into cash and correlation between EBITDA and cash performance	81%	29%	Move to a normal working capital profile since the end of Covid 19
Recurring revenue %	Recurring revenue lines / total revenue	Shows visibility of recurring revenue growth rate	31%	35%	Growth in professional services revenues in year lowered mix
Monthly recurring revenue ("MRR") - £'m	Revenue from the provision of monitoring and similar services on a recurring basis in the final month of each financial year.	Shows predictable monthly metrics to track progress against objective of becoming profitable solely on recurring revenue	£0.08	£0.06	Contract wins
Number of customers ordering	Number of customers invoiced over the preceding 12 months	Measure of customer concentration (includes acquired customer base)	205	225	Total live client base of approximately 400 ordering customers
Headcount	Average headcount during the year	Shows average number of employees in the year	51	55	
Contract liabilities (deferred income) - £'m	Contracted and invoiced revenue yet to be recognised (deferred income)	Shows visibility into invoiced amounts to be recognised in future periods	£0.53	£0.46	Growth in business and deal timing.

Directors' report continued

Dividends

The consolidated statement of comprehensive income for the year is set out on page 47 and shows the profit for the year.

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

Events after reporting date

On 22 June 2022, the Company signed a deed of variation for the lease for the premises in Reading. The lease was varied to delete the break option and reduce the principal rent by 50% for the period from 1 August 2022 to 31 July 2023.

Directors

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

Executive Directors

M D Read

I R Selby

Non-Executive Directors

E Shaw

A Hambro

Directors' interests

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

	2022		2021	
	Number of shares	**% Held**	Number of shares	% Held
M D Read^	16,258,187	3.09%	15,313,940	2.91%
E Shaw	1,366,666	0.26%	1,366,666	0.26%
I R Selby	4,159,894	0.79%	2,069,348	0.39%
A Hambro	3,370,000	0.64%	2,750,000	0.52%

^ M D Read has 6,000,000 warrants, vesting and exercisable as detailed in note 21.

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. At the end of the financial year ended 31 March 2022, creditors' days were 65 days (2021: 84 days). At present the vast majority of the Group's creditors, including taxation are within agreed terms.

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 control debt levels and to ensure sufficient working capital for the Group's overheads and capital expenditure commitments. Financial instruments are disclosed and discussed in note 31 to the financial statements.

Falanx people

Falanx Group employed on average 51 employees in the UK (2021: 55 employees in the UK) across its continuing cyber security and corporate functions.

Our employees are at the very heart of the organisation and our most valuable asset. We recognise that, to ensure that we have a competitive advantage, our employees should have the best opportunity to thrive and succeed. We engage with our team to support motivation, wellbeing, retention, career development and performance. Our culture at Falanx is unique; we work as a collaborative team with an ethos of trust, honesty, pride and delivering continuous improvement.

Many of our employees work remotely with the option to work in our vibrant office space in Reading if they so choose, our secure remote working model enables Falanx to hire and retain the highest calibre of technology talent within important roles in the organisation that require experience and technical skills. Our office space in Reading, is home to our SOC (Security Operations Centre) and a central location for our employees to meet for team meetings, strategy sessions and a comfortable and impressive environment for our clients to visit.

Directors' report continued

We are proud to provide Internship opportunities into our Security Operations Centre in Reading. We work in partnership with leading Universities in the UK and employ university students yearly on a year industrial placement. We have retained some of these students' following graduation who have progressed onto successful careers in Cyber Security within Falanx Cyber. We also see a huge advantage for employing apprentices and providing inspiring careers in Cyber and are planning to implement a scheme in FY23.

Retaining our talent is key and we are keen to ensure that we have a competitive advantage as an employer of choice. We provide our employees with a benefits package to include Private Medical Insurance, a health cash plan, life insurances, a pension scheme, an employee benefits platform which includes a Bike to Work scheme.

We believe that our employees deserve to be cared for and as such, we are proud to have a dedicated Wellbeing Ambassador and function to support our employee's wellbeing. Our important initiatives include an employee assistance programme with 24/7 counselling support, mental health first aiders, trained to spot signs of employee's poor mental health, regular employee wellbeing surveys and management training workshops.

In September 2021, a group of employees got together to complete a 22km Thames Path Challenge. We are extremely proud to have raised £2,365 in aid of MIND to support their mission to raise awareness of mental health issues.

We realise the importance of career development and providing a clear plan for talented and valued individuals with a desire to progress in their roles as well as enriching those who are content to stay at their current level. Our employee quarterly check-in reviews are an opportunity for employees together with their line manager to discuss and identify training and development and their career plan. The company are committed to promoting from within and employees are encouraged to put themselves forward for any internal progression opportunities in favour of the company recruiting talent from outside the organisation.

Technical training and certifications are available to support career development and enhancement of technical expertise. The Company also provide our cyber services employees with a personal development budget to support their technical learning journey.

As part of Falanx's ongoing commitment to supporting employees both professionally and personally, we ask employees to complete a bi-annual engagement survey. This is to understand how employees are finding work, what the company is doing well to support, and, most importantly, understand through feedback how Falanx could improve as a business to better support them. The survey is anonymous, and feedback is given to the board and management team and presented to the wider organisation with an action plan in place for improvements.

Wellbeing in the workplace policy

Falanx Group understands that promoting and protecting wellbeing in the workplace is of utmost importance, and that there are many factors that influence the health and wellbeing of Falanx employees. Falanx is aware that understanding and overcoming these issues can result in a range of benefits for both individuals and the wider business. By addressing and championing mental health in the workplace, Falanx recognises that the Company can improve the general wellbeing of employees, reduce absenteeism and presenteeism while increasing staff retention rates and productivity. Similarly, by promoting the benefits of physical activity, healthy eating, and positive lifestyle habits, Falanx are also, in turn, able to help employees manage stress and feelings of anxiousness to support a healthy mindset.

Business ethics and ways of working

Falanx is committed to ensuring that the Group operates in a responsible and ethical manner, and we ensure that our employees are committed to the Falanx ways of working through our robust policies, processes, and procedures. Falanx ensures the following policies are followed and adhered to in respect of business ethics:

Anti-Bribery and anti-corruption policy

Falanx Group is committed to conducting business in an ethical and honest manner and is committed to implementing and enforcing systems that ensure bribery is prevented. Falanx has zero-tolerance for bribery and corrupt activities. We are committed to acting professionally, fairly, and with integrity in all business dealings and relationships, wherever in the country we operate.

Falanx will constantly uphold all laws relating to anti-bribery and corruption in all the jurisdictions in which we operate. We are bound by the laws of the UK Bribery Act 2010 and the FCPA 1977 (amended 1998), regarding our conduct both at home and abroad.

Directors' report continued

Dignity at work policy

All employees of Falanx have an important part to play in the overall success of the Group and everyone is respected and valued for their contribution at every level. At Falanx, we foster and promote a healthy, collaborative, and supportive environment and encourage all our colleagues to work together in harmony in a way that encourages self-development, team success and knowledge sharing.

Falanx is committed to protecting the dignity and wellbeing of everyone and encourages practices that consider the rights of all individuals and seeks to eliminate all forms of unacceptable behaviour. It is in our best interests to promote a safe, healthy, and fair environment where people are given every opportunity to excel and thrive in their workplace.

Equality and diversity policy

Falanx is committed to promoting a culture that actively values difference and recognises that people from different backgrounds and experiences can bring valuable insights to the workplace and enhance the way we work.

Falanx aims to be an inclusive organisation, committed to providing equal opportunities throughout employment including in the recruitment, training and development of employees, and to pro-actively tackling and eliminating discrimination.

Whistleblowing policy

Falanx is committed to ensuring that practices and procedures in respect of all employees, partners and customers are of the highest quality. All employees are expected to maintain the highest standards of integrity and good faith.

The Public Interest Disclosure Act 1998 protects workers who blow the whistle about wrongdoing. The Policy is intended to provide guidance as to the circumstances under which such protection is available and the steps to be taken should an employee feel that a matter of public interest is at stake.

Health and safety

Falanx ensures the Health and Safety of its employees by taking all necessary steps in providing a Healthy and safe working environment. Relevant assessments are carried out and appropriate training is provided to all employees.

Environmental policy

Falanx has a low environmental footprint. Its move to remote working has significantly reduced the need for commuting, and a much lower level of business travel will also reduce its carbon footprint. The main energy consumption is driven by use of devices such as laptops and mobile phones and the Company believes that there is little impact. Furthermore, the Company is operating in a paperless environment wherever possible.

Modern Slavery and Human Trafficking Policy

The Company acknowledges the provisions of the Modern Slavery Act 2015 and will ensure transparency within its organisation and with suppliers of goods and services to the organisation. The Company is satisfied from its own due diligence there is no evidence of any act of modern-day slavery or human trafficking within its own organisation. As part of the Company's due diligence processes into slavery and human trafficking the supplier approval procedure incorporates a review of the controls undertaken by the supplier.

Section 172 Statement

Whilst as a BVI incorporated company Falanx Group Limited is outside the scope of s172 of the UK Companies Act 2006 the board believes that it is highly relevant to Falanx and is therefore reporting under it.

Directors of a company must act in a way that they consider, in good faith, would most likely promote the success of the company for the benefit of its members as a whole, considering the non-exhaustive list of factors set out in Section 172 of the Companies Act 2006.

Section 172 also requires directors to take into consideration the interests of other stakeholders set out in Section 172(1) in their decision making.

Engagement with our members and wider stakeholder groups plays an essential role throughout our business. We are cognisant of fostering an effective and mutually beneficial relationship with each stakeholder group. Our understanding of stakeholder needs, and concerns is factored into boardroom discussions regarding the potential long-term impacts of our strategic decisions on each group.

Post the reporting year end, the Board have continued to have regard to the interests of the Companies stakeholders, including the potential impact of its future activities on the community, the environment and the company's reputation when making decisions. The Board also continue to take all necessary measures to ensure

Directors' report continued

the Company is acting in good faith and fairly between members and is promoting the success of the company for its members in the long term.

The table below acts as our Section 172 statement by setting out the key stakeholder groups and how the board has engaged with them over the reporting year.

Stakeholder	Why we engage	How we engage
Our investors	We maintain and value regular dialogue with our investors and place great importance on our relationship with them. We know that our investors expect a comprehensive insight into the financial performance of the company, and awareness of long-term strategy and direction. As such, we aim to provide high levels of transparency and clarity about our results and long-term strategy to build trust in our future plans.	➤ The board had previously stated that its core focus was on cyber security, and in October 2021 following the disposal of non-core assets, the board refocussed the Group as a provider of cyber security services due to its expected ability to generate stronger returns for shareholders ➤ Regular reports and analysis on investors and shareholders, opinion sought from corporate advisors and direct engagement where possible. ➤ Annual Report and interim results ➤ Company website ➤ AGM held 7 December 2021 (virtually due to COVID-19) ➤ Stock exchange announcements and press releases. ➤ Analyst research at the appropriate moment including research for wider distribution ➤ Regular liaison with debt providers
Our employees	Our people are at the heart of our business. Effective employee engagement leads to a happier, healthier workforce who are invested in the success of the company and who are all pulling in the same direction. Our engagement seeks to address any employee concerns regarding working conditions, health and safety, training, and development, as well as workforce diversity.	➤ Open and regular informal dialogue ➤ Formal annual reviews and quarterly check-ins ➤ Competitive employee benefit packages including healthcare, discount vouchers and death in service insurances ➤ Opportunity to participate in share-based incentives ➤ Encouraging ongoing employee training and development ➤ Employment of a professional HR manager to help manage and development our human capital ➤ Board level communication and interaction with roadshows and 'town hall meetings' both physically and virtually where appropriate ➤ Engagement of 'wellness' resources to support employee mental health, and therefore improving retention and motivation.
Regulatory bodies	The Group's operations are subject to a wide range of laws, regulations, and listing requirements including data protection, tax, employment, environmental and health and safety legislation, along with contractual terms.	➤ Company website ➤ Stock exchange announcements ➤ Annual Report ➤ Direct contact with regulators ➤ Compliance updates at Board meetings ➤ Risk reviews ➤ Internal and external audits of key business processes around cyber security ➤ Use of external reputable advisors where appropriate

Directors' report continued

Stakeholder	Why we engage	How we engage
Our customers	We aim to listen to and engage with our customers on a regular basis to ensure that we understand their needs. We ensure that information is easily accessible and customer concerns are dealt with in a timely and professional manner.	➤ Ongoing review of customer feedback ➤ Face-to-face meetings with customers to further develop relationships ➤ Ongoing promotional and advertising activity ➤ Development of long-term recurring contracts and deep customer relationships
Our suppliers	We have several key partners and suppliers with whom we have built strong relationships with and strongly value. We establish effective engagement channels to ensure our relationships remain collaborative and forward focused, and to foster relationships of mutual trust and loyalty.	➤ Open two-way dialogue and regular face to face meetings where possible. ➤ Ongoing performance review and feedback ➤ Formal checks for data security compliance ➤ Due diligence where appropriate, is carried out before a new supplier is engaged
The environment	We are a low carbon footprint business and are predominantly office based (either company, home, or client).	➤ Use of video conferencing where possible to mitigate the need for travel. ➤ Operations consolidated at a single office in Reading. ➤ Business travel and consequent carbon emissions have been greatly reduced with the move to online meetings.

Key Decision	Actions Taken	Stakeholder considerations
Grow shareholder value by moving to becoming a well-funded, pure play cyber security business.	Disposed of the Assynt in October 2021 for an enterprise value of £4.6m cash. Issuance of £2.5m of loan notes to BOOST&Co in October 2021	➤ Focus on a single business division in the high growth cyber security market expected to grow shareholder returns ➤ Able to invest in product and service enhancement as well as sales and marketing ➤ A stronger cash position would help attract, retain, and motivate key staff in a knowledge-based business ➤ No further shares issued minimising dilution ➤ Covenant free loan structure with no equity element
Realignment of Cyber technology infrastructure	Development of Triarii platform based on 3rd party components to deliver against customer requirements Ongoing investment in new services and technology	➤ Improvement of client delivery to help them protect against cyber threats. This included engagement with key partners and customers to best align with the market opportunity, therefore growing long term shareholder value with increasing revenue opportunity ➤ Triarii gaining rapid uptake of new users, supporting shareholder interest by a more streamlined customer offering using only a single technology platform with significantly lower external licencing costs and greater staff efficiency. ➤ Use 3rd party technology components to reduce R&D spend requirement to allow focus on customer service and not technology platform

The above statement should be read in conjunction with the Corporate Governance Statement on pages 35 to 39.

Directors’ report continued

Principal risks and uncertainties

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

Cyber security

The Group is a high-profile provider of cyber security services to governmental and corporate customers. A breach of its own cyber security could result in significant damage to reputation and could lead to a loss of existing customers and reduced ability to gain new customers. This could, by definition, create pressure on the Group’s cash flows.

The Group mitigates this by a combination of people, processes, and technologies. A dedicated Data Protection Officer is in situ to provide independent (of operations) oversight of data security and Falanx as a cyber security company embeds it into every aspect of its operations and makes the relevant investment in infrastructure. Regular training is given to all staff including online courses run by dedicated providers and this includes refresher training. The DPO is running seminars and briefings around the organisation to advise on appropriate practices. The Group continues to invest in its infrastructure and resources to ensure that its internal systems are configured to ensure good security. A Chief Information Security Officer (“CISO”) team of cyber security experts within the Group continually monitor our security state and risk profile and advises the board on policy. The Group continually reviews its technology infrastructure for delivery of customer services to align them with market requirements and this includes the use of supported 3rd party and proprietary systems.

Reliance on key contracts and business relationships

The Group continues to reduce its customer concentration risk by acquisition of further customers through organic development as well as M&A. The Group has realigned its Cyber sales strategy to concentrate on SMEs with lower spends but who are less likely to develop their own SOCs. The Cyber Division addresses its market through channel partners. Since October 2021 the Company has invested in its sales and marketing capabilities to develop and widen its route to market, including the appointment of new staff as well as resellers and partners to widen the client portfolio. In the 12 months to 31 March 2022, no customer represented more than 10% of Group revenue.

Many customers of professional services do not have long term agreements but have repeatedly transacted with the Group for many years, with engagement driven by our clients’ project requirements. Where the Group uses external licences for its operations it seeks protections such as multiple suppliers, industry standard and widely deployed technologies, and escrow arrangements for source code.

Pipeline opportunities

The Group has a significant number of small, medium, and major contracts in contemplation in the form of a pipeline of opportunities. The pipeline of forward prospects has grown very significantly in recent months following investment into sales business expansion and new partnership 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. Furthermore, whilst the Group operates in high growth sectors with strong drivers, there is an always an inherent macroeconomic exposure, in an increasingly challenging macroeconomic environment which could impact its clients. The Group believes however, that the single focus on cyber security against a backdrop of growing international turmoil and cyber security threats, will substantially mitigate this risk.

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, dispose of assets or to cease trading.

Directors' report continued

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

The Financial Statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

The Group made a loss from continuing operations in the year ended 31 March 2022 of £1.97m (2021: £3.49m) in the year of which £1.27m (2021: £1.35m) relates to the Adjusted EBITDA performance of the business, which most closely correlates to its underlying cash performance. £1.44m of the reduction in loss from continuing operations was due to the impairment of the investment made in Furnace reflected in the accounts for the year ended 31 March 2021. Cash balances as at 31 March 2022 stood at £3.5m and these were seen by the Board as sufficient to achieve break even and cash generation on its organic plans. The Group's significant investment in sales and marketing expansion from the start of 2022 has built a strong pipeline of business, and these have now recently begun to deliver significant contract wins, particularly for recurring monitoring revenues. This provides the board with further confidence in its projections. During the year ended 31 March 2022, approximately £0.62m of HMRC legacy COVID-19 related liabilities were paid down, and the small remaining balance of circa £70,000 was fully repaid under the agreed payment plan by August 2022. HMRC are fully in terms. The Group expects to receive the final £0.345m of cash consideration, which has been held in escrow, from the disposal of Assynt in October 2021 in October 2022. £1.5m of the cash balance was reserved for use on acquisitions, but this can be used for reasonable non acquisitive purposes, with BOOST&Co's consent, such consent not to be unreasonably withheld or delayed. The Group's base case scenario does not require the use of this cash. The Group's current strategy, reflecting recent low equity valuations, is for organic growth to be a priority as the Group believes that it can generate greater shareholder returns than potentially dilutive acquisitions, and therefore the Board expects that, should it be required, then this consent will be forthcoming. The monthly repayment of the BOOST&Co £2.5m loan commences in October 2022 and is reflected in the detailed forecasts which demonstrate that this repayment obligation will be met in full and on schedule.

Should the Group not achieve its revenue and growth targets, the Board routinely prepares alternative stress test scenarios to deal with lower performance and any ensuing shortfall in working capital. This model assumes that cost reductions mainly around overheads and discretionary expansion spend would be curtailed as well as certain investment spends. Other measures could involve the disposal of assets. Furthermore, the Group could seek, as in previous years, the support of investors (debt or equity). Based upon the above the Directors have a reasonable expectation that the Group has adequate working capital for the twelve months following the date of signing these accounts. For this reason, they continue to adopt the going concern basis in preparing the 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 20 September 2022 the following were holders of 3% or more of the Group's issued share capital:

Registered holder	Number of Ordinary Shares	Percentage of Issued Capital
Octopus Investments Nominees Limited	50,000,000	9.50%
Amati AIM VCT plc	45,300,000	8.61%
Unicorn VCT	33,333,333	6.33%
Premier Miton Group PLC	32,554,339	6.18%
Walker Crips Investment Management	26,149,010	4.97%
Michael David Read (director)	16,258,187	3.09%

Auditors

The auditors BDO LLP have indicated their willingness to continue in office and a resolution that they be re-appointed will be proposed at the annual general meeting of the Company.

Directors' report continued

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 34 of these financial statements. The Statement of Directors' Responsibilities forms part of the Directors' report.

On behalf of the Board

I R Selby
Director

28 September 2022

Remuneration & Nomination Committee report

The Remuneration and Nomination Committee comprises Emma Shaw (Chairman) and Alex Hambro meets as and when necessary but normally at least twice per year. 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 in conjunction with external advisors 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 and in conjunction with the CEO are 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.

The CEO may attend upon invitation, particularly around executive remuneration and the CFO may be asked to attend to discuss technical matters. The Terms of Reference are disclosed on the Company's website and are reviewed by the Board annually and amended where appropriate.

As a Company whose shares are admitted to trading on AIM, the preparation of a Remuneration & Nomination Committee report is not an obligation. The Group has, however, sought to provide information that is appropriate to its size and organisation and will, as in previous years, put the approval of this report to shareholders for an advisory approval at the next AGM. This committee met twice during the year. The committee, in conjunction with other executives where relevant considers nomination and succession matters.

Executive Directors' Remuneration Policy

The Remuneration Committee is responsible for establishing a formal and transparent procedure for developing policy on executive remuneration and to set the remuneration packages of individual Directors. This includes agreeing with the Board the framework for remuneration of the Chief Executive, all other Executive Directors, and such other members of the senior executive management of the Company as it is designated to consider. It is furthermore responsible for determining the total individual remuneration packages of each Director, including, where appropriate, bonuses, benefits, incentive payments and share options.

The Committee's policy is to provide a remuneration package which will attract and retain Directors and management with the ability and experience required to manage the Group and to provide superior long-term performance. It is the aim of the Committee to reward Directors competitively and on the broad principle that their remuneration should be in line with the remuneration paid to senior management of comparable companies. There are four main elements of the remuneration package for Executive Directors: base salary, share options, benefits, and annual bonus. Notice periods for Executive Directors are between 6 and 12 months.

Base salary is reviewed annually and in setting salary levels the Remuneration Committee considers the experience and responsibilities of the Executive Directors and their personal performance during the previous period. The Committee also takes account of external market data, as well as the rates of increases for other employees within the Group.

Share options are granted having regard to an individual's seniority within the Group and are designed to give Directors and staff an interest in the increase in the value of the Group and to align them with all shareholders. It is the Group's policy to use EMI approved schemes wherever possible and should an individual not be eligible at a certain point where unapproved options are granted, then if they subsequently become eligible for EMI criteria then their existing options will be cancelled and reissued on identical terms under EMI, reducing potential tax charges on both the individual and Company. On 29 April 2021, certain unapproved options granted in September 2019 and April 2020 to directors and senior managers were cancelled and immediately reissued on identical terms under the EMI scheme. This is expected to reduce potential future tax and national insurance charges for both the Company and the individual.

Remuneration & Nomination Committee report continued

Benefits primarily comprise the provision of, pension payments, group wide health insurance (or cash equivalent), any wider staff benefits and participation in the Group life assurance scheme.

All Executive Directors and executive management participate in the Group's annual bonus scheme, which is based upon the assessment of individual performance, considering the overall groups performance and financial position.

Non-Executive Directors' remuneration

Non-Executive Directors' remuneration is determined by the Board as a whole and is in conjunction with external advisors, with each refraining from determining their own remuneration. The fees paid to Non-Executive Directors are set at a level intended to attract individuals with the necessary experience and ability to make a significant contribution to the Group.

It is anticipated that Non-Executive Directors will spend an average of 2 days a month undertaking their Role and Duties. This will include attendance at board meetings, the AGM, and an annual planning day. They also attend periodic Remuneration, Risk and Audit Committee meetings. They are required to spend time fully considering all relevant papers prior to each meeting. Non-executive directors have 3-month notice periods in their letters of appointment. Non-executive directors are paid through company payroll systems.

In addition to the above they may be required to devote additional time to the Company when it is undergoing a period of particularly increased activity and may be required to support the Company by attending meetings with clients and advisors etc.

Directors' remuneration

	Salary and fees £	Benefits in kind £	Pension contribution £	Bonus £	**2022 Total £**	2021 Total £
Executive Directors:						
M D Read*	60,000	9,554	—	238,501	308,055	52,492
I R Selby	113,045	12,909	1,761	129,500	257,215	113,019
Non-executive Directors:						
E Shaw	31,000	—	—	—	31,000	19,250
A Hambro	31,000	—	—	—	31,000	19,000
	235,045	22,463	1,761	368,001	627,270	203,761

Bonuses were mainly related to the successful disposal of the Assynt strategic intelligence division in October 2021 and have been recorded accordingly. Bonuses were calculated based on the enterprise value achieved, based on a formula determined by the Remuneration Committee ahead of the commencement of the sale process in 2021, and with an accelerator to focus on value maximisation for shareholders. Parts of these bonuses are deferred pending release of final consideration monies from escrow in October 2022. Participants were allowed to have these paid through payroll or into a pension to reduce national insurance charges. Non-executive fees increased due to increased involvement in the Assynt transaction and the impact of fee reductions in the prior year related to COVID-19.

* M D Read did not take any additional remuneration above his chairman's fees of £25,000 per annum in the year ended 31 March 2018 despite taking over duties as full time Chief Executive Officer in November 2017 in order to support the Company's financial position and help it conserve resources at that point. As stated in previous annual reports, this additional effort has been recognised by a contingent £100,000 bonus scheme payable under certain circumstances, and this was triggered by the achievement of certain valuation metrics on the disposal of Assynt on 6 October 2021.

Remuneration & Nomination Committee report continued

Directors Interests in Share Options

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

1.925 pence options	2022 Number	2021 Number
M D Read	5,000,000	5,000,000
I R Selby	5,000,000	5,000,000

These Share Options were granted at a price 1.925p. All options are exercisable between 1 April 2020 and 31 March 2030. They vest in three tranches: the first tranche immediately exercisable, the second tranche when the share price reaches 2.89p (50% above exercise price for 1 month) and the third tranche when the share price reaches 3.85p (100% above exercise price for 1 month), save for the event of a change of control in the Company, in which case they will vest in full. They were granted under the rules of the EMI scheme, and where an individual grant does not fall within HMRC EMI rules they are granted as an unapproved option which will typically be subject to PAYE and NI. As referenced in the previous annual report, they were cancelled and reissued as EMI options in April 2021, with there being no other changes to key terms.

Salary Sacrifice Scheme

In April 2020 in response to the COVID-19 situation the company implemented a voluntary salary sacrifice scheme whereby cash remuneration was swapped for share options for staff and executives and warrants for non-executives. Emma Shaw, Mike Read and Ian Selby (as well as other executives and staff) waived certain of their previously granted options (& warrants) as detailed above to allow for headroom for the new issue. The issuance of new options was not conditional on the sacrifice of existing options. These all have an exercise price of 1p each and a duration of 10 years. Warrants have similar economic characteristics to the options. The closing price on the night before this scheme was first announced on 31 March 2020 was c0.55p and the exercise price represented an uplift of 75%. Both the options and warrants have customary good leaver and bad leaver provisions and acceleration of vesting criteria in certain specified circumstances.

Director	Number of options granted
M D Read	6,600,000
I R Selby	2,520,000

These options which were unapproved from a taxation perspective, were surrendered in April 2021 and were immediately reissued under identical terms under the Group's EMI scheme.

The table below sets out details on the issue of the options in respect of non-executive directors. The economic characteristics of warrants are very close to a similar (unapproved) share options.

Non-Executive Director	Number of warrants granted (*)
A Hambro	1,200,000
E Shaw	399,600

(*) warrants are nearly identical to share options and have been included within those total and treated as such for accounting purposes.

In total 31,400,000 options (under EMI scheme) and 1,599,600 warrants were issued to directors, senior managers and staff. In order to reduce the overall number of options outstanding to mitigate against future dilution approximately 25.7m options were waived. The overall scheme saved approximately £0.2m of cash remuneration costs during the period it operated between 1 April 2020 and 30 September 2020.

Remuneration & Nomination Committee report
continued

Overall Share Options and Warrants Position

	Outstanding at 31 March 2022	Average Exercise Price (p)	% Fully Diluted Share Capita
Current Employee Incentive	34,603,285	1.9	5.7
Salary Sacrifice	32,239,596	1.0	5.3
Warrants	6,000,000	4.0	1.0
Legacy Employees	3,837,081	20.3	0.6
Issued Share Capital	526,421,185		87.3
Fully Diluted Share Capital	603,101,147		100

Refer to notes 13 and 21 for details.

Legacy employee options relate to share options granted to former staff which did not lapse on cessation of employment. The average exercise price of 20.3 pence is significantly ahead of the average share price over the last 4 years, and they are excluded from any analysis of options outstanding as the board considers at this point that they are highly unlikely to be exercised before they expire. Since the balance sheet date approximately 1.9m options have lapsed.

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 and as disclosed below.

On 18 August 2021, the Company announced a new loan facility from BOOST&Co, and the facility was arranged by Welbeck Ventures Limited who received 2% of the loan on completion in respect of advisory fees. Alex Hambro (Non-Executive Chairman) is also a director of Welbeck Ventures Limited.

E Shaw
Chairman

28 September 2022

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with UK adopted International Accounting Standards. Under company law 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:

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 the financial statements have been prepared in accordance with International Accounting Standards;
- prepare the financial statements 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 regard to 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 by the Chairman on Corporate Governance

As the Company's shares are traded on the AIM market of the London Stock Exchange Falanx Group Limited (Falanx) has chosen to comply with the Quoted Companies Alliance Corporate Governance Code "the Code".

This report describes how the Group has complied with the Code and explains any departures from the ten principles within the Code.

A description of the Board and its committees, together with the Group's systems of internal financial control is set out below.

1. Generation of Long-Term Growth and Shareholder Value

The Company is addressing markets which it believes have long term growth potential with industry growth rates of greater than GDP. The cyber security sector has traditionally grown ahead of GDP against a backdrop of political, economic, social and technological drivers. In October 2021 the Group sold its Assynt strategic intelligence division for an enterprise value of £4.6m with the proceeds to support the development of the cyber security division. The Company provides highly relevant services to its clients to help them protect their organisations and consistently invests in innovation. The Company's strategy to create shareholder value is to generate sustainable long term cash flows and profits from predictable and growing recurring revenues.

2. The Board

The Board comprises a non-executive Chairman, the Chief Executive Officer, the Chief Financial Officer, and one non-executive director. The Group has two independent non-executive directors (including the Chair). The Board recognises that Emma Shaw does not meet the QCA definition of "independence" on the basis of her tenure, however the Board consider Emma is independent in terms of character and judgement. It is intended that Board will evolve as the Group grows to include at least one more independent non-executive director with financial expertise as audit committee chair with a planned start in the year ended 31 March 2023.

The Board meets at least 11 times a year. The Chief Executive and the Chief Financial Officer are engaged full-time and the Chairman and independent non-executive Director are required to spend two days per month considering Company matters and attending the monthly Board meeting. Executive directors along with senior management meet on at least monthly basis and they are in regular close communication as a matter of routine. Executives formally speak once a week and much more often on an informal basis. Senior management regularly attend board meetings and have full right of access to speak with non-executive directors.

In the year ended 31 March 2022 there were 12 board meetings which were attended by all directors. The audit committee and the remuneration committee each met twice during the year and were attended by Alex Hambro and Emma Shaw.

The Group believes that in its Board it has at its disposal an appropriate range of skills, training, and experience to ensure the interests of all stakeholders in the Group are fully accommodated at this stage in its evolution.

Directors' biographies are on ➤https://falanx.com/meet-the-board/.

3. Board matters

The Board has a schedule of matters specifically reserved for its decision. It is responsible for formulating the Group's corporate strategy, monitoring financial performance, acquisitions, approval of major capital expenditure, treasury, and risk management policies.

Board papers are sent out to all directors in advance of each Board meeting including management accounts and accompanying reports from the executive directors. Annual budgets are approved by the Board. Operational control is delegated by the Board to the executive directors.

The Company Secretary acts as the conduit for all governance related matters and shareholder enquiries and passes them on the Chairman to respond. The board maintains full and open communications and all members of staff have access to board members including the Chairman and CEO.

4. Corporate culture

The Board is responsible for ensuring a high standard of corporate conduct. The Board achieves this by ensuring that appropriate policies on behaviour and ethics are in place and signed up to by all employees. Performance is appraised taking into account not just the achievement of objectives, but the behaviour's demonstrated to do so. All managers and the Board lead by example in their behaviour and ethical values demonstrated. The relevant senior management present to the Board at least quarterly (and mostly monthly) on their area's performance The Company has a dedicated and professionally qualified HR manager

Corporate Governance Report continued

who works to support the high standards expected and further details of our people policies are referred to on pages 23 and 24. The Company has a dedicated Data Protection Officer who manages the specific risks around the Group's operations and who works very closely with the cyber security team. The Group continually invests in its IT and cyber security infrastructure. The Company seeks to minimise its environmental impact where possible, an example being the use of video conferencing to reduce travel costs, and this is increased since the onset of COVID-19 in March 2020 and continues to the date of this report. The group makes use of electronic as opposed to physical media in its communications and in 2016 changed its articles as allowed under BVI law, to allow the use of solely electronic media for distribution of annual reports, notices of meetings and other shareholder communications.

5. Board Performance and Delivering Growth

The performance of the Board is primarily measured by the achievement of certain KPI's in the Group which are aligned with the growth strategy. These include measures against budgeted gross margins, adjusted EBITDA, recurring revenues, forward contract book, customer satisfaction, debtor performance, cash usage and generation, project deliveries, successful corporate transactions, and return on invested capital. The Directors consider that the Company and Board are not yet of a sufficient size for a full Board evaluation to make commercial and practical sense. All executive directors have annual performance reviews. In the frequent Board meetings/calls, the Directors can discuss any areas where they feel a change would benefit the Company and the directors can consult with the Company's advisors. As the Company grows, it expects to expand the Board and with the Board expansion, to re-consider the need for Board evaluation.

6. Succession Planning

The board continually reviews its composition to maximise its effectiveness. This includes determining and reviewing the skills against current and expected business requirements of executive and non-executive directors as well as those of key senior management.

7. Company Secretary

The CFO currently acts as the Group's company secretary as it is appropriate for this stage in Falanx's evolution. The board does not see any conflict at this stage but may in the future engage additional resources if appropriate.

All directors have access to the advice of the company secretary and the independent directors and can take external independent company secretarial and legal advice on certain matters, if necessary, at the Company's expense.

8. Board Committees

The Board has a remuneration & nomination committee and an audit committee.

The audit committee comprises Alex Hambro (chairman) and Emma Shaw. The committee meets as necessary (but at least twice per year) to monitor the Group's internal control systems and major accounting and audit related issues. There are plans to evolve the Company's governance structure by the end of 2023 financial year so that the audit committee has an independent chair who is a professionally qualified accountant or equivalent. Alex Hambro is an experienced corporate financier and director of public companies.

The remuneration and nomination committee is chaired by Emma Shaw and consists of her and Alex Hambro. It is responsible for determining the contract terms, remuneration and other benefits for executive directors, including performance-related bonus and share option schemes. The remuneration of non-executive directors is agreed by the board as a whole and is done in conjunction with external advisors. It also considers matters of nomination and succession. The Company continues to review the need for further committees.

9. Engagement with Shareholders

On 27 March 2019 the company announced a variation of its memorandum and articles of association to reduce directors' powers to issue shares and to bring it more into line with typical UK structures. These changes were voluntarily done by the company and were not required under BVI law.

The Board values the views of its shareholders. The company will hold physical Annual General Meetings which are used to communicate with all investors (where possible under prevailing COVID-19 guidance), and they are encouraged to participate. The December 2020 and 2021 AGMs were held as a closed meetings due to the then current COVID-19 situations. The directors are available to answer questions. Separate resolutions are proposed on each issue so that they can be given proper consideration and there is a formal resolution to approve the Annual Report. Shareholders can also contact the Company Secretary or the Chairman via the Company's website. The December 2020 AGM approved resolutions whereby all shareholder communications such as meeting notices and the annual report could be provided solely in electronic format. This would speed up communication, lower printing costs and reduce the environmental impact of producing paper copies.

Corporate Governance Report continued

On 26 February 2021 the Company held a General Meeting to approve a capital reconstruction as detailed in the statement of changes equity to these accounts. This was held virtually due to the COVID-19 rules at that point.

The Board takes full cognisance of the results of any poll or feedback from shareholders and the Chairman will respond as appropriate whether by email of by offering a chance to meet with the shareholder to explain the Board's position.

10. Internal control
Internal control systems are designed to meet the needs of the Group and the risks to which it is exposed, and by their nature can provide reasonable but not absolute assurance against material misstatement or loss. The key procedures which the directors have established with a view to providing effective internal financial control are as follows: –

Management structure
The Board has overall responsibility for the Group and there is a schedule of matters specifically reserved for decisions by the Board.

Quality and integrity of personnel
The integrity and competence of personnel are ensured through high recruitment standards including vetting of staff under relevant security standards, and subsequent training courses. High quality personnel are an essential part of the control environment.

Identification of business risks
The Board is responsible for identifying the major business risks faced by the Group and for determining the appropriate courses of action to manage those risks. The boards of our Group businesses also actively identify risks and are reviewed at most board meetings and are formally reviewed in greater depth on a quarterly basis and ensure mitigating controls and appropriate insurances are in place. These are done at both a top level and are cascaded down through the organisation.

Budgetary process
Each year the Board approves the annual budget. Key risk areas are identified. Performance is monitored, and relevant action taken throughout the year through the monthly reporting to the Board of variances from the budget and preparation of updated forecasts on at least a quarterly basis for the year (and together with information on the key risk areas).

Authorisation procedures
Capital and revenue expenditure are regulated by a budgetary process and authority limits for approval of expenditure are in place. For expenditure beyond specified levels, detailed written proposals are submitted to and approved by the Board. Once authorised, such expenditure is reviewed and monitored by the Board. Where the capital expenditure is against the development of software products or services it is reviewed against expected returns from future sales and delivery against agreed milestones.

Reviews of specific industry and regulatory risk areas (for example maintenance of cyber security accreditations) are carried out on a periodic basis by staff separate from the operation of those areas.

11. Advisors
The Board selects advisory relationships based on their relevance of expertise, track record of success, ability to add value to the development of shareholder value and to support the Company in discharging its duties as a listed company.

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 in accordance with AIM Rule 50 complies 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. The Group will be adding additional relevant non-executive Directors in the year to further balance the Board.

Corporate Governance Report continued

Committees

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

Audit Committee

The Audit Committee comprises Alex Hambro (Chairman) and Emma Shaw (non-executive) and meets at least twice a year. Other 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 Director 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 Group 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;
- ensuring compliance with the relevant requirements of the AIM Rules; and
- It is the intention of the board to recruit a further non-executive director at an appropriate moment and they will become the audit committee chair

Remuneration and Nomination Committee

The Remuneration and Nomination Committee comprises Emma Shaw (Chairman) and Alex Hambro and meets as and when necessary. Other directors may attend its meetings by invitation from time to time. 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.

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 Group 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

Corporate Governance Report continued

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. All announcements are reviewed by the Board and its NOMAD ahead of announcement and the Board continually keeps the need for any regulatory announcement under review. All shareholder communication is in electronic form and the Company does not produce hard copy documentation.

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 UK adopted International Accounting Standards and applicable by law.

Approved by the Board on 28 September 2022 and signed on its behalf by

I R Selby
Director

Independent auditors' report
to the members of Falanx Group Limited

Opinion on the 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 2022 and of the Group's loss for the year then ended; and
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards.

We have audited the financial statements of *Falanx Group Limited* (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 March 2022, which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remain independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group's ability to continue to adopt the going concern basis of accounting included:

We obtained the Directors' assessment of the Group's ability to continue as a going concern including detailed cash flow projections to 31 March 2024. Our Evaluation of the Directors' assessment included assessment of the detailed cash flow projections prepared by the Directors, which are based on their current expectations of trading prospects and obtaining an understanding of any potential uncertainties. These were considered in the light of recent results, marketing activity and future expectations including pipeline of secured new business.

We also obtained and analysed a 'reverse stress test' calculating the decrease in revenue (i.e., the reduction in growth rates) necessary such that the going concern assumption would no longer be appropriate. We also reviewed minutes of board meetings occurring post year end for any unusual events that could have an impact on the Groups ability to continue as a going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Overview

Coverage[1]	*100% (2021: 100%) of Group loss before tax* *94% (2021: 93%) of Group revenue* *100% (2021: 100%) of Group total assets*		
Key audit matters		**2022**	**2021**
	Revenue recognition	Yes	No
	Disposal of the subsidiary, Falanx Assynt Limited	Yes	No
	Carrying value of Intangible assets – customer relationships	No	Yes
	Carrying value of intangible assets is no longer considered to be a key audit matter as the intangible to which this refers was fully impaired in the prior year and so this is no longer a judgemental area for the group.		
Materiality	*Group financial statements as a whole* £83,000 (2021: £116,000) based on 5% (2021: 5%) of loss before tax at the planning stage of our audit (2021: three-year average of adjusted loss before tax).		

[1] These are areas which have been subject to a full scope audit by the group engagement team.

Independent auditors' report continued

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

We considered the risk of the financial statements being misstated or not prepared in accordance with the underlying legislation or standards. We then directed our work toward areas of the financial statements, which we assessed as having the highest risk of containing material misstatements. We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group's the accounting processes and controls and the industry in which they operate.

Apart from the Parent Company there are two significant components in the Group, Falanx Assynt Limited and Falanx Cyber Defence Limited which are all registered and operate in the UK, each of which was subject to a full scope audit by the Group audit team. The remaining subsidiaries are all considered non-significant components (Falanx Cyber Defence Spain S.L., Falanx Group US LLC, F G Consulting Services DMCC, Falanx Cyber Technologies Limited, and Sterling Risk (Asia)) or are dormant (Falanx Protection Limited Securestorm Limited and Cloudified Limited). The non-significant and dormant components were subject to an analytical review by the Group audit team to provide assurance to the Group audit opinion.

Key audit matters

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

Key audit matter		How the scope of our audit addressed the key audit matter
Revenue Recognition The accounting policies are disclosed in Notes 2.4.	Revenue is a significant item in the Consolidated Income Statement. We conducted a risk assessment around revenue and identified that the revenue recognised could be misstated due to fraud or error, arising from: A) recognition of revenue in the wrong accounting period; B) revenue not being recognised in accordance with IFRS 15 - Revenue from contracts with Customers ('IFRS 15'); and C) manipulation of revenue around the year-end through management override We therefore identified revenue recognition as a significant risk and given the importance of revenue to the users of the financial statements and the significance of the line item in the financial statements, we identified this as a key audit matter.	Our audit work included, but was not restricted to the following: ➤ Testing a sample of transactions around the year end to supporting documentation and inspecting that the revenue was recorded in the correct period ➤ Agreeing a sample of contracts with deferred income to supporting evidence for the timing and delivery of the services provided, testing that the revenue had been recognised in the correct period; ➤ Evaluating the group revenue recognition accounting policy against IFRS 15 and assessing whether it was in compliance with the accounting standard; ➤ Testing that revenue is recognised in line with IFRS 15, and the group revenue recognition accounting policy, by testing a sample of revenue transactions to supporting documentation including sales invoices, contracts, cash receipts, and evidence supporting the date when the customer activated their subscription service; and

Independent auditors' report continued

Key audit matter		How the scope of our audit addressed the key audit matter
		➤ Analysing manual revenue journals throughout the period including entries before and after the year end, and selecting entries based on defined criteria, tracing these to supporting documentation and assessing for any evidence of management override. **Key observation:** Based on our audit testing we considered the revenue to be recognised appropriately, in the correct period, and in line with the requirements of IFRS 15.
Disposal of the subsidiary, Falanx Assynt Limited The accounting policies and details of the disposal are included in Notes 2.2 and 11.	The disposal of Falanx Assynt Limited in the year was a significant transaction and impacted on key performance indicators. We identified a risk that the incorrect profit on disposal could be recognised due to fraud or error arising from manipulation of the gain on disposal to increase bonuses payable to staff on the disposal. Further, we identified a risk that the disposal may not be presented accurately in accordance with IFRS 5 – Non-Current assets held for sale and discontinued operations ('IFRS 5'). We therefore identified the disposal of the subsidiary Falanx Assynt Limited as a significant risk and given the significance of the transaction to users of the financial statements we identified this as a key audit matter.	Our audit work included, but was not restricted to the following: ➤ Testing the calculation of the gain on disposal by agreeing the disposal proceeds to the sale agreement; ➤ Testing a sample of individual costs, relating to the transaction agreeing them to invoices and other supporting documentation to test that they related to the sale; ➤ Agreeing all adjustments to the gain on disposal to supporting documentation and the accounting adjustment to test that these have been processed correctly. ➤ Reviewing completion accounts and management accounts of the subsidiary to determine if working capital adjustments were applied correctly to the gain on disposal; ➤ Agreeing all bonuses payable on the gain from the sale, due to staff and Directors, to supporting documentation and payroll reports; and ➤ Evaluating the group presentation and disclosure of the disposal against the requirements of IFRS 5 to assess the accuracy of their presentation. **Key observation:** Based on the outcome of the above procedures, we consider that recognition of the profit on the sale of the subsidiary and the disclosures to be accurate and appropriate.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Independent auditors' report continued

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Group financial statements	
	2022 £	2021 £
Materiality	83,000	116,000
Basis for determining materiality	5% of loss before tax at the planning stage of our audit.	Three-year average at 5% of loss before tax, adjusted for the impairment provision of the investment in the year.
Rationale for the benchmark applied	Loss before tax identified as a key indicator as it is considered a key consideration to users of the financial statement including shareholders.	Loss before tax identified as a key indicator as it is reported to management on a monthly basis and one of the board's key measures of performance of the Group.
Performance materiality	58,000	81,200
Basis for determining performance materiality	70% of materiality – based on our assessment of the relevant risk factors within the entity, such as previous experience of misstatements, management's attitude towards proposed adjustments, the level of estimation inherent within the financial statements, the number of locations and our audit testing approach.	

Component materiality

We set materiality for each component of the Group based on 5% of the loss before tax (2021: 5% of the loss before tax) of that component and each component of the Group was audited to a lower level of materiality than the Group. Component materiality ranged from £23,000 to £78,000 (2021: £21,000 to £104,000). In the audit of each component, we further applied performance materiality levels of 70% of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

Reporting threshold

We reported to the Audit Committee all potential adjustments in excess of £4,000 (2021: £5,000). We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Report and financial statements other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Independent auditors' report continued

Auditor's responsibilities for the audit of the financial statements

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

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We obtained an understanding of the legal and regulatory framework applicable to the Group and the sector in which it operates and considered the significant laws and regulations related to HMRC and taxes imposed. We considered the extent to which non-compliance might have a material effect on the Group financial statements or their continued operation.

We assessed the susceptibility of the financial statement to material misstatement, including fraud, and evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to revenue recognition, posting inappropriate journal entries to manipulate financial results, manipulation of the profit on disposal of the subsidiary, and management bias in accounting estimates.

Our audit procedures in response to the above included:

- Challenging assumptions made by management in their significant accounting estimates;
- Identifying and testing journal entries, as selected by risk factors including size, description and posted outside of normal working hours;
- The procedures set out in our key audit matters relating to revenue recognition and the disposal of the subsidiary;
- Discussion with management and the audit committee throughout the audit with regards to potential breaches of laws and regulations, contingent liabilities, and their knowledge of any fraud;
- Discussion with the team regarding potential non-compliance with laws and regulations and fraud risks; and
- Reading minutes of meetings of those charged with governance to identify any non-compliance with laws and regulations, including fraud, and corroborate our enquiries.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Parent Company's members, as a body in accordance with our engagement letter dated 25 May 2022. Our audit work has been undertaken so that we might state to the Parent Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

PAUL FENNER
BDO LLP, Chartered Accountants
London, UK

28 September 2022

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

Financial Statements

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Consolidated income statement
for the year ended 31 March 2022

	Note	**2022 £**	2021 £
Revenue	4	3,542,308	3,119,724
Cost of sales		(2,099,732)	(2,102,787)
Gross profit		1,442,576	1,016,937
Administrative expenses		(3,220,878)	(4,472,095)
Operating loss	6	(1,778,302)	(3,455,158)
Analysis of operating loss			
Operating loss		(1,778,302)	(3,455,158)
Share option expense		17,839	173,636
Depreciation and amortisation		465,417	503,895
Impairment of goodwill		130,347	—
Impairment of Furnace equity and debt investments	17 / 18	—	1,440,000
Highlighted income	5.1	(107,285)	(12,893)
Adjusted EBITDA loss	5.2	(1,271,984)	(1,350,520)
Finance income	9	104	4
Finance expense	9	(201,568)	(32,574)
Finance expense – net		(201,464)	(32,570)
Loss before income tax		(1,979,766)	(3,487,728)
Income tax credit	10	8,479	—
Loss for the year from continuing operations		(1,971,287)	(3,487,728)
Discontinued operations			
Profit / (Loss) for the year from discontinued operations	11	3,455,869	(64,212)
Profit / (Loss) for the year		1,484,582	(3,551,940)
Loss per share from continuing operations			
Basic loss per share	12	(0.37)p	(0.75)p
Diluted loss per share	12	(0.37)p	(0.75)p
Profit / (Loss) per share from operations			
Basic profit / (loss) per share	12	0.28p	(0.77)p
Diluted profit / (loss) per share	12	0.28p	(0.77)p

The notes on pages 51 to 82 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

for the year ended 31 March 2022

	Note	2022 £	2021 £
Profit / (Loss) for the year		1,484,582	(3,551,940)
Other comprehensive income:			
Re-translation of foreign subsidiaries		—	5,403
Exchange differences recycled to the income statement on disposal of business		109,030	—
Other comprehensive income for the year, net of tax		109,030	5,403
Total comprehensive income for the year		1,593,612	(3,546,537)
Attributable to:			
Owners of the parent		1,593,612	(3,546,537)
Total comprehensive income for the year		1,593,612	(3,546,537)

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 10.

The notes on pages 51 to 82 are an integral part of these consolidated financial statements.

Consolidated statement of financial position
as at 31 March 2022

	Note	2022 £	2021 £
Assets			
Non-current assets			
Property, plant and equipment	14	104,352	155,831
Intangible assets	15	3,262,662	3,702,840
Right of use asset	16	254,290	363,271
		3,621,304	4,221,942
Current assets			
Trade and other receivables	19	1,192,220	1,076,216
Cash and cash equivalents	20	3,483,063	545,321
		4,675,283	1,621,537
Total assets		8,296,587	5,843,479
Equity			
Capital and reserves attributable to equity holders of the Company			
Share capital	21 / 22	4,043,194	4,033,161
Translation reserve	23	—	(107,777)
Shares based payment reserve	24	703,151	747,243
2022 liabilities reserve		1,000,000	1,000,000
Accumulated losses	25	(1,397,476)	(2,943,989)
Total equity		4,348,869	2,728,638
Liabilities			
Non-current liabilities			
Deferred tax liability	26	—	9,529
Lease liability	28	149,691	252,874
Borrowings	29	2,094,739	42,129
Other payables		—	5,409
		2,244,430	309,941
Current liabilities			
Trade and other payables	27	804,908	1,592,715
Contract liabilities	4	529,496	1,108,317
Lease liability	28	103,182	95,997
Borrowings	29	265,702	7,871
		1,703,288	2,804,900
Total liabilities		3,947,718	3,114,841
Total equity and liabilities		8,296,587	5,843,479

The notes on pages 51 to 82 are an integral part of these consolidated financial statements.

The financial statements were authorised for issue by the Board of Directors on 28 September 2022 and were signed on its behalf by:

M D Read
Director

I R Selby
Director

Company number: 1730012 (British Virgin Islands)

Consolidated statement of changes in equity
for the year ended 31 March 2022

	Note	Share capital £	Accumulated losses £	Translation Reserve £	Share based payment reserve £	2022 Liabilities reserve	Total £
Balance at 1 April 2020		17,903,427	(13,408,080)	(113,180)	587,325	—	4,969,492
Loss for the year		—	(3,551,940)	—	—	—	(3,551,940)
Re-translation of foreign subsidiaries		—	—	5,403	—	—	5,403
Transactions with owners:							
Capital reconstruction		(15,000,000)	14,000,000	—	—	1,000,000	—
Issue of share capital		1,247,600	—	—	—	—	1,247,600
Costs of issue of share capital		(117,866)	—	—	—	—	(117,866)
Share based payment charge	13	—	—	—	175,949	—	175,949
Forfeited share options reversed through reserves		—	16,031	—	(16,031)	—	—
Balance at 31 March 2021		4,033,161	(2,943,989)	(107,777)	747,243	1,000,000	2,728,638
Profit for the year		—	1,484,582	—	—	—	1,484,582
Re-translation of foreign subsidiaries		—	—	(1,253)	—	—	(1,253)
Exchange differences recycled to the income statement on disposal of business		—	—	109,030	—	—	109,030
Transactions with owners:							
Issue of share capital		10,033	—	—	—	—	10,033
Share based payment charge	13	—	—	—	17,839	—	17,839
Forfeited share options reversed through reserves		—	61,931	—	(61,931)	—	—
Balance as at 31 March 2022		4,043,194	(1,397,476)	—	703,151	1,000,000	4,348,869

The share capital account represents the amount subscribed for share capital, net of share issue expenses. Share issue expenses comprise the costs in respect of the issue by the Company of new shares.

Accumulated losses represents the cumulative losses of the Group attributable to the owners of the parent.

The translation reserve represents the cumulative movement in the translation of foreign subsidiaries into the presentation currency unwound on the disposal of Assynt.

The share based payment reserve represents the cumulative share option and warrant charges.

The 2022 Liabilities reserve is a special non distributable reserve in respect of certain longer term liabilities including HMRC COVID-19 deferral and rental liabilities on the Reading office. The balance on this account will transfer to accumulated losses on 31 December 2022. This reserve was created as part of the capital variation in completed in February 2021.

The notes on pages 51 to 82 are an integral part of these consolidated financial statements.

Consolidated cash flow statement
for the year ended 31 March 2022

	Note	2022 £	2021 £
Cash flows from operating activities			
Profit / (loss) before tax		1,475,052	(3,551,940)
Adjustments for:			
Depreciation	14	64,275	75,753
Amortisation and impairment of intangibles	15	305,538	348,748
Amortisation of right of use assets	16	108,982	108,981
Impairment of goodwill	15	130,347	—
Impairment of investment and receivable in Furnace	17 / 18	—	1,440,000
Share based payment	13	17,839	175,949
Gain on disposal of subsidiaries	11	(3,498,102)	—
Amortisation of borrowing costs		23,659	—
Net finance expense recognised in profit or loss	9	178,081	32,569
		(1,194,329)	(1,369,940)
Changes in working capital:			
(Increase) / Decrease in trade and other receivables		(290,025)	1,093,419
Decrease in trade, contract liabilities and other payables		(749,745)	(126,756)
Cash used in operations		(2,234,099)	(403,277)
Interest paid		(9,745)	(3,774)
Net cash used in continued operating activities		(2,243,844)	(407,051)
Cash flows from investing activities			
Interest received		104	4
Acquisition of property, plant and equipment		(13,315)	(36,161)
Expenditure on development cost		—	(157,779)
Proceeds on disposal of subsidiaries, net of cash disposed		3,163,674	—
Net cash generated from / (used in) investing activities		3,150,463	(193,936)
Cash flows from financing activities			
Repayment of lease liabilities		(95,998)	(89,313)
Interest on lease interest		(22,114)	(28,799)
Proceeds from borrowings		2,500,000	50,000
Repayment of borrowings		(7,906)	—
Loan transaction costs		(205,347)	—
Interest paid on borrowings		(146,291)	—
Proceeds from issue of shares		10,033	1,247,600
Costs of share issuance		—	(117,866)
Net cash generated from financing activities		2,032,377	1,061,623
Net increase in cash equivalents		2,938,996	460,636
Cash and cash equivalents at beginning of year		545,321	79,282
Foreign exchange (losses)/gains on cash and cash equivalents		(1,254)	5,403
Cash and cash equivalents at end of year		3,483,063	545,321

The notes on pages 51 to 82 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements
for the year ended 31 March 2022

1. General information

Falanx Group Limited (the “Company” or “Falanx”) and its subsidiaries (together the “Group”) operate in the cyber security services 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. The UK registered office The Blade, Abbey Square, Reading, RG1 3BE.

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 UK adopted International Accounting Standards. The functional and presentational currency for the financial statements is Sterling. The financial statements have been prepared under the historical cost convention, as modified by 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 Financial Statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

The Group made a loss from continuing operations in the year ended 31 March 2022 of £1.98m (2021: £3.45m) in the year of which £1.27m (2021: £1.35m) relates to the Adjusted EBITDA performance of the business, which most closely correlates to its underlying cash performance. Cash balances as at 31 March 2022 stood at £3.5m and these were seen by the Board as sufficient to achieve break even and cash generation on its organic plans. The Group’s significant investment in sales and marketing expansion from the start of 2022 has built a strong pipeline of business, and these have now recently begun to deliver significant contract wins, particularly for recurring monitoring revenues. This provides the board with further confidence in its projections. During the year ended 31 March 2022, approximately £0.62m of HMRC legacy COVID-19 related liabilities were paid down, and the small remaining balance of circa £70,000 was fully repaid under the agreed payment plan by August 2022. HMRC are fully in terms. The Group expects to receive the final £0.345m of cash consideration, which has been held in escrow, from the disposal of Assynt in October 2021 in October 2022. £1.5m of the cash balance was reserved for use on acquisitions, but this can be used for reasonable non acquisitive purposes, with BOOST&Co’s consent, such consent not to be unreasonably withheld or delayed. The Group’s base case scenario does not require the use of this cash. The Group’s current strategy, reflecting recent low equity valuations, is for organic growth to be a priority as the Group believes that it can generate greater shareholder returns than potentially dilutive acquisitions, and therefore the Board expects that, should it be required, then this consent will be forthcoming. The monthly repayment of the BOOST&Co £2.5m loan commences in October 2022 and is reflected in detailed forecasts which demonstrate that this repayment obligation will be met in full and on schedule.

Should the Group not achieve its revenue and growth targets, the Board routinely prepares alternative stress test scenarios to deal with lower performance and any ensuing shortfall in working capital. This model assumes that cost reductions mainly around overheads and discretionary expansion spend would be curtailed as well as certain investment spends. Other measures could involve the disposal of assets. Furthermore, the Group could seek, as in previous years, the support of investors (debt or equity). Based upon the above the Directors have a reasonable expectation that the Group has adequate working capital for the twelve months following the date of signing these accounts. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Notes to the consolidated financial statements continued

2. Summary of significant accounting policies (continued)

2.1.2 New and Revised Standards

Standards in effect in 2022 and 2023

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the group has decided not to adopt early.

The following amendments are effective for the period beginning 1 January 2022:

- *Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);*
- *Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);*
- *Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41); and*
- *References to Conceptual Framework (Amendments to IFRS 3).*

The following amendments are effective for periods beginning on or after 1 January 2023:

- *Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2);*
- *Definition of Accounting Estimates (Amendments to IAS 8); and*
- *Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).*

The Group does not expect any of the amendments issued by the IASB, but not yet effective, to have a material impact on the Group.

2.1.3 Alternative performance measures (APM)

In the reporting of financial information, the Directors have adopted the APM "Adjusted EBITDA" (APMs were previously termed 'Non-GAAP measures'), which is not defined or specified under International Financial Reporting Standards (IFRS). This is a key metric which the Board uses to assess the performance of the Group and its divisions as it reflects the costs. Rental costs are charged against this measure as they are largely under the control of the division and correlate closely with cash performance.

This measure is not defined by IFRS and therefore may not be directly comparable with other companies' APMS, including those in the Group's industry.

APMs should be considered in addition to, and are not intended to be a substitute for, or superior to, IFRS measurements.

Purpose

The Directors believe that this APM assists in providing additional useful information on the underlying trends, performance and position of the Group. This APM is also used to enhance the comparability of information between reporting periods and business units, by adjusting for non-recurring or uncontrollable factors which affect IFRS measures, to aid the user in understanding the Group's performance. Furthermore, the use of EBITDA means a closer correlation with the cash performance of the business. Consequently, APMs are used by the Directors and management for performance analysis, planning, reporting and incentive setting purposes and this remains consistent with the prior year.

The key APM that the Group has focused on is as follows:

Adjusted EBITDA: This is the headline measure used by management to measure the Group's performance and is based on operating profit before the impact of financing costs, IFRS16, share based payment charges, depreciation, amortisation, impairment charges and other highlighted items. Highlighted items (note 5.1) relate to certain costs that derive from events or transactions that fall within the normal activities of the Group but which, individually or, if of a similar type, in aggregate, are excluded by virtue of their size and nature in order to reflect management's view of the performance of the Group.

Notes to the consolidated financial statements continued

2. Summary of significant accounting policies (continued)

2.2 Consolidation

Subsidiaries

Subsidiary undertakings are entities that are controlled by the Company. The definition of control involves three elements: power over the investee; exposure or rights to variable returns and the ability to use the power over the investee to affect the amount of the investor's returns. The Group generally obtains power through voting rights. Subsidiaries are consolidated from the date at which the Group obtains the relevant level of control and are treated as disposed of, and so de-consolidated from the date at which that 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 adjusted where necessary to ensure consistency with the policies adopted by the Group. All subsidiaries are wholly owned by the Group.

2.3 Segmental 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.

Revenue is recognised on the following bases:

Class of revenue	Recognition criteria
Subscription fees	straight line basis over the life of the contract
Managed services	straight line basis over the life of the contract
Consultancy	on delivery of service to customers
Vulnerability assessment	on delivery of service to customers

Revenue is recognised as the client receives the benefit of the services provided under a commercial contract, in an amount that reflects the consideration to which the provider expects to be entitled for the transfer of the goods or services.

Notes to the consolidated financial statements continued

2. Summary of significant accounting policies (continued)

Performance obligations and timing of revenue recognition

Revenue from the provision of professional services such as penetration testing, consultancy and strategic intelligence assignments are recognised as services are rendered, based on the contracted daily billing rate and the number of days delivered during the period. Revenue from pre-paid contracts are deferred in the statement of financial position and recognised on utilisation of service by the client.

Revenue from cyber monitoring contracts (including installation), intelligence embedded analyst and report subscriptions includes advance payments made by the customer is deferred (as a contract liability) and is then subsequently recognised on a straight-line basis over the term of the contract. Where they are billed periodically in a monthly in arrears basis, revenues are recognised at that point.

Contracts values are typically fixed price and the pricing level is based on management experience of pricing adequate mark up of prime cost. Where additional services need to be delivered outside of the contract a time and materials basis based on day rates is used.

Determining the transaction price

The Group's revenue is derived from fixed price contracts and therefore the amount of revenues to be earned from each contract is determined by reference to those fixed prices. Costs of obtaining long-term contracts and costs of associated sales commissions are prepaid and amortised over the terms of the contract on a straight-line basis. Commissions paid to sale staff for work in obtaining the Prepaid Consultancy are recognised in the month of invoice. The timing and any conditionality for the payment of commissions is governed under the then applicable sales incentive plan.

Revenues are exclusive of applicable sales taxes and are net of any trade discounts. There are no financing components in any of our revenue streams.

Contract Assets (accrued incomes) balance were £27,100 (2021: £63,692) and is included in note 19 and the change compared to the previous year was due to short term timing differences. Contract Liabilities (deferred incomes) balance of £529,496 (2021: £1,108,317). Included in the Contract Liabilities at the 31 March 2022 were approximately £29,981 (2021: £121,327) residual balance from prior year. All Contract Assets at the 2022-year end arose towards the end of the period. All contract assets have short cash conversion periods and all assets at the year-end have since been monetised.

The Board considers that the information in note 4 adequately depicts how the nature, amount, timing and uncertainty of revenue and cash flow are affected by economic factors.

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 reporting date.

Deferred tax is provided in full, using the liability method on temporary differences arising between the tax base of assets and liabilities and their carrying values in the financial statements. 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 reporting 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 tax assets and unutilised tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, and the carrying forward of tax assets and unutilised tax losses can be utilised.

Notes to the consolidated financial statements continued

2. Summary of significant accounting policies (continued)

The carrying amount of deferred tax assets is reviewed at each reporting date and adjusted to the extent that it is no longer probable that sufficient taxable profits 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

The Company has determined Sterling as its functional currency, as this is the currency of the economic environment in which the Company predominantly operates.

Transactions in currencies other than Sterling are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, the monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting date. Non-monetary assets and liabilities are carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on exchange are included in profit or loss.

Foreign currency differences arising on retranslation are recognised in profit or loss.

In the case of foreign entities, the financial statements of the Group's overseas operations are translated as follows on consolidation: assets and liabilities, at exchange rates ruling on reporting date, income and expense items at the average rate of exchange for the period and equity at exchange rates ruling on the dates of the transactions. Exchange differences arising are classified as equity and transferred to a separate translation reserve. Such translation differences are recognised in profit or loss in the period in which the operation is disposed of. Foreign exchange gains and losses arising from monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely within the foreseeable future, are considered to form part of net investment in a foreign operation and are recognised directly in equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Foreign currency gains and losses are reported on a net basis.

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
- Leasehold: 5 years

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.

Notes to the consolidated financial statements continued

2. Summary of significant accounting policies (continued)

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. The brand and software licences have been fully amortised in previous accounting periods.

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 software so that it will be available for use;
- management intends to complete the software product and use or sell it;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources 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 their estimated useful life, which does not exceed 5 years.

Government tax credits available on eligible Research and Development expenditure ('R&D Tax Credits') and not reclaimable through other means are recognised in income and treated as a government grant.

Customer relationships

Customer relationships are amortised over the period expected to benefit as follows:

- First Base: 10 years
- Securestorm: 3 years (fully amortised in the year ended 31 March 2022)

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.

Notes to the consolidated financial statements continued

2. Summary of significant accounting policies (continued)

2.10 Financial instruments

The Group applies a simplified method of the expected credit loss model when calculating impairment losses on its financial assets which are measured at amortised cost such as trade receivables, other debtors and prepayments. This resulted in greater judgement due to the need to factor in forward-looking information when estimating the appropriate amount to provisions

(a) Financial Assets

The Group's Financial Assets include Cash and Cash Equivalents, Trade Receivables and Other Receivables.

- *Initial Recognition and Measurement*: Financial Assets are classified as amortised cost and initially measured at fair value.
- *Subsequent Measurement*: Financial assets are subsequently measured at amortised cost, using the effective interest method, less impairment. Interest is recognised by applying the effective interest method, except for short-term receivables when the recognition of interest would be immaterial. The company only offers short periods of credit to its customers and recorded average debtor days of 31 at 31 March 2022 (2021: 47)
- *Derecognition of Financial Assets*: The Company derecognises a Financial Asset only when the contractual rights to the cash flows from the asset expire, or it transfers the Financial Asset and substantially all the risks and rewards of ownership of the asset to another entity.

(b) Financial Liabilities and Equity Instruments

The Group's Financial Liabilities include Trade Payables, Accruals and Other Payables. Financial Liabilities are classified at amortised cost.

(c) Investments

Investments not in subsidiary undertakings are carried at fair value through profit and loss.

Classification as Debt or Equity. Financial Liabilities and Equity Instruments issued by the Company are classified according to the substance of the contractual arrangements entered into and the definitions of a Financial Liability and an Equity Instrument.

2.11 Share capital

Ordinary shares (of nil par value) in the Company are classified as equity. By definition all amounts arising from the issue of these shares are attributable to Share Capital as are any directly attributable (including any warrants issued as commissions) to issue of new shares are shown in equity as a deduction to the share capital account. The Company does not maintain a separate share premium account.

2.12 Reserves

The consolidated financial statements include the following reserves: translation reserve, share option reserve, 2022 Liabilities reserve and accumulated losses. Premiums paid on the issue of share capital, less any costs relating to these, are posted to the share capital account as referenced above.

2.13 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. Summary of significant accounting policies (continued)

2.14 Leases

When entering into a contract the Group assesses whether or not a lease exists. A lease exists if a contract conveys a right to control the use of an identified asset under a period of time in exchange for consideration. Leases of low value items and short-term leases (leases of less than 12 months at the commencement date) are charged to the profit or loss on a straight-line basis over the lease term in administrative expenses.

The Group recognises right-of-use assets at cost and lease liabilities on the statement of financial position at the lease commencement date based on the present value of future lease payments. The right-of-use assets are amortised on a straight-line basis over the length of the lease term. The lease liabilities are recognised at amortised cost using the effective interest rate method. Discount rates used reflect the incremental borrowing rate specific to the lease.

2.15 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.

2.16 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 and Monte Carlo option pricing models taking into account the expected life of the awards, the expected volatility of the return on the underlying share price, vesting criteria, 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.

2.17 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.

Notes to the consolidated financial statements continued

3. Critical accounting estimates and judgements

The preparation of the Group financial statements in conformity with IFRSs as applied in accordance with the provisions of the Companies Act 2006 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.

Judgements:

Investment in Furnace Technologies Limited

The investment agreement in Furnace Technologies Limited has allocated Falanx Group Limited 20% of its equity. It is considered a financial as opposed to an operational investment as Falanx does not have the right to appoint a board member and plays no part in its operations or policymaking. There is no ongoing obligation to provide further investment to Furnace and Furnace has no part in the business plans of Falanx. There is no interchange of management personnel and any transactions between the companies are small and are on an arm's length basis. Consequently, it has not been treated as an associated company. The investment balance was impaired in full in the year ended 31 March 2021 on the following basis;

- Furnace had not yet generated material revenues
- Furnace had not received external funding at the date of the 2021 report which would allow an objective measure of the equity value which would validate the capital structure and its carrying value.
- Since then, there has been no further development in Furnace which justify a change in treatment.

Estimates:

Management do not consider there to be significant accounting estimates in respect of the year ended 31 March 2022.

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 (refer to note 15.2).

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.

Notes to the consolidated financial statements continued

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 the remaining Cyber Security division business segment only following the disposal of the strategic intelligence division in October 2021. 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 results for the business operating segment for the years ended 31 March 2022 and 31 March 2021 are as follows:

	2022 £ Continuing	**2022 £ Discontinued**	**2022 £ Total**	2021 £ Continuing	2021 £ Discontinued	2021 £ Total
Professional services	2,683,204	21,102	2,704,306	2,272,951	108,375	2,381,326
Monitoring managed services	859,104	—	859,104	876,773	—	876,773
Assynt report & embedded analysts	—	1,005,191	1,005,191	—	2,016,062	2,016,062
Revenues from external customers	3,542,308	1,026,293	4,568,601	3,119,724	2,124,437	5,244,161
Gross Margin	1,442,576	224,270	1,666,846	1,016,937	559,048	1,575,985
Cyber operating expenses	(1,598,143)	—	(1,598,143)	(1,435,957)	—	(1,435,957)
Corporate operating expenses	(1,009,132)	—	(1,009,132)	(918,607)	—	(918,607)
Segment Reported EBITDA	(1,164,699)	(29,664)	(1,194,363)	(1,337,627)	(32,312)	(1,369,939)
Highlighted costs (Note 5)	(107,285)	—	(107,285)	(12,893)	123,247	110,354
Segment Adjusted EBITDA	(1,271,984)	(29,664)	(1,301,648)	(1,350,520)	90,935	(1,259,585)
Finance expense-net	(201,464)	(241)	(201,705)	(32,570)	—	(32,570)
Depreciation and amortisation	(465,417)	(13,378)	(478,795)	(503,895)	(29,587)	(533,482)
Impairment of goodwill	(130,347)	—	(130,347)	—	—	—
Impairment of Furnace equity and loan investment (Note 17/18)	—	—	—	(1,440,000)	—	(1,440,000)
Share option expense	(17,839)	—	(17,839)	(173,636)	(2,313)	(175,949)
Profit on sale of discontinued operations	—	3,498,102	3,498,102	—	—	—
Segment loss before tax for the year	(1,979,766)	3,454,819	1,475,053	(3,487,728)	(64,212)	(3,551,940)

Segment assets consist primarily of property, plant and equipment, intangible assets, trade and other receivables and cash and cash equivalents. Unallocated assets comprise deferred tax 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, liabilities and capital expenditure for the year then ended are as follows:

	2022 Continuing £	2021 Continuing £	2021 Discontinued £	2021 Total £
Contract assets	27,100	62,141	1,551	63,692
Other assets	8,296,487	5,267,711	374,615	5,642,326
Contract liabilities (deferred income)	529,496	465,000	643,317	1,108,317
Other liabilities	3,418,222	1,617,349	318,175	2,006,524
Capital expenditure – Tangible	13,315	36,161	—	36,161
Capital expenditure – Intangible	—	157,780	—	157,780

Notes to the consolidated financial statements continued

4. Segmental reporting (continued)

Geographical information

The Group's business segments operate in five geographical areas, although all are managed on a worldwide basis from the Group's head office in the United Kingdom. All non-current assets are 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 based in the United Kingdom.

Revenue by geographical location

	2022 Continuing £	2022 Discontinued £	2022 Total £	2021 Continuing £	2021 Discontinued £	2021 Total £
United Kingdom	2,948,696	572,575	3,521,271	2,788,215	1,129,441	3,917,656
Europe	181,808	112,051	293,859	189,005	338,898	527,903
The Americas	376,539	150,678	527,217	114,104	341,307	455,411
Australasia	35,265	64,029	99,294	28,100	157,800	185,900
Middle East and Africa	—	126,960	126,960	—	157,291	157,291
	3,542,308	1,026,293	4,568,601	3,119,424	2,124,737	5,244,161

Non-current assets

	2022 Continuing £	2021 Continuing £	2021 Discontinued £	2021 Total £
United Kingdom	3,621,304	4,203,752	18,190	4,221,942
	3,621,304	4,203,752	18,190	4,221,942

Major customers

No customer contributed 10% or more to the Group's revenue in 2022 (2021: nil). The highest individual customer contributed c9% of revenues.

Contract Assets (accrued incomes) balances were £27,100 (2021: £63,992). Included in the Contract Liabilities (deferred incomes) at the 31 March 2022 were approximately £29,981 (2021: £121,327) residual balance from prior year. All Contract Assets at the 2022-year end arose towards the end of the period and were billed and collected in the normal course of business in the next financial year.

	Contract Assets 2022 £	Contract Assets 2021 £	Contract Liabilities 2022 £	Contract Liabilities 2021 £
At 1 April	63,992	27,747	(1,108,317)	(1,237,347)
Transfers in the year from contract assets to trade receivables	(63,992)	(27,747)	—	—
Transfers from contract liabilities to revenue in the year	—	—	842,732	1,116,019
Disposal in the year	—	—	235,604	—
Amount recognised as revenue in the year not yet invoiced	27,100	63,992	—	—
Amount invoiced in advance not recognised as revenue in the year	—	—	(499,515)	(986,989)
At 31 March	27,100	63,992	(529,496)	(1,108,317)

Notes to the consolidated financial statements continued

5. Highlighted costs and Adjusted EBITDA

Operating loss includes the following items which the Directors consider to be one-off in nature, non-cash expenses or necessary elements of expenditure to derive future benefits for the Group which have not been capitalised on the consolidated statement of financial position.

5.1 Highlighted costs/(income)

		2022 £	2021 £
Restructuring and other costs	a)	—	(40,738)
Infrastructure upgrade	b)	—	66,887
Rent	c)	(107,285)	(107,285)
Closed premises	d)	—	68,243
		(107,285)	(12,893)

a) Restructuring costs
Cost of corporate development and professional services associated with the restructuring. This did not include any impact of COVID-19.

b) Infrastructure upgrade
Cost of technology, infrastructure, and upgrade of applications for internal use and customer delivery.

c) Rent
Re-instatement of accounting charge in respect of rental payments on the Reading lease not reflected under IFRS 16. The group uses Adjusted EBITDA as a metric for business unit assessment and this reflects the actual rental payments, adjusted for rent free periods.

d) Closed premises
Costs including unused rental periods and lease dilapidations related to London and Sussex premises closed during summer 2020.

5.2 Adjusted EBITDA - continuing

	2022 £	2021 £
Operating loss	(1,778,302)	(3,455,158)
Depreciation and amortisation	465,417	503,895
Impairment of goodwill	130,347	—
Impairment of Furnace equity investment and loan (Note 17)	—	1,440,000
Share option expense	17,839	173,636
EBITDA	(1,164,699)	(1,337,627)
Highlighted costs (note 5.1)	(107,285)	(12,893)
Adjusted EBITDA	(1,271,984)	(1,350,520)

Notes to the consolidated financial statements continued

6. Operating loss - continuing

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

	2022 £	2021 £
Depreciation of owned property, plant and equipment	63,732	71,585
Amortisation of right of use asset	108,981	108,981
Amortisation and impairment of intangible fixed assets	292,703	323,329
Impairment of goodwill	130,347	—
Impairment of Furnace equity investment and loan (Note 17)	—	1,440,000
Operating lease rentals – Land & Buildings	10,865	20,300
Share based payment expense	17,839	173,636
Foreign exchange loss	4,483	2,959
R&D tax credit	—	(19,894)

7. Auditors' remuneration

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

	2022 £	2021 £
Remuneration receivable by the Company's auditors for the audit of consolidated and Company financial statements	18,000	18,000
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	42,000	42,000
– tax services	6,500	6,500
	66,500	66,500

8. Employee benefit expense - continuing

	2022 £	2021 £
Wages and salaries, including termination benefits	2,747,209	2,642,518
Social security costs	315,873	305,471
Other pension costs	61,608	63,250
Share options granted to employees	17,839	173,636
	3,142,529	3,185,875

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

	2022	2021
Operations	28	30
Sales and marketing	8	9
Administration and management	15	16
	51	55

Notes to the consolidated financial statements continued

8. Employee benefit expense - continuing (continued)

Directors' emoluments

	2022 £	2021 £
Emoluments, including benefits in kind	625,509	202,010
Pension costs	1,761	1,751
	627,270	203,761

The emoluments of the highest paid Director were as follows:

	2022 £	2021 £
Emoluments, including benefits in kind	308,055	111,268
Pension costs	—	1,751
	308,055	113,019

9. Finance income and expense - continuing

	2022 £	2021 £
Interest receivable	104	4
Interest payable – IFRS 16	(22,114)	(28,799)
Interest payable – borrowings and other	(179,454)	(3,774)
Net finance expense recognised in profit / (loss) for the year	(201,464)	(32,569)

10. Income tax expense

	2022 £	2021 £
Current tax		
Current tax on loss for the year	—	—
Over provision in prior year	—	—
Total current tax	—	—
Deferred tax		
Deferred tax (credit)/expense for the year	(9,529)	—
Total deferred tax	(9,529)	—
Income tax expense	–	—

The parent Company is resident in the UK for tax purposes together with all of its subsidiaries. Other subsidiaries which were resident in foreign tax jurisdictions were disposed of on the sale of Assynt in October 2021.

Potential 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 judgement is made as to whether the deferred tax asset can be recognised. At 31 March 2022, a deferred tax asset has not been recognised (2021: £nil). Accumulated tax losses (subject to HMRC) agreement stood at approximately £11m (2021: £13.9m). No asset in respect of these losses has been recognised.

Notes to the consolidated financial statements continued

10. Income tax expense (continued)

The tax charge for the year is different from the standard rate of corporation tax in the United Kingdom of 19% (2021: 19%). The difference can be reconciled as follows:

	2022 Continuing £	**2022 Discontinued £**	**2022 Total £**	2021 Continuing £	2021 Discontinued £	2021 Total £
Profit / (Loss) before tax	(1,979,766)	3,454,818	1,475,052	(3,487,728)	(64,212	(3,551,940)
Tax calculated at the applicable rate based on the loss for the year 19% (2021: 19%)	(376,155)	656,415	280,260	(662,669)	(12,200)	(674,869)
Tax effects of:						
Expenses not deductible for tax purposes	3,552	72	3,624	306,591	439	307,030
Chargeable gain not taxed	—	(664,639)	(664,639)	—	—	—
Non taxable income	—	—	—	(11,043	—	(11,043)
Deferred tax not recognised	364,124	7,102	371,226	367,121	11,761	378,882
Current tax on loss for the year	(8,479)	(1,050)	(9,529)	—	—	—

11. Discontinued operations

On 06 October 2021, Falanx announced that it had entered into a formal sale agreement to dispose of Assynt Strategic Intelligence Division ("Assynt") for cash consideration of £4.6 million to Cross Atlantic LLC. Assynt, which represented the entirety of the Assynt operating segment, was classified as a discontinued operation at that date. Consequently, Assynt has not been presented as an operating segment in the segment note.

The results of the discontinued operation and the effect of the disposal on the financial position of the Group were as follows:

Financial performance and cash flow information

Results of the discontinued operations for the period to disposal

Income statement	**2022 £**	2021 £
Revenue	1,026,294	2,124,437
Administrative expenses	(1,069,336)	(2,188,649)
Operating loss	(43,042)	(64,212)
Finance costs	(241)	—
Loss before income tax	(43,283)	(64,212)
Income tax credit	1,050	—
Loss from discontinued operations before gain on sale	(42,233)	(64,212)
Profit on sale of discounted operations	3,498,102	—
Profit / (loss) from discontinued operation	3,455,869	(64,212)

Notes to the consolidated financial statements continued

11. Discontinued operations (continued)

Cash flows from/(used in) discontinued operation	2022 £	2021 £
Net cash flows from operating activities	(388,485)	(759,283)
Net cash flows from investing activities	—	—
Net cash flows from financing activities	—	—
Net cash flows for the year	(388,485)	(759,283)
Intra-Group funding and transactions	323,031	841,580
Net cash flows from discontinued operations, net of intercompany	(65,454)	82,297

Effect of disposal on the financial position of the Group

Net assets disposed of and the gain on disposal	2022 £
Assets of the disposal group	
Property, plant & equipment	442
Intangible assets	4,293
Trade and other receivables	174,021
Total assets	178,756
Liabilities of the disposal group	
Deferred tax liability	
Trade and other payables	201,928
Contract liabilities	420,286
Total liabilities	622,214
Net assets of the disposal group	(443,458)
Consideration received in cash and cash equivalents, net of transactions costs	3,163,674
Gain on sale before income tax and reclassifications of FX translation reserve	3,607,132
Exchange differences received to the income statement	(109,030)
Gain on sale of discontinued operation	3,498,102
Net cash inflow arising on disposal:	
Consideration received in cash and cash equivalents, net of transaction costs	3,163,674
Less cash and cash equivalents disposed of	—
	3,163,674

12. Basic and diluted earnings per share

Basic loss per share is calculated by dividing the 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.

Continuing operations

	2022 £	2021 £
Profit / (Loss) for the year attributable to equity holders of the Company	1,484,582	(3,551,940)
Less profit / (loss) from discontinued operations	3,455,869	(64,212)
Loss from continuing operations	(1,971,287)	(3,487,728)
Total basic and diluted loss per share (pence per share)	(0.37)	(0.75)

Notes to the consolidated financial statements continued

12. Basic and diluted earnings per share (continued)

Continuing and discontinued operations

	2022 £	2021 £
Profit / (Loss) for the year attributable to equity holders of the Company	1,484,582	(3,551,940)
Total basic and diluted profit / (loss) per share (pence per share)	0.28	(0.77)

Weighted average number of shares used as the denominator

	2022	2021
Weighted average number of ordinary shares used as the denominator in the calculating basic earnings per share	526,181,678	462,675,158

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 and share options. 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 31 March 2022, 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.

Notes to the consolidated financial statements continued

13. Share based payment

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 typically is conditional on demanding share price targets being met. Most options vest on change of control such as an acquisition of the Company. 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.

	2022		2021	
	Average exercise price (pence)	**Options**	Average exercise price (pence)	Options
At 1 April	2.68	73,333,635	4.55	73,486,399
Granted	1.925	15,000,000	1.00	33,259,596
Granted	1.00	14,119,200	1.15	1,250,000
Granted	1.05	6,500,000	—	—
Waived	5.00	(433,673)	44.5	(112,360)
Waived	3.50	(400,000)	14.5	(100,000)
Waived	1.925	(1,500,000)	6.50	(500,000)
Waived	—	—	6.13	(1,000,000)
Waived	—	—	5.875	(850,000)
Waived	—	—	5.00	(16,200,000)
Waived	—	—	4.00	(50,000)
Waived	—	—	3.50	(6,850,000)
Cancelled	1.925	(15,000,000)	—	—
Cancelled	1.00	(14,119,200)	—	—
Expired	44.5	(100,000)	7.125	(2,000,000)
Expired	5.13	(200,000)	5.875	(500,000)
Expired	5.00	(400,000)	5.00	(4,500,000)
Expired	4.00	(100,000)	3.50	(2,000,000)
Expired	3.50	(1,000,000)	—	—
Expired	1.925	(4,000,000)	—	—
Exercised	1.00	(1,020,000)	—	—
At 31 March	2.50	70,679,962	2.68	73,333,635

Notes to the consolidated financial statements continued

13. Share based payment (continued)

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

Expiry date	Exercise price (pence)	Shares 2022	2021
28 July 2024	44.5	1,487,080	1,587,080
16 May 2026	4.13	605,326	605,326
30 September 2026	4.00	116,667	216,667
7 October 2026	5.00	1,000,000	1,000,000
24 January 2027	5.875	583,334	583,334
19 September 2027	7.38	150,000	150,000
20 November 2027	5.13	—	200,000
14 March 2028	5.00	300,000	950,000
17 July 2028	5.00	1,147,959	1,331,632
7 January 2029	3.50	800,000	2,200,000
24 September 2029	1.925	23,000,000	28,500,000
1 November 2029	1.925	1,500,000	1,500,000
20 April 2030	1.00	32,239,596	33,259,596
20 April 2030	1.15	1,250,000	1,250,000
17 August 2031	1.05	6,500,000	—
		70,679,962	73,333,635

At the balance sheet date, the average life outstanding on options was 7.8 years (2021: 8.5 years). All options had a 10-year life from date of grant. At the end of each period approximately 33m options with an exercise price of 1.0p granted in April 2020 and with a life of 10 years under the COVID-19 salary sacrifice program had fully vested. All other options had not vested due to either time based or share price-based vesting criteria not being met.

Following the cancellation of 15,000,000 and 14,119,200 unapproved share options from a UK tax perspective on 29 April 2021, the Company granted 29,119,200 share options under the EMI scheme to the same employees with identical terms (including but not limited to exercise price, vesting criteria and expiry date).

6,500,000 share options and warrants were granted on 17 August 2021 under the EMI scheme at 1.05p have a life of 10 years The options vest in tranches: the first tranche exercisable 12 months from date of grant and subsequent tranches of 1/36 of this amount each complete month after 12 months from the date of grant so that all options are vested by 48 months from the date of grant, save for the event of a change of control in the Company, in which case they will vest in full. Where an individual grant does not fall within HMRC EMI rules they are granted as an unapproved option which will typically be subject to PAYE and NI charges.

The weighted average fair value of the 6,500,000 (2021: 34,509,596) options granted during the year was determined using the Black Scholes option pricing model, given there were no performance conditions attached. This resulted in a cost of c0.7 (2021: c0.7) pence per option. The significant inputs to the model were exercise price as shown above, an expected option of 10 years, expected volatility of 89% (2021: 70%) and a risk-free rate of return of 0.68% (2021: 0.4%). 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 employee share options granted to Directors and employees is £17,839 (2021: £175,949).

Notes to the consolidated financial statements continued

14. Property, plant and equipment

	Leasehold Improvements £	Fixtures and fittings £	Computer equipment £	Total £
Cost				
At 1 April 2021	143,823	32,115	157,405	333,343
Additions	—	—	13,315	13,315
Disposals	—	(317)	(18,849)	(19,166)
At 31 March 2022	143,823	31,798	151,871	327,492
Depreciation				
At 1 April 2021	45,544	20,267	111,701	177,512
Charge for the year	28,764	5,253	30,258	64,275
Disposals	—	(197)	(18,450)	(18,647)
At 31 March 2022	74,308	25,323	123,509	223,140
Net book value				
At 31 March 2022	69,515	6,475	28,362	104,352
Cost				
At 1 April 2020	143,823	32,115	121,244	297,182
Additions	—	—	36,161	36,161
At 31 March 2021	143,823	32,115	157,405	333,343
Depreciation				
At 1 April 2020	16,779	14,211	70,769	101,759
Charge for the year	28,765	6,056	40,932	75,753
At 31 March 2021	45,544	20,267	111,701	177,512
Net book value				
At 31 March 2021	98,279	11,848	45,704	155,831

Notes to the consolidated financial statements continued

15. Intangible assets

	Goodwill £	Software and brand licences £	Website costs £	Development costs £	Customer relationships £	Total £
Cost						
At 1 April 2021	1,904,172	916,301	112,935	157,779	2,613,308	5,704,495
Disposals	—	—	(76,265)	—	(75,000)	(151,265)
At 31 March 2022	1,904,172	916,301	36,670	157,779	2,538,308	5,553,230
Amortisation and impairment						
At 1 April 2021	53,438	916,301	74,414	20,318	937,184	2,001,655
Amortisation charge for year	—	—	25,057	27,090	253,391	305,538
Impairment for the year	130,347	—	—	—	—	130,347
Disposals	—	—	(71,972)	—	(75,000)	(146,972)
At 31 March 2022	183,785	916,301	27,499	47,408	1,115,575	2,290,568
Net book value						
At 31 March 2022	1,720,387	—	9,171	110,371	1,422,733	3,262,662
At 1 April 2020	1,904,172	916,301	112,935	—	2,613,308	5,546,716
Additions	—	—	—	157,779	—	157,779
At 31 March 2021	1,904,172	916,301	112,935	157,779	2,613,308	5,704,495
Amortisation and impairment						
At 1 April 2020	53,438	916,301	36,773	—	646,395	1,652,907
Amortisation charge for year	—	—	37,641	20,318	290,789	348,748
At 31 March 2021	53,438	916,301	74,414	20,318	937,184	2,001,655
Net book value at 31 March 2021	1,850,734	—	38,521	137,461	1,676,124	3,702,840

15.1 Goodwill

As detailed in note 2.8 to the consolidated financial statements, the Directors test goodwill 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.

The Directors have undertaken an impairment review of the goodwill at the reporting date relating to the acquisition of Falanx Cyber Defence Limited, the trade and assets of First Base Technologies LLP and Securestorm Limited, all of which were amalgamated into Falanx Cyber Defence Limited at the start of the year ended 31 March 2020. Goodwill arising from the acquisition of Securestorm Limited has been fully impaired as at reporting date.

Analysis of goodwill allocated to the Cyber segment:

	2022 £	2021 £
Goodwill arising from acquisitions	1,720,387	1,850,734
Total	1,720,387	1,850,734

The recoverable amount of the CGU is based on fair value less costs of disposal estimated using discontinued cash flows. The measurement was categorised as Level 3 on the inputs used in the valuation technique.

Notes to the consolidated financial statements continued

15. Intangible assets (continued)

The cash generating unit's value in use has been assessed using the following assumptions:

	2022	2021
Discount rate	15%	15%
Average forecast EBITDA growth next 5 years	7%	7%
Growth rate 5-10 years	10%	10%
Perpetuity thereafter	10%	10%

In determining value in use, the Directors have prepared financial and business forecasts. These forecasts indicate growth rates that increase by various rates throughout the 10-year forecast period (excluding any periods beyond this). The discount rate applied is an estimate based on industry weighted average cost of capital.

Goodwill of First Base has been evaluated by reviewing similar inputs save for growth scenario reflecting current growth rates of 10% over the 10-year horizon to reflect overall growth in the asset from new customers, and then comparing the excess of the NPV of future cash flows to the overall intangible including the customer relationships asset. This testing indicates that NPV will be less than carrying value if a discount rate in excess of 27% is used.

The estimated recoverable amount of the CGU exceeded its carrying amount (including developments costs and customer relationship intangibles) by £3.6m (2021: £7.5m)

Following the impairment review the Directors do not consider that the carrying value of goodwill detailed above is impaired at the reporting date.

15.2 Customer relationships

The customer relationships intangible assets arise on the acquisition of subsidiaries when accounted for as a business combination and relate to the expected value to be derived from contracted and non-contractual relationships. These customer assets are valued on a value in use basis. The value placed on the contractual customer relationships, as per the third-party valuation carried out, is based on the expected cash revenue inflows over the estimated remaining life of each existing contract. The value placed on the non-contractual customer relationships is based on past revenue performance by virtue of the customer relationships; but using circa 1% average annual attrition rate since acquisition in March 2018. Associated cash outflows have been based on historically achieved margins. The net cash flows are discounted at a rate of 15% which the Directors consider is commensurate with the risks associated with capturing returns from customer relationships and reflects the group's WACC including the impact of the loan drawn down in August 2021. This is further described in note 3 to these accounts.

The Directors consider that the period expected to benefit in respect of the customer relationships acquired with the trade and assets of First Base Technologies LLP is ten years. The Directors considered that the period expected to benefit in respect of the customer relationships acquired with Securestorm Limited was three years, as it was a much smaller and newer business than First Base and had a significant level of customer concentration. This was consequently fully written down in the year.

Growth rate (long term economic average)	1.5% (achieved growth rate c15%)
EBITDA Margin	24.0 - 35.0%
Return on Workforce	1.81%
Tax Rate	19 - 26%

A similar analysis has been carried out on the intangibles arising from the purchase of Securestorm Limited in July 2018. The customer intangible was fully written off in the year and the goodwill was fully impaired.

Notes to the consolidated financial statements continued

16. Right of use assets

	2022 £	2021 £
Cost		
At 1 April	549,448	549,448
At 31 March	549,448	549,448
Amortisation and impairment		
At 1 April	186,176	77,195
Amortisation charge for year	108,982	108,981
At 31 March	295,158	186,176
Net book value		
At 31 March	254,290	363,272

This asset relates to the Reading office lease, refer to note 28.

17. Investments with fair value through profit and loss

	2022 £	2021 £
At 1 April	—	340,000
Impairment	—	(340,000)
At 31 March	—	—

On 19 December 2019, the Group disposed of the business and assets of Furnace. The total consideration received was £1,700,000, which included the issue and allotment of 20% of the share capital in Furnace Technologies, the buyer's company. The equity value at completion was £600,000. In April 2020 Furnace Technologies received an external equity investment of £30,000 at the same valuation.

The Group are satisfied that it does not have a significant influence over Furnace Technologies and have recognised the shareholding as a financial asset. At the reporting date, the Group continued to hold 20% in Furnace Technologies. Due to the early-stage nature and lack of external investment to Furnace it has not been possible to form an objective view as to the carrying value of this investment due to uncertainty as to its ability to make repayment without external investment and revenue growth having been achieved. The equity which was previously recorded at £0.34m has therefore been fully provided for in the year ended 31 March 2021. The Company will continue to review this asset's performance and may increase its carrying value at a point when Furnace has either commenced significant revenue generation or has received external investment.

18. Loan Receivable

	2022 £	2021 £
At 1 April	—	1,100,000
Impairment	—	(1,100,000)
	—	—

On 19 December 2019, the Board disposed of the business and assets of Furnace. The total consideration received was £1,700,000, partly funded by the way of an unsecured loan note for £1,100,000 to Furnace Technologies Ltd, the buyer. As referenced in note 17 above, it has not been possible to form an objective view as to the carrying value of this asset due to uncertainty as to its ability to make repayment without external investment and revenue growth having been achieved. The loan note has therefore been fully provided for. The Company will continue to review this assets performance and may increase its carrying value at a point when Furnace has either commenced significant revenue generation or has received external investment.

Notes to the consolidated financial statements continued

19. Trade and other receivables

	2022 £	2021 £
Trade receivables - gross	523,643	682,000
Allowance for credit losses	—	—
Trade receivables	523,643	682,000
Contract assets	27,100	63,692
Other receivables	442,427	111,280
Prepayments	199,050	219,244
	1,192,220	1,076,216

Trade and other receivables are stated at amortised cost.

20. Cash and cash equivalents

	2022 £	2021 £
Cash and cash equivalents	3,483,063	545,321

21. Share capital

	2022 Number of shares of nil par value	2021 Number of shares of nil par value
Allotted, called up and fully paid at 1 April	525,401,185	400,401,185
New shares issued	1,020,000	125,000,000
Allotted, called up and fully paid at 31 March	526,421,185	525,401,185

On 1 April 2021, the Company announced the issuance of 600,000 new ordinary shares of nil par value at a price of 1 pence each in respect of share options exercised.

On 25 October 2021, the Company announced the issuance of 300,000 new ordinary shares of nil par value at a price of 1 pence each in respect of share options exercised.

On 29 October 2021, the Company announced the issuance of 120,000 new ordinary shares of nil par value at a price of 1 pence each in respect of share options exercised.

At 31 March 2022 a total of 6,000,000 (2021: 10,583,334) warrants issued to various shareholders remained outstanding. No residual value has been allocated to the warrants as the issue price of the subscribed shares equated to their fair values.

		Warrants	
Expiry	Exercise price (pence)	2022	2021
5 May 2021	4.0	—	4,583,334
		—	4,583,334
M D Read*		6,000,000	6,000,000
		6,000,000	10,583,334

* The 6,000,000 warrants have an exercise period ending 36 months after each vesting period. Vesting is conditional on the share price being equal to or greater than the relevant minimum share price during each corresponding vesting period. The warrants shall vest in 4 tranches as set out below:

Notes to the consolidated financial statements continued

21. Share capital (continued)

Vesting period	Proportion of warrant shares	Minimum share price
The first period of 6 months commencing on 22 August 2016 ("First Vesting Period")	25% (equivalent to 1,500,000 warrant shares)	4 pence
A second period of 6 months immediately following the expiry of the First Vesting Period ("Second Vesting Period")	25% (equivalent to 1,500,000 warrant shares)	10 pence
A third period of 6 months immediately following the expiry of the Second Vesting Period ("Third Vesting Period")	25% (equivalent to 1,500,000 warrant shares)	15 pence
A fourth period of 6 months immediately following the expiry of the Third Vesting Period ("Fourth Vesting Period")	25% (equivalent to 1,500,000 warrant shares)	20 pence

22. Reconciliation of share capital

	2022 £	2021 £
At 1 April	4,033,161	17,903,427
Premium on issue of nil par value ordinary shares	10,033	1,247,600
Costs of share issues	—	(117,866)
Capital reconstruction	—	(15,000,000)
At 31 March	4,043,194	4,033,161

23. Translation reserve

	2022 £	2021 £
At 1 April	(107,777)	(113,180)
Re-translation of foreign subsidiaries	(1,253)	5,403
Exchange differences recycled to the income statement on disposal of business	109,030	—
At 31 March	—	(107,777)

24. Share based payment reserve

	2022 £	2021 £
At 1 April	747,243	587,325
Share based payment charge	17,839	175,949
Forfeited share options reversed through reserves	(61,931)	(16,031)
At 31 March	703,151	747,243

Notes to the consolidated financial statements continued

25. Accumulated losses

	2022 £	2021 £
At 1 April	(2,943,989)	(13,408,080)
Profit / (Loss) for the year	1,484,582	(3,551,940)
Capital reconstruction	—	14,000,000
Forfeited share options reversed through reserves	61,931	16,031
At 31 March	(1,397,476)	(2,943,989)

26. Deferred taxation

	2022 £	2021 £
Group		
Balance at 1 April	(9,529)	(9,529)
Credit to income statement	9,529	—
Balance at 31 March	—	(9,529)

The deferred tax liability represents:

	2022 £	2021 £
Accelerated capital allowances	—	(9,529)

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 reporting date.

The above deferred tax liability was calculated based on the expected UK corporation tax rate of 25% (2021: 19%), being the rate, which is expected to apply in the future when the liability is settled. The Group has losses of c£13m (subject to HMRC agreement), available to offset against future taxable profits. A deferred tax asset has not been recognised on these losses due to the uncertainty of sufficient future taxable profits against which the losses can be utilised. The March 2021 Budget announced a further increase to the main rate of corporation tax to 25% from 1 April 2023.

27. Trade and other payables

	2022 £	2021 £
Trade payables	388,339	539,068
Other payables within one year	23,437	38,383
Other payables after more than one year	—	5,409
Taxation and social security	216,916	838,636
Accruals	176,216	176,628
	804,908	1,598,124

Notes to the consolidated financial statements continued

28. Lease liability

Nature of leasing activities

The Group at the date of this report only has one property lease and this is for the Reading office which is now the Group's registered office.

Lease terms are negotiated on an individual basis and contains separate terms and conditions.

	2022	2021
Number of active leases	1	1

Lease liability at year end

	2022 £	2021 £
Non-current		
Lease liability	149,691	252,874
	149,691	252,874
Current		
Lease liability	103,182	95,997
	103,182	95,997
Total Lease liability	252,873	378,871
Analysis of lease liability		
At 1 April	348,871	438,184
Interest expense	22,114	28,799
Lease payments	(118,112)	(118,112)
At 31 March	252,873	348,871

Analysis of gross value of lease liabilities

Maturity of the lease liabilities is analysed as follows:

	2022 £	2021 £
Within 1 year	103,182	95,997
Later than 1 year and less than 5 years	149,691	252,874
At 31 March	252,873	348,871

29. Borrowings

Falanx Cyber Defence Ltd, a wholly owned subsidiary took out a £50,000 Coronavirus Business Interruption Loan (CBIL) with HSBC. The loan is repayable in 5 years from June 2021. The loans attract an interest rate of 2.5%. No arrangement fees were applied by the lender.

On 18 August 2021, the Company announced a 5-year growth loan facility from BOOST&Co taken via Falanx Cyber Defence Limited (a wholly owned subsidiary). The full £2.5m was drawn down in 2 tranches, the first of £1m on 18 August 2021 and the second of £1.5m on 13 October 2021. Annual interest is 11%, and straight-line amortisation of the loan commencing after 12 months. The loan carries a 3% early prepayment fee on the then amount outstanding.

Notes to the consolidated financial statements continued

29. Borrowings (continued)

	2022 £	2021 £
Non-current		
Bank loan	32,414	42,129
Term loan	2,062,324	—
	2,094,738	42,129
Current		
Bank loan	9,715	7,871
Term loan	255,987	—
	265,702	7,871
Total Loan liability	2,360,440	50,000
Analysis of loan liability		
At 1 April	50,000	—
Loan repayment	(7,871)	—
Additions	2,500,000	50,000
Loan costs	(205,347)	—
Amortised transaction cost	23,658	—
At 31 March	2,360,440	50,000

Analysis of gross value of bank loan

Maturity of the bank loan is analysed as follows:

	2022 £	2021 £
Within 1 year	265,702	7,871
Later than 1 year and less than 5 years	2,094,738	42,129
At 31 March	2,360,440	50,000

Notes to the consolidated financial statements continued

30. Subsidiaries

The Company holds more than 50% of the share capital of the following companies:

Name	Country of incorporation	Nature of business	Proportion of shares Shares held by parent
Falanx Cyber Defence Limited	England and Wales	Cyber defence solution	100%
Falanx Cyber Holdings Limited	England and Wales	Cyber defence solution, becoming dormant with all assets liabilities and trade being transferred to Falanx Cyber Defence Limited	100%
First Base Technologies (London) Limited	England and Wales	Cyber defence solution, becoming dormant with all assets and liabilities and trade being transferred to Falanx Cyber Defence Limited	100%
Securestorm Limited	England and Wales	Cyber security consultancy, becoming dormant with all assets liabilities and trade being transferred to Falanx Cyber Defence Limited	100%
Falanx Cyber Technologies Limited	England and Wales	Research and development	100%
Cloudified Limited	England and Wales	Software development in telecommunications, security and data analytics, becoming dormant	100%
Falanx Protection Limited	British Virgin Islands	Dormant	100%
Penetration Testing Ltd	England and Wales	Dormant	100%

31. 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 Group 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 IFRS 9 as detailed in the policies, are as follows:

Financial assets

	2022 £	2021 £
Trade and other receivables	986,070	793,280
Cash and cash equivalents	3,483,063	545,321
	4,469,133	1,338,601

Financial liabilities

	2022 £	2021 £
Trade and other payables	411,776	582,860
Lease liability	252,873	348,872
Borrowings	2,360,440	50,000
Accruals	176,216	176,627
	3,201,305	1,158,359

Notes to the consolidated financial statements continued

31. Financial instruments (continued)

Liquidity risk

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

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

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

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

	2022 **£**	2021 £
Trade and other payables due in:		
Less than one month	327,726	507,988
One month to six months	133,062	92,714
Six months to one year	313,396	80,618
Greater than one year	2,250,905	300,412
Total	3,025,089	981,732

The borrowings maturity profile, based on contractual undiscounted cash flows, of the Group is as follows:

	2022 **£**	2021 £
Trade and other payables due in:		
Less than one month	800	—
One month to six months	4,027	3,148
Six months to one year	260,875	4,723
Greater than one year	2,094,738	42,129
Total	2,360,440	50,000

The Company has sufficient working capital to meet these liabilities as they fall due.

Credit risk

Credit risk is the risk that a counterparty 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 counterparty 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 average credit period is 30 days from date of invoice, but non-standard terms may be agreed with certain larger or strategic customers. All of the Group's cash assets as at 31 March 2022 were held with HSBC in the UK and the Board has considered the associated risk as minimal. On average 80% of revenue is billed in advance of the service which significantly reduces our 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 £4,469,133 (2021: £1,338,601). The amount represents the total of the carrying amount of current assets.

The maximum amount exposure to credit risk for trade receivables at the statement of financial position date was £523,643 (2021: £682,000). All amounts at the balance sheet date have since been collected. 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 and therefore credit exposure is considered minimal.

Notes to the consolidated financial statements continued

31. Financial instruments (continued)

As at 31 March 2022, trade receivables past due for the Group totalled £96,330 (2021: £145,810) of which £nil (2021: £nil) have been impaired. As at 31 March 2022, trade receivables past due but not impaired are as follows:

	2022 £	2021 £
Up to 3 months	79,170	132,795
3 months to 6 months	17,160	11,799
6 months to 12 months	—	—
Over 12 months	—	1,216
Expected credit loss provision at 31 March	96,330	145,810

All of these amounts have been collected in full since 1 April 2022.

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 is assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

The Group applies IFRS 9 simplified approach to measure expected losses using a lifetime expected credit loss provision for trade receivables and contract assets. The expected loss rates are based on a view of forward-looking information as well as the Group's historical credit losses experienced in a two-year period.

The Furnace loan of £1.1m was fully provided for in the year ended 31 March 2021.

A reconciliation of the movement in the impairment allowance for trade receivables is a shown below:

	2022 £	2021 £
Provision for bad and doubtful debts at 1 April	—	2,800
Amount released	—	(2,800)
Expected credit loss provision at 31 March	—	—

Foreign currency risk

The Group has limited exposure to foreign currency risk. Virtually 100% (2021: More than 92%) of revenue and associated activity is now generated and settled in the functional currency of the group. More than 82% (2021: 80%) of Group revenue is earned from the UK market in sterling with the balance earned in USD and Euro. Natural hedging is used wherever possible.

A ten percent weakening of sterling against the relevant currencies for example, would decrease the loss by £nil (2021: £7,037) in the coming year and would decrease equity by £nil (2021: £6,627).

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.

Notes to the consolidated financial statements continued

32. 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 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 adjusts 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.

33. Pension

The Group operates a defined contribution pension scheme in accordance with the Government Directive on Work Place Pensions. The total contributions for the year were £77,716 (2021: £97,383). The reduction was due to the disposal of Assynt in October 2021.

34. Capital and Financial commitment

The Group had no capital or financial commitments in any of the periods presented.

35. Control

No ultimate party controls Falanx Group Limited.

36. Related party transactions

Falanx Group Limited provided head office and management services to subsidiary companies and supported them with working capital during the year ended 31 March 2022.

On 18 August 2021, the Company announced a new loan facility from BOOST&Co, and the facility was arranged by Welbeck Ventures Limited who received 2% of the loan on completion in respect of advisory fees. Alex Hambro (Non-Executive Chairman) is also a director of Welbeck Ventures Limited.

37. Events after the reporting period

On 22 June 2022, the Company signed a deed of variation for the lease for the premises in Reading. The lease was varied to delete the break option and reduce the principal rent by 50% for the period from 1 August 2022 to 31 July 2023.

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