Falanx Group Limited

Report and financial statements
year ended 31 March 2014

Company number 1730012 (British Virgin Islands)

Corporate Statement

Falanx Group is listed on AIM and its subsidiaries are focused on intelligence and security, working in close partnership with our clients to help them defend against a wide range of global security threats.

Falanx brings an innovative approach to business intelligence, political and country risk assessments; focusing on the needs of the client as part of a transparent and dynamic relationship. Our aim is to support strategic investment decisions and to give organisations the best information possible, helping to increase profitability and efficiency of operations.

Chairman's statement

The year was a seminal period in terms of the Group's progress towards future growth and profitability following our successful listing on the AIM Stock Exchange in June 2013. The listing has enabled the Group to begin to realise its strategic goals, particularly in pursuing acquisitions of niche companies, and has given the Group credibility in dealing with major potential clients in the Middle East and Asia.

Events in the Middle East have continued to raise awareness of the risks posed by political turmoil and the terrorist threat. This has led to an increase in interest amongst both commercial and government clients for support in understanding the threat and in constructing a response where their interests may be affected.

This has resulted in profitable performances from both Falanx Intelligence and Falanx Resilience during the reporting year. Falanx Cyber began to become a reality in the reporting period, and since the end of the year very significant progress has been made towards the launch of our new cyber security service in October 2014. Interest in the cyber service has been significant and we already have a number of major projects in the pipeline.

The Group's strategy remains:

1. **To acquire top-quality, niche security providers so as to expand our capability, raise our profile and increase cash-flow.** *We acquired Stirling Assynt in late March 2013;*
2. **To exploit Stirling Assynt's extensive global client base for Falanx's broader proposition.** *We have successfully deployed a comprehensive, new-generation CRM system to enable increased effectiveness of our existing client base in our marketing and sales operations;* and
3. **To build on our high-level contacts especially in the Middle East.** *We won a contract to provide a major capacity building project in the Middle East and expect further such contracts in late 2014; we are also currently conducting scoping operations for a major cyber security project in a Middle Eastern country.*

Financial Review

Falanx Group's turnover for the year ended 31 March 2014 was £4.44 million, with Falanx Intelligence and Falanx Resilience's turnover being £1.56 million and £2.88 million respectively. Falanx Group's profit before taxation for the year 2013-2014, the Group's first full year of trading, was £9,488. The year involved a significant amount of other costs related to the recruitment of new staff, establishment of our cyber security capability, conducting commercial, legal and technical due diligence on two acquisition targets, creating a new cyber security website, and legal costs related to partnerships with Assuria and MDS. Without these costs the profit before taxation would have been approximately £171,000.

Of our three Divisions, both Falanx Intelligence and Falanx Resilience made a profit in the reporting year – £87,000 and £699,000 before tax respectively. Falanx Cyber was not in a position to trade within the reporting year. Following the launch of our cyber security services in Q4 2014 we expect Falanx Cyber to become profitable in mid 2015.

Divisional approach

In order to streamline our propositions in line with our strategic growth plans we have reduced our original four business divisions to three by bringing our physical security consultancy and relevant product licences into Falanx Resilience thus removing the Falanx Technology division. Falanx's business divisions are now as follows: Falanx Intelligence, based on Stirling Assynt's forward-looking political and security risk assessments and business intelligence services, Falanx Resilience providing capacity building and physical security consultancy, and Falanx Cyber based on Falanx Assuria's growing cyber security capability. These neatly respond to the client needs we have identified in our market research. Our approach remains as a broadly-based 'solution engineer' for clients.

Falanx Intelligence

Stirling Assynt as the centre-piece of Falanx Intelligence operations, providing high-quality political and security risk and business intelligence services, was acquired by Falanx Group in late March 2013. Managing Director Tim Williams has achieved greater profitability through cost cutting and improved marketing, bringing in a profit of £87,122 in the reporting year. Trimming of overheads relating to our Hong Kong operation and the application of a new sophisticated CRM system are expected to bring further increases in profitability in the next reporting year. We now have six analysts embedded in client companies in UAE, Italy and the UK conducting a range of risk management tasks for their clients.

Falanx Intelligence's Assynt Report – our highly respected and profitable political and security risk assessment service - covers 33 countries. Our bespoke risk management services have been more in demand than ever and that trend has continued after the end of the reporting year. Our business intelligence operations continue to do well, offering due diligence and other services to a wide range of clients globally. Despite a significant down-turn in the IPO support business in Asia we have performed well building niches in which to grow in what is an increasingly competitive market.

We have significantly improved our marketing and sales performance: Falanx Intelligence has now operated in around 100 countries worldwide serving clients including airlines, legal firms, oil and gas companies, utilities, hotel groups, financial services and governments.

Falanx Resilience

Falanx Resilience has achieved significant success in the first year of its operations having sub-contracted to a leading UK defence company to provide advisory, training and consulting services to a large Middle Eastern government client that required significant capacity building services. This involved deploying up to 10 consultants on the ground from May 2013. The contract was successfully completed in early May 2014. We are in discussion with a number of such clients in the Middle East and elsewhere and expect to obtain further contracts for similar services later in 2014.

The bid for upgrade of ministerial buildings using our protective security blinds product in the Middle East which I mentioned previously has not yet moved forward. However, the requirement remains in place and we are optimistic that progress will be made over the coming months.

Chairman's statement

Falanx Cyber

Since listing, Falanx Cyber, headed by a highly experienced Cyber Security professional who was appointed in early 2013, has been in discussions with several high-quality, niche cyber security companies with a view to the early establishment of a unique set of capabilities that can be offered as a single proposition for the UK and overseas market. Significant progress has now been made.

In January 2014 Falanx signed a strategic partnership agreement with Assuria Limited ("Assuria"), a Reading-based company providing high-quality Security Information and Event Management ("SIEM") and other cyber security tools. Following the signing of this agreement we began work with Assuria on the detailed planning to establish a managed-services Cyber Security Operations Centre (C-SOC).

Subsequently after the end of the reporting period Falanx established a new subsidiary, Falanx Assuria Limited as the centre-piece our cyber security strategy. This entity is now at an advanced stage of building our new 'state-of-the-art' managed services C-SOC for a range of clients using Assuria's software. Falanx's C-SOC, to be launched in Q4 2014, will provide protective monitoring of networks at the boundary and across data sources. This will involve management and analysis of data and provision of helpdesk services to continuously protect networks and systems from hostile attack, malicious intent, espionage, failure of process or technology and human error.

In order to enhance the proposition, in July this year Falanx also entered into a strategic alliance with MDS Technologies Limited ("MDS"), a member of the Skyscape Alliance which delivers a significant amount of the UK Government's Assured Cloud data storage. This will enable the delivery of comprehensive cyber security solutions, based on MDS's assured cloud coupled with Falanx's C-SOC services using Assuria's SIEM tools, as a single proposition to clients internationally. Falanx's C-SOC will be collocated with MDS's service management facility.

In September, we signed a partnership agreement with Digital Shadows, a niche company supplying intelligence on cyber threats to enable Falanx Cyber to bundle in cyber intelligence to further strengthen our overall assured cloud/cyber security proposition.

Events after reporting date

Falanx has established an approved (EMI) share option scheme to enable the Group to motivate and retain key staff across all of its business lines.

We established a new subsidiary in a UAE free zone to facilitate contracts in the Middle East.

Our new CRM system established in mid-2014 has already begun to provide coordination across business lines and will enable monthly marketing and sales reporting to underpin improved financial forecasting.

Outlook

A central plank of our growth strategy over the next few years will be our unique cyber security proposition in which there is already significant interest from government and commercial entities in the UK and internationally. There are few high-quality, cost-effective cyber security solutions currently in the market and the launch of our service is timely. In addition we plan to pursue further capacity building projects and are already in discussion with potential customers on new projects. I am confident that the Group is on track for significant growth over the next five years.

Approved by the Board on September 24, 2014 and signed on its behalf by

K P A Barclay
Executive Chairman

Directors and advisers

Karl Barclay

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

John Blamire

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

Iain Manley

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

Desmond Carr

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

Emma Shaw

Emma Shaw (Non-executive Director) is the Managing Director of Esoteric Ltd, an Electronic Sweeping, Counter-Espionage and Intelligence gathering company. An MBA graduate, and a Chartered Security Professional (CSyP) Emma's early career was spent with the Royal Military Police, followed by a career in the Ministry of Defence. Emma is also the 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.

Company number
1730012 (British Virgin Islands)

Registered office
PO Box 173
Kingston Chambers, Road Town
Tortola, British Virgin Islands

Registered Agents
Maples Corporate Services (BVI) Limited
PO Box 173
Kingston Chambers, Road Town
Tortola, British Virgin Islands

Auditors
Kingston Smith LLP
Devonshire House
60 Goswell Road
London EC1M 7AD

Nominated adviser
Charles Stanley Securities
131 Finsbury Pavement
London EC2A 1NT

Bankers
Barclays Bank PLC
UK Banking
1 Churchill Place
London E14 5HP

Solicitors
Hamlins LLP
Roxburghe House
273-287 Regent Street
London W1B 2AD

Registrars
Computershare Investor Services (BVI) Limited
Woodbourne Hall
PO Box 3162
Road Town, Tortola
British Virgin Islands VG1110

Corporate Governance Report

Statement of Compliance

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

Board of Directors

The board's principal responsibilities include assisting in the formulation of corporate strategy, reviewing and approving all significant corporate transactions, monitoring operational and financial performance, reviewing and approving annual budgets and generally assisting management to enhance the overall performance of the company in order to deliver maximum value to its shareholders.

The Company holds Board meetings at least eight times each financial year and at other times as and when required.

Committees

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

Audit Committee

The Audit Committee, comprising Desmond Carr, Iain Manley and Emma Shaw is chaired by Desmond Carr and meets at least two times a year. The Audit Committee is responsible for ensuring that the Group's financial performance is properly monitored, controlled and reported. The Audit Committee is responsible for the scope and effectiveness of the external audit, the work of the internal audit function and compliance by the Group with statutory and regulatory requirements.

The Audit Committee also advises the Board on the appointment of the external auditors, reviews their fees and the audit plan. It approves the external auditors' terms of engagement, their remuneration and any non-audit work.

The Audit Committee also meets the Company's auditors and reviews reports from the auditors relating to accounts and internal control systems. The Audit Committee meets with the auditors as and when the Audit Committee requires.

Remuneration Committee

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

Nomination Committee

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

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

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

Internal Control

The Board is responsible for identifying and evaluating the major business risks faced by the Group and for determining and monitoring the appropriate systems of internal controls to manage these risks. These internal controls are designed to safeguard the assets of the Company and to ensure the reliability of financial information for both internal use and external publication. While they are aware that no system can provide absolute assurance against material misstatement or loss, in light of the increased activity and further development of the group, continuing reviews of internal controls will be undertaken to ensure that they are adequate and effective.

Shareholder Communication

The Directors consider the clear and timely communication of information to shareholders as an important part of their duties. The board views the annual general meeting as an opportunity to communicate with both institutional and private investors alike and aims to make constructive use of the annual general meetings. The Directors intend to be present and available to answer questions at each year's annual general meeting.

Corporate Governance Report

Corporate Responsibility

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

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

Approved by the Board on September 24, 2014 and signed on its behalf by

J R Blamire
Director

Directors' report

The Directors present their report with the financial statements of the Group for the year ended 31 March 2014.

Business Review

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

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

Key Performance Indicators

Performance Indicator	*Description*	*Why measured*	***2014***	*2013*
Group revenue	Changes in total revenue compared to prior year	Revenue growth gives a quantified indication of the rate at which the Group's business activity is expanding over time	**£4,436,639**	—
Gross margin	Percentage of total revenue retained by the group after direct costs deduction	Provides indication of sales profitability and proportion of revenue available to cover other running costs	**31.7%**	—
EBITDA	A measure of profits	Offers a clearer reflection of the value of operations	**£21,961**	—

Comment

2014 was the first full year of trading with no comparable figures from prior year. The security and cyber security operations are in the development phase and this is detailed further in the Chairman's statement.

Dividends

The consolidated statement of comprehensive income for the year is set out on page 13, and shows the loss for the year.
The Directors do not recommend the proposal of a final dividend in respect of the current year.

Events after reporting date

Information relating to events since the end of the period is disclosed in note 28 to the financial statements.

Directors

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

Executive Directors

J R Blamire
K P A Barclay

Non-Executive Directors

I A Manley
D P Carr
E Shaw

Directors' report

Directors' interests

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

	2014		2013	
	Number of shares	**% Held**	Number of shares	% Held
J R Blamire	**7,900,000**	**19.89%**	7,000,000	21.57%
K P A Barclay*	**5,765,500**	**14.52%**	5,745,000	17.68%
I A Manley	**200,000**	**0.39%**	200,000	0.62%
D P Carr	**200,000**	**0.39%**	200,000	0.62%

* Of which 2,182,500 (5.50%) are held by Dounreay Management and a further 666,666 (1.68%) by Andrea Barclay.

Directors' interests in transactions

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

Directors' remuneration

	Salary	Benefits in kind	Pension contribution	**2014 Total**	2013 Total
Executive Directors:					
J R Blamire	60,000	—	—	**60,000**	5,000
K P A Barclay	100,000	—	—	**100,000**	—
Non-executive Directors:					
I A Manley	30,500	—	—	**30,500**	—
E Shaw	12,000	—	—	**12,000**	—
D P Carr	12,000	—	—	**12,000**	—
	214,500	—	—	**214,500**	5,000

Group's policy on payment of creditors

It is the Group's policy to pay suppliers in accordance with the terms and conditions agreed between the Group and its suppliers, provided that the goods and services have been supplied in accordance with the agreed terms and conditions. In respect of the financial period ended 31 March 2014, creditors' days have been calculated at 40 days (2013: not applicable).

Political and charitable donations

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

Financial Instruments

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

Financial instruments are disclosed and discussed in note 21 to the financial statements.

Employees

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

Health and safety

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

Key Risks and Uncertainties

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

Reliance on Key Contracts and Business Relationships

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

Pipeline opportunities

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

The Company may need additional access to capital in the future

The Company'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 Company 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 Company's dividend policy. In addition, there can be no assurance that the Company will be able to raise additional funds when needed or that such funds will be available on terms favourable or acceptable to the Company. If the Company is unable to obtain additional financing as needed, the Company may be required to reduce the scope of the Company's operations or anticipated expansion or to cease trading.

Management of future growth

The Company's plans for growth will challenge the Company's management team, customer support, marketing, administrative and technological resources. If the Company is unable to manage its growth effectively its business, operations or financial condition may deteriorate. The Company will consider future acquisition opportunities. If the Company 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 Company's expectations, the Company may have to decrease the value afforded to the acquired business or realign the Company's structure.

Going Concern

As part of the Group's going concern review, the Directors have reviewed the Group's trading forecasts and working capital requirements for the foreseeable future. These forecasts indicate that, in order to fully implement their strategy, the Group will require further capital within the next year. The Board is exploring funding options and is confident of securing investor support.

On this basis the financial statements are prepared on a going concern basis, which assumes that the Group will continue in operational existence for the foreseeable future, which is deemed to be at least 12 months from the date these financial statements are approved.

Information to shareholders - Website

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

Substantial shareholdings

On 16 September 2014, the following were holders of 3% or more of the Company's issued share capital:

Registered holder	Ordinary shares	Percentage of issued share capital
J R Blamire	7,900,000	15.44%
K P A Barclay*	5,765,500	11.27%
K C Investments	5,129,944	10.03%
K Renyard	3,500,000	6.84%
Myers Portfolio Limited	3,245,000	6.34%
R Giles	3,077,778	6.02%
Walker Crips	3,069,444	6.00%
J Campbell-Jones	2,083,333	4.07%
S Vaughan	1,875,000	3.66%
G Long	1,750,000	3.42%

* Of which 2,182,500 (4.27%) are held by Dounreay Management and a further 666,666 (1.30%) by Andrea Barclay.

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

Directors’ report

Auditors

The auditors Kingston Smith LLP were appointed by the audit committee on 30 June 2014 and have indicated their willingness to continue in office and a resolution proposing that they be re-appointed as auditors of the Company will be put to the AGM.

Disclosure of information to the auditors

So far as the Directors are aware, there is no relevant audit information of which the Company’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 Company’s auditors are aware of that information.

Statement of Directors’ responsibilities

The statement of Directors’ responsibilities can be found on page 11 of these financial statements. The statement of Directors’ responsibilities forms part of the Directors’ report.

On behalf of the Board

J R Blamire
Director
24 September 2014

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the Group and the financial performance and cash flows of the Group for that year. In preparing these financial statements, the Directors are required to:

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

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

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

Independent auditors' report

to the members of Falanx Group Limited

We have audited the financial statements of Falanx Group Limited for the year ended 31 March 2014 which comprise the Group Statement of Comprehensive Income, the Group Statements of Financial Position, the Group Statements of Cash Flows, the Group Statements of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 11 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's affairs as at 31 March 2014 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;

Emphasis of matter

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2.1.1 to the financial statements concerning the group's ability to continue as a going concern, which includes an explanation of the need to raise further capital to support the Group's cyber strategy. This indicates the existence of an uncertainty which may cast doubt about the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

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

24 September 2014

Consolidated income statement

for the year ended 31 March 2014

	Note	2014 £	Restated 2013 £
Continuing operations			
Revenue	4	**4,436,639**	—
Cost of sales		**(3,030,192)**	—
Gross profit		**1,406,447**	—
Administrative expenses		**(1,397,080)**	(81,274)
Operating profit / (loss)		**9,367**	(81,274)
Finance income	8	**122**	—
Finance costs	8	**(1)**	—
Finance costs – net		**121**	—
Profit/(Loss) before income tax		**9,488**	(81,274)
Income tax expense	9	**(54,399)**	—
Loss for the year from continuing operations		**(44,911)**	(81,274)
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets		—	180,699
Profit for the year		**(44,911)**	99,425
Earnings per share			
Basic earnings per share – continuing and total operations	10	**(0.12)p**	4.46p
Diluted earnings per share – continuing and total operations	10	**(0.12)p**	4.46p

Consolidated statement of comprehensive income

for the year ended 31 March 2014

	2014 £	2013 £
Profit/(Loss) for the year	**(44,911)**	99,425
Other comprehensive income:	**—**	—
Other comprehensive income for the year, net of tax	**—**	—
Total comprehensive income for the year	**(44,911)**	99,425
Attributable to:		
Owners of the parent	**(44,911)**	99,425
Total comprehensive income for the year	**(44,911)**	99,425

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

The notes on pages 17 to 33 are an integral part of these consolidated financial statements.

Consolidated statement of financial position

as at 31 March 2014

	Note	2014 £	Restated 2013 £
Assets			
Non-current assets			
Property, plant and equipment	11	**9,033**	9,266
Intangible assets	12	**30,000**	37,500
Investments		—	—
Deferred tax	23	**203,862**	258,261
		242,895	305,027
Current assets			
Inventories	14	**33,075**	—
Trade and other receivables	15	**1,260,306**	688,623
Cash and cash equivalents	16	**210,414**	116,653
		1,503,795	805,276
Total assets		**1,746,690**	1,110,303
Equity			
Capital and reserves attributable to equity holders of the Company			
Share premium account	18	**540,964**	128,150
Retained earnings	19	**54,514**	99,425
Total equity		**595,478**	227,575
Liabilities			
Current liabilities			
Trade and other payables	20	**1,151,212**	882,728
Total liabilities		**1,151,212**	882,728
Total equity and liabilities		**1,746,690**	1,110,303

The notes on pages 17 to 33 are an integral part of these consolidated financial statements.

The financial statements on pages 13 to 16 were authorised for issue by the Board of Directors on 24 September 2014 and were signed on its behalf by:

J R Blamire
Director

Company number: 1730012 (British Virgin Islands)

Consolidated statement of changes in equity

for the year ended 31 March 2014

	Note	Share premium	Retained earnings	Total
		£	£	£
Balance at 23 August 2012		—	—	—
Profit for the period		—	136,925	136,925
Prior year adjustment				
Amortisation of intangibles assets	29(b)	—	(7,500)	(7,500)
Accumulated amortisation brought forward	29(b)	—	(30,000)	(30,000)
Transactions with owners:				
Issue of share capital		3,150	—	3,150
Prior year adjustment				
Loan converted into equity	29(a)	125,000	—	125,000
Balance at 31 March 2013 [as restated]		**128,150**	**99,425**	**227,575**
Balance as at 1 April 2014		128,150	99,425	227,575
Loss for the year		—	(44,911)	(44,911)
Transactions with owners:				
Issue of share capital		900,956	—	900,956
Listing costs		(488,142)	—	(488,142)
Balance as at 31 March 2014		**540,964**	**54,514**	**595,478**

Share premium account represents the excess of the amount subscribed for share capital over the nominal value of these shares, net of share issue expenses. Share issue expenses comprise the costs in respect of the issue by the Company of new shares. Retained earnings represent the cumulative earnings of the Group attributable to the owners of the parent.

The notes on pages 17 to 33 are an integral part of these consolidated financial statements.

Consolidated cash flow statement
for the year ended 31 March 2014

	Note	2014 £	Restated 2013 £
Cash flows from operating activities			
Profit/(Loss) before tax		**9,367**	(81,274)
Adjustments for:			
Depreciation	11	**4,972**	—
Amortisation of intangibles	12	**7,500**	7,500
Foreign exchange loss		—	(12,787)
Net finance income recognised in profit or loss	8	**122**	—
		21,961	(86,561)
Changes in working capital:			
Increase in inventories	14	**(33,075)**	—
Increase in trade and other receivables	15	**(571,683)**	(284,647)
Increase in trade and other payables	20	**268,484**	368,059
Cash used in operations		**(336,274)**	83,412
Interest paid	8	**(1)**	—
Net cash used in operating activities		**(336,275)**	83,412
Cash flows from investing activities			
Acquisition of equipment/fixtures and fittings	11	**(4,739)**	—
Acquisition of subsidiary net of cash		—	(8,348)
Net cash used in investing activities		**(4,739)**	(8,348)
Cash flows from financing activities			
Net proceeds from issue of shares	18	**412,814**	128,150
Net cash generated from financing activities		**412,814**	128,150
Decrease in cash equivalents			
Cash and cash equivalents at beginning of year	16	**116,653**	—
Cash and cash equivalents at end of year		**210,414**	116,653

The notes on pages 17 to 33 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

for the year ended 31 March 2014

1. General information

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

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

2. Summary of significant accounting policies

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

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, International Financial Reporting Interpretations Committee ("IFRIC") interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. 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 the revaluation of available for sale financial assets, financial assets and financial liabilities at fair value through profit or loss.

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

2.1.1 Going concern

As at 31 March 2014 the Group's current assets exceeded current liabilities by £352,583 and showed a profit before tax of £9,488.

Furthermore, the Company completed a successful fundraising of £2m in April 2014 to support the Group's initial investment in its cyber security strategy as set out in its announcement of 17 April 2014.

The board have taken steps to invest in staff and infrastructure to commence the process of fulfilling this strategy and have also identified opportunities to further enhance their cyber security proposition. This has been incorporated into the Group's business planning and the Directors have reviewed the Group's associated trading forecasts and working capital requirements for the foreseeable future. These forecasts indicate that, in order to fully implement their strategy, the Group will require further capital within the next year. The Board is exploring funding options and is confident of securing investor support.

On this basis the financial statements are prepared on a going concern basis, which assumes that the Group will continue in operational existence for the foreseeable future, which is deemed to be at least 12 months from the date these financial statements are approved.

2.1.2 New and Revised Standards

IFRS 13, Fair Value Measurement

IFRS 13 has been applied for the first time in the current year. IFRS 13 provides a definition of fair value and sets out in a single IFRS a framework for measuring fair value. It also introduces new disclosure requirements. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions.

IFRS 13 requires prospective application for periods beginning on or after 1 January 2013. As such the requirements have not been applied for comparative periods. The application of IFRS 13 has not had any material impact on the amounts presented in the consolidated financial statements.

Standards in effect in 2013

The following new and amended standards, and interpretations are mandatory for the first time for the financial year beginning 1 January 2013 but are not currently relevant to the group (although they may affect the accounting for future transactions and events):

- Amendment to IAS 1, 'Presentation of other comprehensive income', effective date 1 July 2012
- Amendment to IAS 19, 'Employee benefits', effective date 1 January 2013
- Annual improvements to IFRS (2009-2011) cycle, various effective dates.
- IFRS 10, 'Consolidated financial statements', effective date 1 January 2014
- IFRS 11, 'Joint arrangements', effective date 1 January 2014
- IFRS 12, 'Disclosures of interests in other entities', effective date 1 January 2014
- IAS 27 (revised 2011), 'Separate financial statements', effective date 1 January 2014
- IAS 28 (revised 2011), 'Associates and joint ventures', effective date 1 January 2014

IFRS in issue but not applied in the current financial statements

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

- Annual improvements to IFRS (2010-2012) cycle, effective date 1 July 2014.
- Annual improvements to IFRS (2011-2013) cycle, effective date 1 July 2014.
- IFRS 9, 'Financial instruments', effective date 1 January 2018
- IFRS 15, 'Revenue from contracts with customers', effective date 1 January 2017

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

2.2 Consolidation

(a) Subsidiaries

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

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

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

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

(b) Goodwill

Goodwill relating to acquisitions occurring prior to the date of transition to IFRS is carried at the net book value at that date as permitted by IFRS 1. Goodwill arising on acquisitions subsequent to the date of transition is stated at cost. In both cases, goodwill is not amortised, but is subject to an annual test for impairment. Impairment testing is performed by the directors as set out below. Where an impairment is identified, it is charged to the income statement in that period.

2.3 Segment reporting

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

2.4 Revenue recognition

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

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

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

2.4 Revenue recognition continued

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

2.5 Taxation

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

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

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

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

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

2.6 Foreign Currency

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

(a) Functional and presentation currency

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

(b) Translation of foreign currencies

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

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

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

2.7 Property, plant and equipment

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

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

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

2.8 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. Intangible assets are amortised over 10 years.

2.9 Impairment of non-financial assets

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

2.10 Inventory

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

2.11 Financial assets

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

(a) Cash and cash equivalents

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

(b) Trade and other receivables

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

2.12 Share capital

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

2.13 Reserves

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

2.14 Trade payables

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

2.15 Leases

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

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

2.16 Pensions

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

3. Critical accounting estimates and judgements

The preparation of financial information in accordance with generally accepted accounting practice, in the case of the Group being IFRS as adopted by the European Union, requires the Directors to make estimates and judgements that affect the reported amount of assets, liabilities, income and expenditure and the disclosures made in the financial statements. Such estimates and judgements must be continually evaluated based on historical experience and other factors, including expectations of future events.

The significant judgements made by management in applying the Group's accounting policies as set out above, and the key sources of estimation, are:

- The intangible asset detailed in note 12 is being written down over a 10 year period with a remaining useful life of 5 years. The directors feel that this is a realistic period given that the Stirling Assynt (Europe) Limited subscriber base formed from the original purchase of Assynt Associates continues to expand;

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

- Cash flow is monitored on a weekly basis and by the directors on a monthly basis ensuring that appropriate action can be taken at an early stage when necessary. The Group also prepares detailed forward forecasts and budgets for future periods. As a consequence, the Directors are satisfied that the Group is able to maintain sufficient resources to continue in operation for the foreseeable future. Accordingly, they have adopted the going concern basis in preparing the financial statements.

4. Segmental reporting

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

Reportable segments

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

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

4. *Segmental reporting continued*

The reportable segment results for the year ended 31 March 2013 are as follows:

	Intelligence	Resilience	Cyber	Other segments	Total
	£	£	£	£	£
Revenues from external customers	—	—	—	—	—
Total revenue	—	—	—	—	—
Operating expenses	—	(30,687)	—	(43,087)	(73,774)
Finance income	—	—	—	—	—
Depreciation and amortisation	(7,500)	—	—	—	(7,500)
Segment loss for the year [as restated]	(7,500)	(30,687)	—	(43,087)	(81,274)

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

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

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

Segment assets and liabilities as at 31 March 2013 and capital expenditure for the year then ended are as follows:

	Intelligence	Resilience	Cyber	Unallocated	Total
	£	£	£	£	£
Total assets	823,045	—	—	287,258	1,110,303
Liabilities	514,669	30,687	—	337,372	882,728
Capital expenditure	—	—	—	—	—

4. *Segmental reporting continued*

Geographical information

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

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

Revenue	2014 £	2013 £
United Kingdom	**3,571,236**	—
Europe	**326,575**	—
Australasia	**280,875**	—
United States	**131,325**	—
Middle East	**89,759**	—
Other Countries	**36,869**	—
	4,436,639	—

Non-current assets	2014 £	2013 £
United Kingdom	**242,577**	—
Australasia	**318**	—
	242,895	—

Major customers

Included within revenue arising from the intelligence segment are revenues approximately £2,880,813 (2013: £nil) which arose from sales to the Group's largest customer. No other single customer contributed 10% or more to the Group's revenue in 2014 or 2013.

5. Operating profit

Operating profit for the year is stated after charging/(crediting) the following:

	2014 £	2013 £
Depreciation of owned property, plant and equipment	**4,972**	—
Amortisation of intangibles	**7,500**	7,500
Operating lease rentals – other	**27,061**	—

6. Auditors' remuneration

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

	2014 £	2013 £
Remuneration receivable by the Company's auditors for the audit of consolidated and Company financial statements	**17,500**	20,000
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	**7,500**	5,000
– other services pursuant to legislation	**8,250**	—
– tax services	—	—
	33,250	25,000

7. Employee benefit expense

	2014	2013
	£	£
Wages and salaries, including termination benefits	**1,309,428**	5,000
Social security costs	**128,088**	—
Other pension costs	**6,148**	—
Share options granted to Directors and employees	—	—
	1,443,664	5,000

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

	2014	2013
Researchers & analysts	**7**	—
Sales	**2**	—
Administration and management	**12**	5
	21	5

Directors' emoluments

	2014	2013
	£	£
Emoluments, including benefits in kind	**214,500**	5,000
Pension costs	—	—
	214,500	5,000

The emoluments of the highest paid Director were as follows:

	2014	2013
	£	£
Emoluments, including benefits in kind	**100,000**	5,000
Pension costs	—	—
	100,000	5,000

8. Finance income and costs

	2014	2013
	£	£
Interest received	**122**	—
Interest payable - other	**(1)**	—
Net finance income recognised in profit/(loss)	**121**	—

9. Income tax expense

Group	2014	2013
	£	£
Current tax		
Current tax on profits for the year	—	—
Total current tax	—	—
Deferred tax		
Deferred tax charge/(credit) for the year	54,339	—
Total deferred tax	54,399	—
Income tax expense	54,399	—

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

	2014	2013
Profit before tax	9,488	(81,274)
Tax calculated at the applicable rate based on the profit for the year 20% (2013: 20%)	1,898	(16,255)
Tax effects of:		
Utilisation of tax losses	(5,112)	16,255
Expenses not deductible for tax purposes	3.308	—
Accelerated capital allowances	(853)	—
Re-measurement of deferred tax	55,158	—
Tax charge	54,399	—

In the prior period ended 31 March 2013, no liability to UK and Hong Kong corporation tax arose on ordinary activities for the period as the companies were acquired by Stirling Assynt (Acquisition) Limited on 29 March 2013.

10. Earnings per share

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

	2014	2013
Earnings attributable to equity holders of the Company (£)	(44,911)	136,925
Weighted average number of ordinary shares in issue	37,343,121	3,067,797
Basic (loss)/profit per share (pence per share)	**(0.12)**	4.46

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

	2014	2013
Earnings used to determine diluted earnings per share (£)	(44,911)	136,925
Weighted average number of ordinary shares in issue	37,343,121	3,067,797
Weighted average number of share options	365,466	—
Weighted average number of ordinary shares used to determine diluted earnings per share	37,708,587	3,067,797
Diluted (loss)/profit per share (pence per share)	**(0.12)**	4.46

10. *Earnings per share continued*

As can be seen from the above table, during the year ended 31 March 2014, the potentially dilutive ordinary shares were anti-dilutive because the Group was loss-making. The basic and diluted earnings per share as presented on the face of the income statement are therefore identical. All earnings per share figures presented above arise from continuing and total operations and, therefore, no earnings per share for discontinued operations is presented.

11. Property, plant and equipment

	Fixtures and fittings £	Computer equipment £	Total £
Cost			
At 1 April 2013	2,500	10,087	12,587
Additions	677	4,062	4,739
Disposals			
At 31 March 2014	**3,177**	**14,149**	**17,326**
Depreciation			
At 1 April 2013	292	3,029	3,321
Charge for the year	624	4,348	4,972
Released on disposal	—	—	—
At 31 March 2014	**916**	**7,377**	**8,293**
Net book value			
At 31 March 2014	**2,261**	**6,772**	**9,033**
At 31 March 2013	2,208	7,058	9,266

12. Intangible assets

	£
Cost	
At 1 April 2013	75,000
Additions	—
Disposals	—
At 31 March 2014	**75,000**
Amortisation and impairment	
At 1 April 2013 [as restated]	37,500
Amortisation charge for year	7,500
Impairment charge	—
At 31 March 2014	**45,000**
Net book value	
At 31 March 2014	**30,000**
At 31 March 2013 [as restated]	37,500

The intangible asset arose as a result of the purchase of Assynt Associates by Stirling Assynt (Europe) Limited in April 2008. The customer base acquired consisted of a number of first class companies that subscribed to the Stirling Assynt (Europe) reporting service. The amortisation charge in 2013 was restated due to a prior year adjustment as detailed in note 29 (b)

Notes to the consolidated financial statements

for the year ended 31 March 2014

13. Principal subsidiaries

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

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

14. Inventories

	2014	2013
	£	£
Finished goods	**33,075**	—
	33,075	—

15. Trade and other receivables

	2014	2013
	£	£
Trade receivables	**1,035,537**	313,322
Less: provision for doubtful receivables	—	(9,455)
	1,035,537	303,867
Other receivables	**28,900**	300,093
Prepayments and accrued income	**195,869**	84,663
	1,260,306	688,623

Current portion of trade and other receivables is stated fair value.

16. Cash and cash equivalents

	2014	2013
	£	£
Cash at bank and on hand	**210,414**	116,653
Cash and cash equivalents in statement of cash flows	**210,414**	116,653

17. Share capital

	2014		2013	
	Number of shares	**Nil par value**	Number of shares	Nil par value
Allotted, called up and fully paid at the beginning	**32,500,000**	—	32,500,000	—
New shares issued	**7,204,583**	—	—	—
	39,704,583	—	32,500,000	—

On 20 June 2013 the Company was admitted to the Alternative Investment Market (AIM). Following the admission, the Company issued 4,958,333 ordinary shares at 12 pence each for a total of £595,000 for working capital purposes.

On 19 September 2013 the Company issued 1,875,000 ordinary shares at 12 pence each for a total of £225,000 for potential acquisitions, due diligence and working capital purposes. In addition, the Company issued one warrant for every two shares subscribed, exercisable at any time up to 3 years from date of issue at a price of 18 pence per share.

On 17 March 2014 "warrant" shares totalling 371,250 were exercised at a price of 8.6p pence per share. The warrants were issued at a discount price against outstanding broker fees and the early termination of a contract with ZAI Corporate Finance.

At 31 March 2014 a total of 937,500 warrants issued to S Vaughan at an exercise of price of 12 pence per share expiring on 23 September 2016 remained outstanding.

18. Share Premium

	2014	Restated 2013
	£	£
At 1 April	**128,150**	—
Premium on issue of shares	**900,956**	128,150
Costs of share issue	**(488,142)**	—
At 31 March	**540,964**	**128,150**

The share premium in 2013 has been restated due to a prior year adjustment as detailed in note 29 (a).

19. Retained earnings

	2014	Restated 2013
	£	£
At 1 April	**99,425**	—
Profit/(Loss) for the year	**(44,911)**	136,925
Prior year adjustment re intangible asset	—	(37,500)
At 31 March	**54,514**	99,425

20. Trade and other payables

	2014	Restated 2013
	£	£
Trade payables	**329,669**	376,939
Other payables	**326,412**	62,709
Taxation and social security	**118,330**	69,840
Accruals and deferred income	**376,801**	373,240
	1,151,212	882,728

Included in other payables is a £300,000 advance receipt for ordinary shares subscription. The shares were issued on 17 April 2014 (see note 28). Other payables in 2013 have been restated due to a prior year adjustment as detailed in note 29 (a).

21. Financial instruments

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

Market risk

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

Loans and receivables

	2014	2013
	£	£
Trade and other receivables	**1,064,437**	603,960
Cash and cash equivalents	**210,414**	116,653
	1,274,851	720,613

Trade and other payables

	2014	2013
	£	£
Trade and other payables	**656,081**	439,648
	656,081	439,648

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 risks management requirements.

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

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

	2014	2013
	£	£
Trade and other payables due in:		
Less than one month	**329,669**	251,939
Six months to one year	**326,412**	187,709
Total	**656,081**	439,648

21. *Financial instruments continued*

Credit risk

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

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

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

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

Credit quality of financial assets

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

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

		2014	2013
		£	£
Cash at bank and short term deposits			
Counterparties with external credit rating (Moody's)			
A2	Barclays Bank plc	**73,550**	—
Aa3	HSBC Bank	**136,864**	116,653
Total		**210,414**	116,653

Foreign currency risks

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

Financial assets

	Sterling	US Dollar	Euro	Australian Dollar	Canadian Dollar	Hong Kong Dollar	Total
	£	£	£	£	£	£	£
At 31 March 2014							
Cash and cash equivalent	108,841	16,995	84,281	—	—	297	210,414
Trade receivables	922,184	80,143	24,559	5,169	387	3,095	1,035,537
Other receivables	28,900	—	—	—	—	—	28,900
	1,059,925	**97,138**	**108,840**	**5,169**	**387**	**3,392**	**1,274,851**

Financial liabilities

	Sterling	US Dollar	Euro	Australian Dollar	Canadian Dollar	Hong Kong Dollar	Total
	£	£	£	£	£	£	£
At 31 March 2014							
Trade payables	259,661	10,188	39,871	—	—	19,949	329,669
Other payables	326,412	—	—	—	—	—	326,412
	586,073	**10,188**	**39,871**	**—**	**—**	**19,949**	**656,081**

21. ***Financial instruments continued***

Foreign exchange sensitivity analysis

A 10 percent strengthening of £ sterling against the above currencies would increase the loss by £14,192 (2013: decreased profit £15,596) in the coming financial year.

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

22. Capital risk management

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

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

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

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

Other risks management

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

23. Deferred taxation

	2014	2013
	£	£
UK Subsidiary		
Balance at 1 April	**258,261**	—
Deferred tax asset (net) recognised through acquisition	—	258,261
Charge to the income statement	**(54,399)**	—
Effect of change in tax rate in the income statement	**—**	—
Balance at 31 March	**203,862**	258,261

The deferred tax asset (net) represents:

	2014	2013
	£	£
Deferred tax asset	**205,605**	260,114
Deferred tax liability	**(1,743)**	(1,853)
	203,862	258,261

The deferred tax asset relates to trading losses brought forward from the acquisition of Stirling Assynt (Europe) Limited in 2013 and trading losses made in certain subsidiaries within the Group. The deferred tax asset has been recognised on the basis that trading profits are forecast to be made in the related entities in the foreseeable future.

The deferred tax liability relates to accelerated capital allowances on capital expenditure.

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

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

24. Pension

The Group does not operate a Group pension scheme. However, one of its subsidiaries, Stirling Assynt (Europe) Limited, contributes 5% of the gross salary of one of its Directors to a pension scheme of the Directors' choice. Total contribution for the year £6,148.

25. Financial commitments

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

	2014	2013
	£	£
Due within one year	**21,196**	**21,196**
Between two and five years	**47,125**	**66,625**
	68,321	**87,821**

Operating lease payments represent rentals payable by its subsidiaries (Stirling Assynt (Europe) Limited) for its office premises at The Europoint Centre in London and by (Stirling Risk (Asia) Limited) in Hong Kong.

26. Control

No ultimate party controls Falanx Group Limited.

27. Related party transactions

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

Key management compensation

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

£10,000 (2013: £nil) representing remuneration to J R Blamire, the Chief Executive Officer (director of the parent company), was paid to Kay Reynard (his sibling and a shareholder).

Payment for services

From 1 April 2013 to 31 March 2014 Andrea Barclay, the partner of K P A Barclay, Executive Chairman was paid £11,862.50 (2013: £10,488) in respect of research and report writing for the 100% owned subsidiary Stirling Assynt (Europe) Limited.

28. Events after the reporting period

New Business

On 14 April 2014 the Company incorporated a subsidiary, Falanx Assuria Limited. Falanx Assuria was established for the purpose operating Falanx's cyber security business.

On 17 April 2014 the Company announced it has entered into an Agreement with Assuria Limited ("Assuria") for a global licence to use its suite of cyber security software products, as part of Falanx's international cyber security proposition. Assuria is a UK based developer of robust and proven Cyber Security solutions that are used by government agencies, public sector departments and commercial companies worldwide. Assuria's software solutions are developed entirely in-house in the UK, using industry leading technologies, standards and processes.

In parallel Falanx has entered into an agreement with MDS Technologies Limited ("MDS"), a highly successful channel partner of Skyscape Cloud Services Ltd ("Skyscape"). Skyscape is the market leading provider of assured cloud computing services to UK government departments under the G Cloud contracting framework. MDS has specific expertise in providing data centre hosting and services to enable clients to move their computing and IT services into the cloud.

MDS is to form a strategic alliance with Falanx to develop new cyber security capabilities that can directly support its business by providing a wider range of security management services for its clients as well as gaining the benefit of Falanx's international network of business contacts.

28. *Events after the reporting period continued*

Equity transactions

On 17 April 2014 the Company announced the issue of 11,166,667 new ordinary shares of no par value at a price of 18 pence each raising £2,010,000. Subscription proceeds to be used to support the development and general working capital requirements of Falanx's international Cyber Security proposition. A further 277,778 ordinary shares were issued conditional upon admission in consideration for services in connection with the subscription. The Company also announced the issue of warrants to subscribe for 5,583,334 shares at an exercise price per of 30 pence per share with an exercise period of 3 years from 17 April 2014.

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

Fees and commissions

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

29. Prior year adjustments

a) Loan for equity conversion

On 15 March 2013, 1,750,000 shares were issued in settlement of a loan of USD 200,000 (£125,000) made to Stirling Assynt (Acquisition) Limited. The effective price paid for these shares amounted to 7.1p per share.

This transaction was not reflected in the Falanx Group consolidated accounts for 2013 which showed the loan in creditors and the shares issued at nil par value and with no share premium paid. The 2014 accounts now correctly reflect the reduction in creditor and increase in value of the share premium account.

b) Intangible assets

In the year ended 31 March 2013 goodwill which had originally been written down to £37,500 was revalued to a gross amount of £75,000. Under IAS 38 the correct treatment is to show the carrying amount of the intangible asset which was £37,500 and therefore the previous year's revaluation has been reversed.

Falanx Group Limited
Unit 12, Europoint Centre
5 – 11 Lavington Street
London
SE1 0NZ
Telephone: 0207 856 9457
Email: info@falanxgroup.com