

Falanx Group Limited
("Falanx" or "the Company")
Interim results

Falanx Group Limited ("Falanx", AIM: FLX), the global cyber security and intelligence services provider, announces its interim results for the six months ended 30 September 2020.

Financial Highlights for six months to 30 September 2020

- Interim results are in line with the statement made in the preliminary results for the year ended 31 March 2020. These were announced on 30 October 2020
- Revenue £2.46m (2019: £2.64m). COVID-19 weakness in the Cyber division at the start of the period, but financial performance strongly recovered in September 2020 onwards
- Recurring revenues were £1.59m (2019: £1.50m) representing 65% of revenues (2019: 57%)
- August and September cyber penetration testing sales orders showed a very strong recovery, now ahead of pre COVID-19 levels of circa £200,000 per month
- Gross margins were 28% (2019: 32%) following impact of COVID-19 on professional services staff utilisation in the first few months of the period
- Total spend** in the six months to 30 September 2020 circa 30% lower than the same period in 2019, two offices closed with physical presence now at the Reading Security Operations Centre ("SOC")
- 32% reduction in adjusted EBITDA* loss of £0.63m (2019: £0.93m)
- Loss per share reduced by 12% to 0.34p (2019: 0.39p)
- Cash of £1.33m on 1 October 2020, following receipt of initial tranche of net proceeds from fundraising, sufficient cash for organic operations, normal working capital profile (2019: £0.7m on 30 September)

Operational Highlights six months to 30 September 2020

- Assynt the strategic intelligence division traded profitably solely on recurring revenues, with a strong pipeline of business from new and existing customers including global names
- Sales pipeline strengthened and opportunities are starting to progress including uptake of new cyber service offerings
- The accelerating move to remote working has increased cyber risk and hence a resultant increase in the demand for our protective cyber security services
- New Cyber Security monitoring service ("Triarii") launched August 2020 with a major new reseller to address the UK Government sector appointed, contracts won and generating revenue
- Security monitoring service expanded to include endpoint detection, creating a strong margin and volume growth opportunity into smaller SMEs

Post Period Highlights

- Completion of the September £1.25m fundraising including new and existing institutional investors and director/PDMR participation
- In the Cyber Division the penetration testing orders have continued to show growth along with further sales of new monitoring recurring revenue service (Triarii).
- Joined SolarWinds TAP programme, Falanx now well positioned with Triarii to address their global base of over 22,000 MSPs
- Much improved financial performance across the Group since period end, with increasing margins and revenues.

* Adjusted EBITDA is a non-IFRS 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 highlighted items

** Total spend is the total operating costs, cost of sales, capital expenditure and any highlighted costs

Mike Read, Chief Executive Officer of Falanx, commented:

"The Group has recovered strongly from the worst of the COVID-19 impacts and we are now beginning to see a much improving financial performance, and this, combined with the £1.25m fundraising at the end of September, puts us in a much stronger financial position. We are pleased with the progress made on developing our channels to market, particularly with the commencement of the TAP programme in October 2020 with SolarWinds MSP, which we expect to benefit our new Triarii

Cyber monitoring service. We are addressing a high growth cyber security market, and this combined with a solid and improving performance by our Assynt division means that we are optimistic about the future”

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About Falanx

Falanx Group Limited, is a global intelligence and cyber defence provider working with blue chip and government clients. For more information: <http://www.falanx.com/>

Chairman’s Statement

This period has clearly been impacted by the COVID19 pandemic and disrupted our previous growth trajectory, particularly in Cyber services. We responded early, protected our team and customers and improved financial position, not least through the September fundraise. Our order book for cyber services began to recover significantly in July, and order levels are now ahead of pre pandemic levels. Consequently, we have seen a much-improved financial performance from September onwards. Our relationship with Solar Winds and successful customer adoption of Triarii, our new cyber monitoring service positions us well for future growth as we address the increasing cyber and political risks faced by organisations on a global basis.

Business Review

Cyber Division

In the six months to 30 September 2020 the cyber division recorded revenues of circa £1.4m (2019: £1.7m). Orders for penetration testing, which had been most affected by COVID-19 related delays, recovered strongly from the start of August 2020 onwards as clients recommenced projects and expanded their programmes around the move to an online economy. Since then, orders from penetration testing have been running at approximately £0.2m per month, which was the average run rate before the onset of the pandemic, compared to the lower level between April and July 2020. This uplift in orders resulted in a much-improved financial performance of the division in September. This trend has continued into the second half of the year and order levels in November 2020 for penetration testing services have shown further growth.

Lower utilisation levels, as a result of maintaining the fully assembled and skilled delivery teams during the period of the order slippage, reduced gross margins to 27% (2019: 36%). The Cyber division is currently migrating its customer base to Triarii and this has resulted in some additional third party licence fees incurred during the period, but overall, this move is expected to significantly benefit our gross margin going forward.

Costs were kept under tight control and benefitted from a reduction in travel, salary sacrifice, limited use of furlough and rationalisation of premises costs. This allowed the adjusted EBITDA loss to be reduced by 40% to £0.32m (2019: £0.54m).

Focus has been on keeping staff safe, and the division has made very limited use of furlough programmes, with all staff back in work. Management chose to keep the skilled workforce in place in anticipation of recovery, and whilst this affected the short-term financial performance in this period, the validity of this strategy was demonstrated by being able to service customer projects following the major upturn in sales from July onwards.

The division has also been able to return limited numbers of staff to the Reading SOC office, which is now the only operating premises lease in the Group, offering staff a choice between home working and an office environment.

The division has invested in a new cyber monitoring service (“Triarii”) using best-in-class third party technologies. Triarii offers class-leading performance and is well aligned to customer and market needs. In August 2020 we announced a significant sale of Triarii to UK public sector clients achieved through a partner who is a major supplier to the UK Government, and we

are expanding this partnership to include adjacent services as well as further customer reach to deliver against a much larger revenue opportunity. The migration of pre-existing customers onto Triarii is underway and we expect to migrate the entire user base over the next few months, thereby reducing our software licence cost of sale significantly which will improve our gross margin.

The move to remote working opens up inevitable cyber security risks for organisations and we have positioned our offerings to address this growing market opportunity. Whilst orders and revenues were lower at the start of the year than those pre COVID-19 as clients were in disaster recovery mode, orders have since recovered strongly from July onwards and this began to flow through to revenues and margins in September.

Our Solar Winds program gained momentum in the period under review and Falanx won its first cyber sale for our Triarii monitoring service in the US working in close conjunction with them following a rapid sales cycle. Recent high profile cyber-attacks in the US underline the need for monitoring and defensive measures against an increasing cyber threat. With Triarii monitoring service, our professional services capabilities and with our partnerships we are well positioned to help our customers address this threat.

Assynt Division

Divisional revenues grew by 14% to £1.06m (2019: £0.93m) due to larger recurring revenue contracts for embedded analysts with global corporations. This helped gross margins increase to 28% (2019: 19%). Approximately 96% of revenues were recurring. Costs were kept firmly under control with reductions in premises and certain marketing spends. The division recorded an adjusted EBITDA profit of £0.06m (2019: loss £0.01m) and became profitable solely on recurring revenues.

The division has a strong pipeline of recurring revenue opportunities as well as an increasing demand for consulting projects. We are deepening our relationships with existing customers who see its services increasingly as an essential part of their risk management strategies. Whilst inevitable budgetary constraints can affect some of our client interactions, Assynt is encountering an increasing recognition that growing level of global geopolitical instability on multiple fronts - from the fall-out from COVID-19 to US-China relations - has underscored the need for forward looking companies to understand the underlying risk drivers to their international operations. The client base is strong and includes some of the world's largest technology, consulting and communications companies. Our reputation with these clients is growing and management is looking for further penetration into existing customers and major renewals, as well as winning new names, frequently on the back of referrals from existing clients. Focus is on driving further sales of both embedded analysts as well as online subscriptions to our Assynt report.

In response to this, the provision of considered and predictive analysis in our Assynt Report subscription service has been expanded beyond covering just the 40 leading emerging market economies to now include wider thematic issues in our new "Global Themes" series. This covers subjects such as the global trade and economy, environmental issues, Islamist extremism, state cyber threats and great power politics. These and the series of reports on the political and economic ramifications of COVID-19, has been well received by clients. The value of the embedded analyst service is also being increasingly recognised as a means to integrate Assynt's geopolitical understanding and business-focused analytical expertise into our host client's operational capabilities without requiring headcount signoff in the client.

The Assynt team has been very successfully working on a virtual basis since March 2020. The existing business model whereby two thirds of our staff already worked in third party offices as embedded analysts, made the transition to remote working due to lockdown easy to implement. The decision not to renew our London office lease on expiry in June 2020 was thus a clear-cut opportunity for cost saving with no loss of efficiency in the short term. Starting FY 2022, with the predicted reduction in COVID-19 related restrictions, we will look again at a London presence.

Financial review

Consolidated Statement of Comprehensive Income

Group revenues fell by 7% to £2.46m (2018: £2.64m). As referenced above this was due to the pandemics impact on the cyber division's penetration testing business causing a fall of 18% in its revenues, whilst the smaller Assynt division grew by 14%. Overall recurring revenues comprised 65% (2019: 57%) of total revenue, with the percentage increase being driven by both the growth in Assynt recurring revenues and the impact of COVID-19 on repeat penetration testing revenues. Overall gross margins fell to 27% (2019 30%) as a result of services utilisation during COVID-19 in Cyber and also additional short term licence fees around the migration of cyber monitoring customers onto the new Triarii platform.

Underlying operating costs were reduced by 25% to £1.30m (2019: £1.72m). This was achieved through measures introduced in the second half of the previous financial year as well as responses to the COVID-19 pandemic. These responses included closure of premises and exit from leases, reduced professional fees, limited use of the government furlough scheme, the salary

sacrifice for options scheme which reduced cash payroll costs by c£30,000 per month between April and September as well as lower spend on travel as a result of the move to home-based working.

Overall, we expect our current operating cost base and infrastructure to support our revenue growth expectations in the near term.

As a result of these measures on spend reduction, and despite the fall in revenues related to the pandemic, we were able to reduce our adjusted EBITDA loss by 40% to £0.62m (2019: £0.93m).

Adjusting items comprised certain investment in the new cyber platform Triarii and infrastructure, premises, addition of IFRS 16 costs, closure & realignment. Overall, these fell from to £0.21m (2019: £0.35m).

Depreciation and amortisation charges were £0.26m (2019: £0.23m) with the increase mainly being due to full period charges for infrastructure investment carried out in the first quarter of the previous financial year.

Share option charges increased to £0.24m (2019: £0.05m) due to the salary sacrifice options issued in April 2020 which were recognised over the vesting period of 6 months. This voluntary scheme was widely adopted by staff, particularly in the Cyber division, which has demonstrated the belief of the wider team in the Falanx's strategy to address the market opportunity.

Overall, the loss for the period fell to £1.35m (2019: £1.55m) and the loss per share was 0.34p (2019: 0.39p)

Consolidated Statements of Financial Position & Cash Flow

In December 2019 the Group disposed of its investment in the Furnace technology platform and development costs were reclassified (net of a small impairment) to financial investments in it. Certain fixed asset spends on premises improvements in the 30 September 2019 balance sheet were separately analysed as lease assets in the 31 March 2020 balance sheet.

Cash receipts were strong in the period with receipt of large cyclical renewals and R&D tax credits in the first quarter and this reduced the trade debtor balance. Average debtor days were 48 (2019: 47) and no incidence of bad debt has been recorded. This has continued into the second half of the year. The pandemic had, as referenced above, impacted the group's balance sheet and working capital position by approximately £0.5m. Mitigation measures were put in place with government schemes, the main one being the deferral of approximately £0.72m of HMRC payments under an agreed payment scheme. Approximately £0.19m of these liabilities are due to be paid more than one year from the date of these interims, but will be fully paid by July 2022, and are treated as such, along with the £0.3m payable under premises leases (where a fixed asset of £0.4m has also been recorded as above) as required by IFRS16. The group fully expects to service all these liabilities as they fall due and has been paying current taxation in the usual periodic way. Deferred incomes reduced due to certain timing issues and deliveries of significant orders invoiced at the end of the previous financial year. Our overall capital expenditure was greatly reduced to £0.03m (2019: £0.46m) following the completion of the SOC investment in the previous year and the disposal of Furnace in December 2019.

Cash balances were £0.23m (2019: £0.71m) but this excludes the impact of the fundraising completed on 29 September 2020 and immediately on settlement of this transaction cash balances on 1 October 2020 were £1.33m

On 15 April 2020 the group issued circa 33m options and warrants to staff and directors in response to a voluntary program where they could waive some of their cash remuneration in the six months to 30 September 2020 for share options with an exercise price of 1p each. The Group has a total of circa 38m other incentive options under EMI and unapproved schemes outstanding on 30 September 2020 and these have an average exercise price of c4.2p each.

Overall shareholders' funds at 30 September 2020 stood at £3.85m (2019: £6.12m)

On 29 September 2020 the group announced the issue of 125,000,000 ordinary shares for gross proceeds of £1.25m. The vast majority was settled on 1 October 2020 with a small balance received in November from certain Directors/PDMRs who were unable to take part in the September placing given MAR close periods. Taking this into account the Group now has approximately 525 million (2019: 400 million) shares in issue. A significant proportion of this fundraising was through long-term EIS & VCT investment and it included new and existing institutional investors.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS PERIOD ENDED 30 SEPTEMBER 2020**

	6 Months to 30 Sep 2020 (Unaudited)	6 Months to 30 Sep 2019 (Unaudited)	Year to 31 Mar 2020 (Audited)
	£	£	£
Revenue	2,462,895	2,640,117	5,851,175
Cost of sales	(1,786,474)	(1,794,647)	(3,638,105)
Gross profit	676,421	845,470	2,213,070
Administrative expenses	(2,010,370)	(2,391,737)	(5,068,146)
Operating Loss	(1,333,949)	(1,546,267)	(2,855,076)
Analysis of operating loss			
Operating loss	(1,333,949)	(1,546,267)	(2,855,076)
Share option expense	242,478	45,000	228,366
Depreciation and amortisation	258,294	226,725	482,675
Impairment of Furnace investment		—	260,000
Highlighted costs	212,287	348,225	320,173
Adjusted EBITDA loss	(620,890)	(926,317)	(1,563,862)
Finance income	4	1,428	2,100
Finance expense	(16,810)	(5,593)	(26,029)
Net finance expense	(16,806)	(4,165)	(23,929)
Loss before income tax	(1,350,755)	(1,550,432)	(2,879,005)
Income tax credit	—	—	(2,323)
Loss for the period	(1,350,755)	(1,550,432)	(2,881,328)
Other comprehensive income:			
Re-translation of foreign subsidiaries	(2,684)	779	(4,600)
	(2,684)	779	(4,600)
Total comprehensive loss for the period	(1,353,439)	(1,549,653)	(2,885,928)
Earnings per share			
Basic loss per share	(0.34) p	(0.39) p	(0.72) p
Diluted loss per share	(0.34) p	(0.39) p	(0.72) p

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**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2020**

6 Months to 30 Sep 2020	6 Months to 30 Sep 2019	Year to 31 Mar 2020
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	(Unaudited)	(Unaudited)	(Audited)
	£	£	£
Assets			
Non-current assets			
Property, plant & equipment	187,165	326,138	195,423
Intangible assets	3,729,594	5,447,692	3,893,809
Right of use asset	417,762	523,020	472,253
Investments with fair value through Profit and Loss	340,000	—	340,000
Loan Receivable	1,100,000	—	1,100,000
	5,774,521	6,206,850	6,001,485
Current assets			
Trade and other receivables	1,103,389	1,762,346	2,169,635
Cash and cash equivalents	223,054	708,055	79,282
	1,326,443	2,470,401	2,248,917
Total assets	7,100,964	8,677,251	8,250,402
Equity			
Capital and reserves attributable to equity holders of the Company			
Share premium account	17,903,427	17,903,427	17,903,427
Translation reserve	(115,864)	(107,801)	(113,180)
Shares to be issued reserve	829,803	403,959	587,325
Retained earnings	(14,758,835)	(12,077,184)	(13,408,080)
Total equity	3,858,531	6,122,401	4,969,492
Liabilities			
Non-current liabilities			
Deferred tax liability	9,529	7,172	9,529
Other payables after one year	242,734	—	—
Lease liability	301,339	389,529	348,872
	553,602	396,701	358,401
Current liabilities			
Trade and other payables	1,688,178	1,095,265	1,595,850
Contract liabilities	907,658	1,010,717	1,237,347
Lease liability	92,995	52,167	89,312
Total liabilities	2,688,831	2,157,149	2,922,509
Total liabilities	3,242,433	2,554,850	3,280,910
Total equity and liabilities	7,100,964	8,677,521	8,250,402

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Retained earnings	Translation reserve	Share option and warrant reserve	Total
	£	£	£	£	£
Balance at 1 April 2019	17,903,427	(10,526,752)	(108,580)	358,959	7,627,054
Loss for the year	—	(2,881,328)	—	—	(2,881,328)
Re-translation of foreign subsidiaries	—	—	(4,600)	—	(4,600)
Transactions with owners:					
Share based payment charge	—	—	—	228,366	228,366
Balance as at 31 March 2020	17,903,427	(13,408,080)	(113,180)	587,325	4,669,492
Loss for the period	—	(1,350,755)	—	—	(1,350,755)
Re-translation of foreign subsidiaries	—	—	(2,684)	—	(2,684)
Transactions with owners:					
Share based payment charge	—	—	—	242,478	242,478
Balance as at 30 September 2020	17,903,427	(14,758,835)	(115,864)	829,803	3,858,531

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CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD ENDED 30 SEPTEMBER 2020

	6 Months to 30 Sep 2020 (Unaudited) £	6 Months to 30 Sep 2019 (Unaudited) £	Year to 31 Mar 2020 (Audited) £
Cash flows from operating activities			
Profit/(Loss) before tax	(1,350,755)	(1,550,432)	(2,879,005)
Adjustments for:			
Depreciation	39,588	69,704	87,300
Amortisation of intangibles	164,215	157,021	318,180
Amortisation of right of use assets	54,491	—	77,195
Impairment of investment in Furnace	—	—	260,000
Share based payment	242,478	45,000	228,366
Profit on disposal of Furnace IP	—	—	(58,666)
Net finance cost recognised in profit or loss	16,806	4,165	23,929
	(833,177)	(1,274,542)	(1,942,701)
Changes in working capital:			
Decrease in inventories	—	—	3,828
Decrease/(increase) in trade and other receivables	1,066,247	353,254	(57,539)
(Decrease)/increase in trade and other payables	(44,627)	(352,510)	332,023
Cash generated from / used in operations	188,443	(1,273,798)	(1,664,389)
Interest paid	(1,605)	(311)	(1,754)
Tax paid	—	—	(387)
Net cash generated from / used in operating activities	186,838	(1,274,109)	(1,666,530)
Cash flows from investing activities			
Interest received	4	1,428	2,100
Acquisition of property, plant and equipment	(31,330)	(245,590)	(255,070)
Expenditure on development cost	—	(218,139)	(378,484)
Acquisition of investment	—	—	(61,820)
Net cash used in investing activities	(31,326)	(462,301)	(693,274)
Cash flows from financing activities			
Repayment under finance lease	(43,851)	—	—
Interest paid on lease liabilities	(15,205)	—	—
Proceeds from bank borrowing	50,000	—	—
Net cash used in financing activities	(9,056)	—	—
Decrease/(increase) in cash equivalents	146,456	(1,736,410)	(2,359,804)
Cash and cash equivalents at beginning of the period	79,282	2,443,686	2,443,686
Foreign exchange gains on cash and cash equivalents	(2,684)	779	(4,600)
Cash and cash equivalents at end of the period	223,054	708,055	79,282

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NOTES TO INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2020

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. Basis of preparation

These interim statements have been prepared on a basis consistent with International Financial Reporting Standards (IFRS). They do not contain all of the information required for full financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 March 2020. These interim financial statements do not constitute statutory accounts within the meaning of the Companies Act.

The interim financial information has not been reviewed nor audited by the auditors. The interim financial information was approved by the Board of Directors on 16 December 2020. The information for the year ended 31 March 2020 is extracted from the statutory financial statements for that year which have been reported on by the Group's auditors and delivered to the Registrar of Companies. The audit report was unqualified.

The accounting policies applied by the Group in these interim financial statements are the same as those applied by the Group in its consolidated financial statements for the year ended and as at 31 March 2020. The interim report is the responsibility of, and has been, approved by the Directors. The Directors are responsible for preparing the interim financial statements in accordance with the AIM rules for Companies.

Going Concern

These interim results have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons. The Directors have prepared cash flow forecasts to the period to the end of December 2021 which indicate that, taking account of reasonably possible downsides and the anticipated impact of COVID-19 on the operations and its financial resources, the Group and Company will have sufficient funds to meet its liabilities as they fall due for that period. Cash flow projections have been taken into account to reflect the equity raise of £1.25m gross on 29 September 2020 with the funds being received following the interims balance sheet date. The Group is primarily financed through equity and has an unused invoice discounting facility of up to £0.5m for use in its Cyber division and this remains a source of additional headroom should it be needed. The Groups operational cash flow usage profile has for the last four financial years averaged at close to 100% of EBTIDA and the incidence of bad debts is trivial and recurring revenues reflect approximately 56-60% of current revenue run rate with the remainder being mainly from repeat revenues. At the date of these accounts the Group has a broadly normalised working capital position and HMRC are in agreed payment terms with a significant majority of their debts being paid by equal instalments over 2 years to July 2022. Current taxation is being paid in the usual way.

The Group's markets in Cyber Security and Strategic Intelligence are showing resilience to the ongoing COVID-19 economic fallout, particularly with increased Cyber security risks for enterprises as they move to remote operations and online business models, but clearly, they cannot be immune from wider macro-economic conditions. COVID-19 began to impact operations in February 2020 onwards and reduced certain professional services revenues in the Cyber division (primarily around assessment and penetration testing) by approximately £100,000 per month compared to where they were between September 2019 and February 2020. At the start of the COVID-19 crisis sales orders for penetration business fell as a result of delays and deferrals from circa £0.2m per month in the second half of the year to 31 March 2020 to c£0.1m per month but that has since recovered to c£0.2m per month since the start of August 2020 and this further improved to over £0.3m in November 2020. This supports the groups view that financial performance should start to improve, and this improving trend has been reflected in the financial performance recorded between September and November 2020.

Furthermore, the Group has begun to win new orders for its new cyber monitoring platform (Triarii) which was launched in August 2020 and has recently joined the SolarWinds TAP program which significantly expands Falanx's customer reach. The general move to remote working is increasing cyber security risks for organisations, and this is expected to increase demand for Falanx's services. However given the ongoing macro-economic uncertainty around COVID-19 and UK recessionary impacts, alternative stress test scenarios have been examined around an extended downturn in consulting revenues across the full financial years to 31 March 2021 and 31 March 2022 with no recovery in the economic environment, and in context this represents a c20% fall in revenues compared to the annual run rate achieved in second half of the year to 31 March 2020 which mostly represented the period pre COVID-19 commencement in March 2020. This sensitivity analysis has been

conducted at a revenue level only. Even after applying these stringent sensitivities (which for example ignore the stronger historic revenue performance in the second half of the year) the Group stays within its existing resources for at least 12 months from the date of these interims.

Should this significantly reduced revenue scenario above occur, further mitigating actions would be carried out to ensure that the Group remains within its resources and these would include a reduction of planned capital expenditure, headcount reduction, reducing discretionary spend and sales investment, freezing or reducing pay and cancelling recruitment, and all of these are within the director's control. Further incremental measures could also involve the potential disposal of assets as well as seeking further support from shareholders or potential debt providers. These stringent stress tests scenarios show that even without any significant mitigating actions being implemented show that the Group is able to operate within its current resources, and that therefore the Group will have sufficient funds to meet its liabilities as they fall due for that period.

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 were the same as those applied in the last annual financial statements for the year ended 31 March 2020.

4. Segmental reporting

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 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 period ended 30 September 2020 are as follows:

	Intelligence £	Cyber £	Corporate segment £	Total £
Assynt report	1,018,606	—	—	1,018,606
Professional services	43,875	941,496	—	985,371
Monitoring managed services	—	458,918	—	458,918
Revenues from external customers	1,062,481	1,400,414	—	2,462,895
Gross margin	296,602	379,819	—	676,421
Segment Reported EBITDA	(20,455)	(320,562)	(492,160)	(833,177)
Exceptional costs	73,279	40,478	98,530	212,287
Segment Adjusted EBITDA	52,824	(280,084)	(393,630)	(620,890)
Finance costs - net	—	(491)	(16,315)	(16,806)
Depreciation and amortisation	(15,531)	(144,538)	(98,225)	(258,294)
Share option expense	—	—	(242,478)	(242,478)
Segment profit/(loss) for the period	(35,986)	(485,591)	(849,178)	(1,350,755)

The reportable segment results for the period ended 30 September 2019 are as follows:

	Intelligence £	Cyber £	Corporate segment £	Total £
Assynt report	890,083	—	—	890,083
Professional services	40,640	1,220,751	—	1,261,391

Monitoring managed services		488,643	—	488,643
Revenues from external customers	930,723	1,709,394	—	2,640,116
Gross margin	179,174	618,388	—	797,562
Segment Reported EBITDA	(18,861)	(536,325)	(764,356)	(1,319,542)
Share option expense	4,274	9,799	30,927	45,000
Exceptional costs	—	167,797	180,428	348,225
Segment Adjusted EBITDA	(14,587)	(358,729)	(553,001)	(926,317)
Finance costs - net	372	(299)	(4,238)	(4,165)
Depreciation and amortisation	(14,836)	(155,746)	(56,143)	(226,725)
Segment profit/(loss) for the period	(33,325)	(692,370)	(824,737)	(1,550,432)

The reportable segment results for the year ended 31 March 2020 are as follows:

	Intelligence	Cyber	Corporate segment	Total
	£	£	£	£
Assynt report	2,006,220	—	—	2,006,220
Professional services	136,247	2,647,814	—	2,784,061
Monitoring managed services	—	1,060,894	—	1,060,894
Revenues from external customers	2,142,467	3,708,708	—	5,851,175
Gross Margin	804,842	1,408,228	—	2,213,070
Segment Reported EBITDA	3,310	(379,985)	(1,507,360)	(1,884,035)
Highlighted costs (Note 5)	7,397	(34,235)	347,011	320,173
Segment Adjusted EBITDA	10,707	(414,220)	(1,160,349)	(1,563,862)
Finance costs-net	377	(764)	(23,542)	(23,929)
Depreciation and amortisation	(30,723)	(299,623)	(152,329)	(482,675)
Impairment of Furnace investment	—	—	(260,000)	(260,000)
Share option expense	(38,671)	(45,272)	(144,423)	(228,366)
Segment loss before tax for the year	(65,707)	(725,644)	(2,087,654)	(2,879,005)

Segment assets and liabilities as at 30 September 2020 and capital expenditure for the period then ended are as follows:

	Intelligence	Cyber	Corporate segment	Total
	£	£	£	£
Contract assets	21,811	56,925	—	78,736
Other assets	440,488	3,667,703	2,914,037	7,022,228
Contract liabilities (deferred income)	641,650	266,008	—	907,658
Other liabilities	342,004	603,845	1,388,925	2,334,774
Capital expenditure - tangible	—	27,046	4,284	31,330
Capital expenditure - intangible	—	—	—	—

Segment assets and liabilities as at 30 September 2019 and capital expenditure for the period then ended are as follows:

	Intelligence	Cyber	Corporate segment	Total
	£	£	£	£
Contract assets	22,683	91,061	—	113,744

Other assets	599,639	6,220,844	1,743,025	8,040,488
Contract liabilities (deferred income)	578,980	421,737	—	1,010,717
Other liabilities	183,700	893,916	466,517	1,544,134
Capital expenditure - tangible	932	199,154	45,303	245,389
Capital expenditure - intangible	—	29,332	188,803	218,135

Segment assets and liabilities as at 31 March 2020 and capital expenditure for the year then ended are as follows:

	Intelligence	Cyber	Corporate segment	Total
	£	£	£	£
Contract assets	14,047	13,700	—	27,747
Other assets	1,022,230	4,316,992	2,883,433	8,222,655
Contract liabilities (deferred income)	807,860	429,487	—	1,237,347
Other liabilities	335,031	492,944	1,215,588	2,043,563
Capital expenditure – Tangible	1,262	32,224	221,584	255,070
Capital expenditure – Intangible	—	378,484	—	378,484

5. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	6 Months to 30 Sep 2020 (Unaudited)	6 Months to 30 Sep 2019 (Unaudited)	Year to 31 Mar 2020 (Audited)
Loss attributable to equity holders of the company (£)	(1,350,755)	(1,550,432)	(2,881,328)
Weighted average number of ordinary shares in issue	400,401,185	400,401,185	400,401,185
Basic loss per share (pence per share)	(0.34)	(0.39)	(0.72)

As at 30 September 2020, the potentially dilutive ordinary shares were anti-dilutive because the Group was loss-making.

6. Events after the reporting period

On 29 September 2020 Falanx announced the completion of a fundraising exercise for £1.25m by issuance of 125,000,000 new ordinary shares of nil nominal value. The net proceeds were received after the period end and shares were allotted at that point. A significant proportion of this fundraising was through long-term EIS & VCT investment and overall, it included new and existing institutional investors.