

FALANX GROUP LIMITED

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS PERIOD ENDED 30 SEPTEMBER 2017**

	6 Months to 30 Sep 2017 (Unaudited)	6 Months to 30 Sep 2016 (Unaudited)	Year to 31 Mar 2017 (Audited)
	£	£	£
Continuing operations			
Revenue	1,445,446	1,212,784	2,743,217
Cost of sales	(1,061,735)	(1,224,181)	(2,194,564)
	383,711	(11,397)	548,653
Administrative expenses	(1,395,525)	(636,026)	(2,062,570)
Administrative expenses - Research	—	—	(64,517)
Operating Loss	(1,011,814)	(647,423)	(1,578,434)
Finance income	256	163	196
Finance expense	—	(82,500)	(110,000)
Net finance expense	256	(82,337)	(109,804)
Loss before income tax	(1,011,558)	(729,760)	(1,688,238)
Income tax expense	—	—	(12,416)
Loss for the period from continuing operations	(1,011,558)	(729,760)	(1,700,654)
Total comprehensive loss for the period	(1,011,558)	(729,760)	(1,700,654)
Earnings per share			
Basic earnings per share - continuing and total operations	(0.67)p	(0.74)p	(1.52)p
Diluted earnings per share - continuing and total operations	(0.67)p	(0.74)p	(1.52)p

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**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2017**

	6 Months to 30 Sep 2017 (Unaudited)	6 Months to 30 Sep 2016 (Unaudited)	Year to 31 Mar 2017 (Audited)
	£	£	£
Assets			
Non-current assets			
Property, plant & equipment	148,715	110,717	131,441
Intangible assets	1,138,913	773,508	769,983
Deferred tax	—	2,887	—
	1,287,628	887,112	901,439
Current assets			
Inventory	1,471	43,718	8,500
Trade and other receivables	584,242	791,387	633,101
Cash and cash equivalents	1,031,831	834,742	430,459
	1,617,544	1,669,847	1,072,060
Total assets	2,905,172	2,556,959	1,973,499
Equity			
Capital and reserves attributable to equity holders of the Company			
Share premium account	9,498,445	6,647,257	7,410,507
Translation reserve	(62,911)	(85,538)	(100,285)
Shares to be issued reserve	196,606	174,851	196,606
Retained earnings	(7,715,005)	(5,732,553)	(6,703,447)
Total equity	1,917,135	1,004,017	803,381
Liabilities			
Current liabilities			
Trade and other payables	978,508	1,532,793	1,160,589
Current tax liability	—	20,149	—
Deferred tax liability	9,529	—	9,529
Total liabilities	988,037	1,552,942	1,170,118
Total equity and liabilities	2,905,172	2,556,959	1,973,499

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share premium	Retained earnings	Translation reserve	Shares to be issued reserve	Total
	£	£	£	£	£
Balance at 1 April 2016	5,309,031	(5,002,793)	(42,162)	174,851	438,927
Loss for year	—	(1,700,654)	—	—	(1,700,654)
Transactions with owners:					
Issue of share capital	2,175,021	—	—	—	2,175,021
Cost of share capital issue	(73,545)	—	—	—	(73,545)
Translation of foreign subsidiary	—	—	(58,123)	—	(58,123)
Share options issued	—	—	—	21,755	21,755
Balance as at 31 March 2017	7,410,507	(6,703,447)	(100,285)	196,606	803,381
Loss for the period	—	(1,011,558)	—	—	(1,011,558)
Transactions with owners:					
Issue of share capital	2,170,938	—	—	—	2,170,938
Costs of issue of share capital	(83,000)	—	—	—	(83,000)
Translation of foreign subsidiary	—	—	37,374	—	37,374
Balance as at 30 September 2017	9,498,445	(7,715,005)	(62,911)	196,606	1,917,135

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CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD ENDED 30 SEPTEMBER 2017

	6 Months to 30 Sep 2017 (Unaudited) £	6 Months to 30 Sep 2016 (Unaudited) £	Year to 31 Mar 2017 (Audited) £
Cash flows from operating activities			
Profit/(Loss) before tax	(1,011,558)	(729,760)	(1,688,238)
Adjustments for:			
Depreciation	32,474	15,908	43,874
Amortisation of intangibles	89,793	156,452	312,943
Share based payment	-	35,000	56,755
Loss/(Profit) on disposal of property, plant and equipment	1,177	697	697
Net finance (income)/cost recognised in profit or loss	(256)	82,337	109,804
	(888,370)	(439,366)	(1,164,165)
Changes in working capital:			
Decrease/(increase) in inventories	7,029	(2,543)	32,675
Decrease/(increase) in trade and other receivables	48,860	(169,674)	(11,388)
(Decrease)/Increase in trade and other payables	(182,081)	324,675	(67,676)
Cash used in operations	(1,014,562)	(286,908)	(1,210,554)
Interest paid	—	(82,500)	(55,000)
Net cash used in operating activities	(1,014,562)	(369,408)	(1,266,554)
Cash flows from investing activities			
Interest received	256	163	373
Acquisition of property, plant and equipment	(51,060)	(60,659)	(109,365)
Disposal of property, plant and equipment	150	—	—
Expenditure on capitalised development cost	(225,286)	—	(152,967)
Acquisition of subsidiary net of cash acquired	(100,000)	(140,315)	(140,315)
Net cash used in investing activities	(375,940)	(200,811)	(402,451)
Cash flows from financing activities			
Net proceeds from loan notes	—	—	495,000
Repayment of loan notes	—	—	(550,000)
Net Proceeds from issue of shares	1,954,500	1,018,205	1,781,455
Net cash generated from financing activities	1,954,500	1,018,205	1,726,455
Increase/(decrease) in cash equivalents	563,998	447,986	58,450
Cash and cash equivalents at beginning of the period	430,459	430,132	430,132
Foreign exchange profit/(losses) on cash and cash equivalents	37,374	(43,376)	(58,123)
Cash and cash equivalents at end of the period	1,031,831	834,742	430,459

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NOTES TO INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2017

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 2017. These interim financial statements do not constitute statutory accounts within the meaning of the Companies Act.

The interim financial information have not been reviewed nor audited by the auditors. The interim financial information was approved by the Board of Directors on 14 November 2017. The information for the year ended 31 March 2016 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 2017. 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.

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 2017.

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 2017 are as follows:

	Intelligence	Cyber	Other segments	Total
	£	£	£	£
Revenues from external customers	959,249	469,197	17,000	1,445,446
Total revenue	959,249	469,197	17,000	1,445,446
Operating expenses	(814,330)	(1,017,103)	(503,560)	(2,334,993)
Finance costs - net	—	9	247	256
Depreciation and amortisation	(5,808)	(115,732)	(727)	(122,267)
Segment profit/(loss) for the period	139,111	(663,629)	(487,040)	(1,011,558)

The reportable segment results for the period ended 30 September 2016 are as follows:

	Intelligence	Cyber	Other Segments	Total
	£	£	£	£
Revenues from external customers	882,465	325,291	5,028	1,212,784
Total revenue	882,465	325,291	5,028	1,212,784
Operating expenses	(733,739)	(627,414)	(326,695)	(1,687,848)
Finance costs - net	45	—	(82,382)	(82,337)
Depreciation and amortisation	(5,734)	(166,297)	(328)	(172,359)
Segment profit/(loss) for the period	143,037	(468,420)	(404,377)	(729,760)

Segment assets and liabilities as at 30 September 2017 and capital expenditure for the period then ended are as follows:

	Intelligence	Cyber	Other segments	Total
	£	£	£	£
Total assets	404,087	887,510	1,613,575	2,905,172
Liabilities	429,029	306,260	252,748	988,037
Capital expenditure	5,428	35,857	9,775	51,060

Segment assets and liabilities as at 30 September 2016 and capital expenditure for the period then ended are as follows:

	Intelligence	Cyber	Other segments	Total
	£	£	£	£
Total assets	994,098	817,758	745,103	2,556,959
Liabilities	611,700	171,618	769,624	1,552,942
Capital expenditure	1,129	58,111	1,419	60,659

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 2017 (Unaudited)	6 Months to 30 Sep 2016 (Unaudited)	Year to 31 Mar 2017 (Audited)
Loss attributable to equity holders of the company (£)	(1,011,558)	(729,760)	(1,700,654)
Weighted average number of ordinary shares in issue	150,694,902	99,123,798	112,169,330
Basic (loss)/profit per share (pence per share)	(0.67)	(0.74)	(1.52)

As at 30 September 2017, the potentially dilutive ordinary shares were anti-dilutive because the Group was loss-making.