



Report and Financial Statements

Year ended 31 March 2019

Company number 1730012 (British Virgin Islands)

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Falanx Group Limited, listed on the AIM Market of the London Stock Exchange, is a cyber defence and intelligence services provider working with blue chip and government clients internationally to protect their assets from a range of threats.

The Group has three business divisions:

Falanx Cyber: Comprehensive cloud-based cyber monitoring and professional services operating as Falanx Cyber

Falanx Intelligence: Political & Security Risk and Business Intelligence services operating as Falanx Assynt.

Falanx Technologies: Research and development capability for rapid innovation to support the cyber and intelligence divisions



Falanx Cyber

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



Falanx Intelligence

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



Falanx Technologies

Falanx Cyber Technologies is a research and development capability that supports the technology needs of the cyber and intelligence divisions.

Business Overview

Financial highlights

- Revenues increased 73% to £5.2m (2018: £3.0m)
- Gross margin increased significantly to 44% (2018: 31%) driven by favourable revenue mix and strong services utilisation
- Contribution from monthly recurring revenue represented 56% of revenue (2018: 62%) with the lower % being attributable to strong growth in professional services. The monthly recurring revenue run rate at 31 March 2019 was £0.24m (2018: £0.19m) and monitoring recurring revenues grew by 91% to £1.0m (2018: £0.52m)
- Adjusted EBITDA loss reduced by 25% to £1.2m (2018: £1.6m), reported loss £1.9m (2018: £2.4m)
- £3.2m future contracted revenues (2018: £2.3m) of which £1.1m (2018: £0.7m) was deferred income
- Debt free with cash balances of £2.4m (2018: £0.9m) following successful institutional share subscription in November 2018
- Loss per share reduced by 53% to 0.58p (2018: 1.24p)
- Shareholders' funds £7.6m (2018: £5.3m)

Operational highlights

- Strong performance from our core business, Falanx Cyber buoyed by the successful integration and contribution of First Base acquisition
- Strategic partnership with SolarWinds continues to develop with Falanx appointed as the first Threat Monitoring Service Provider ("TMSP") for the UK, continental Europe and South Africa
- Falanx Intelligence (Assynt) shifted efforts from one-off sales to high-quality recurring revenue income
- Increased customer base by over 10% to 400
- Management team strengthened and well placed for next stage of growth

Post period highlights

- Trading to the end of July 2019 in line with management's expectations with professional services in Cyber growing by 10% compared with prior year
- New premises in Reading secured as part of planned Cyber expansion and current investment program largely complete
- Successful delivery of Cloud security service with our in-house developed CASB (Cloud Application Security Broker) capability
- Strong pipeline of business in each division from new name and existing accounts
- 50% growth in the Managed Service Providers ("MSPs") channel since the start of the current year

* 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, share based payment charges, depreciation, amortisation, impairment charges and exceptional items.

Mike Read, Chief Executive, said:

"This has been a very busy period for Falanx with a number of operational improvements made and a renewed focus on channelling our efforts towards the most profitable sales opportunities. We have seen strong organic growth across the core areas of our business and we see growth continuing into the current financial year. We anticipate the SolarWinds partnership to start to bring benefits in the second half of the current financial year as they rollout their product.

The Board has set out its strategy of driving top line growth and reducing costs as it targets cashflow breakeven. We are confident of achieving this goal in the near term as our sales pipeline continues to grow with our enhanced cyber security offering. As a result, the Board views the future with optimism.

There is no doubt that the cyber security market is growing rapidly so it is essential that we focus our efforts on the best near term situations as we seek to increase shareholder value."

The Company will post its report and accounts for the financial year ended 31 March 2019 together with its notice of AGM in the coming few days and these will be available to download from www.falanx.com accordance with AIM Rule 20.

Chairman's Statement

I am delighted to be writing to you as the recently appointed Chairman of Falanx. I recently joined the Group on 28 March 2019, but I have known the team for some time longer. I was impressed with the unique opportunity Falanx has available due to its relationship with SolarWinds and the Threat Monitor Service Provider (TMSP) program. The program allows Falanx to leverage its own security services through the scale of its international technology partner and immense MSP channel. This places Falanx in a strong position to take advantage of the obvious growth opportunities within the cyber security sector and was one of the reasons I decided to join.

Prior to any anticipated revenue growth as a consequence of the TMSP program, in the reporting period ending March 2019, I am pleased to report overall revenues increased by 73%, to a record £5.2m (2018: £3.0m). This has been achieved by a useful contribution from acquisitions as well as securing a number of new client wins which is testimony to the service we provide our clients. Of particular note is our second half performance which recorded a 39% increase in revenues to £3.0m and I am pleased to report that momentum has continued in the current financial year. Against our strong sales and margin performance we have reported a reduction in adjusted EBITDA losses to £1.2m (2018: £1.6m loss).

We were delighted to secure additional funding of £4.155m (before expenses) in a well-supported institutional placing which has strengthened our balance sheet and will help support our future growth plans. Our balance sheet is much stronger with £7.6m (2018: £5.3m) of shareholders' funds of which £2.4m (2018: £0.9m) was cash.

Group strategy and corporate governance

Following the successful transition of both divisions during the year, we saw some significant client wins in Intelligence and Cyber sales as well as a strong contribution from the First Base and Securestorm acquisitions. This year we expect this success will act as the foundations for the Group to drive momentum and achieve further top line revenue growth. I am confident that, with continued focus on addressing high-growth market sectors, we can achieve sustainable profitability and enhance shareholder returns.

As the Group increases its scale and we continue to monitor levels of best practice, strengthening our corporate governance has been an area of focus. To this end, we reviewed our advisers, leading to a change of nominated adviser to Stifel (from Spark Advisory) and a change of Auditors, BDO LLP (from Kingston Smith LLP). We would like to express our thanks to both outgoing firms for their services and support over the years.

Outlook statement

As I mentioned above, I was drawn to Falanx partly by the opportunity its relationship with SolarWinds creates and partly by its strong services capabilities and robust organic growth in this reporting period. I have no doubt that a partner of SolarWinds stature would not have entertained Falanx as the inaugural TMSP for UK, Europe and South Africa, had it not been impressed with the breadth and quality of service which has underpinned our organic growth over this period.

In parallel to growth opportunities we continue to monitor and respond to technological changes. As our customers transition data and infrastructure away from traditional on premises solutions to the Cloud, we are developing and adapting our services and technology in order to maximise the full potential of our in-house technology development work, which has received positive industry and potential customer feedback from both the UK and US.

Although we look to automate as much as possible with the support of our technology developments, we are predominantly a people-based organisation, dependent on highly skilled and well-motivated staff. We recruit and retain great people by offering an excellent working environment with competitive salaries and benefits as well as share participation incentives. I would like to thank the management and staff for their continued resolve to achieve success in our pursuit of market leadership in cyber defence.

The Board is confident that the investment programme in the first half of the year is starting to produce positive results which will be reflected in the second half of the year. Our drive to achieve cashflow breakeven is the Board's primary objective and we are confident of reaching this goal in the near term. In addition, our thanks go to our loyal shareholders, for providing the funding and support to facilitate the ongoing delivery of our objectives.

Approved by the Board on 18 September 2019 and signed on its behalf by

A Hambro
Chairman

Chief Executive Officer's Report

Introduction

Falanx Group Limited is a provider of Cyber Security and Strategic Intelligence services across many geographies, to over 400 customers ranging from Government, large enterprises to the SME market. The operations of the business are supported by Falanx Technology who together with third parties provide the underpinning technology for our teams.

Falanx Cyber

Our core division recorded a much stronger performance in both revenue and EBITDA performance than in the prior year (see note 4). This was due to the acquisition of First Base (acquired 23 March 2018), increased contract momentum and stronger professional services utilisation. Revenues grew by 222% to £3.57m and the final 6 months were 46% greater than H1. Gross margins were 49% (2018: 21%) and this was attributable to business mix and stronger professional services performance. The division invested in sales and marketing expansion as well as infrastructure investment in the second half of the year to support growth plans such as SolarWinds which is expected to start benefiting in the year ended 31 March 2020. Overall adjusted divisional EBITDA was £0.05m (2018: loss £0.87m) and the division was profitable on a similar basis in the second half of the year, reversing similar losses in the first half of the year.

Falanx Cyber now offers an extended portfolio of professional cyber security services, complementing our MDR (Managed Detection and Response) service, through the successful integration of First Base and Securestorm, acquired in March and July 2018 respectively. These acquisitions have provided an additional customer base across a diverse range of sectors including Government, Finance, Legal, Insurance, Retail, IT and Telecoms.

To accelerate growth beyond the confines of traditional direct sales and cross-selling opportunities between service lines, Falanx Cyber exploits a 'Channel' model, providing security services via its growing network of MSP partners. These IT outsourcing organisations have longstanding and trusted status with their customers for the provision of essential business IT functions, as such they are natural partners for Falanx Cyber and a significant extension of our market reach.

The most significant addition to this growing 'Channel' model is the strategic partnership with SolarWinds (NYSE: SWI), a leading provider of powerful and affordable IT infrastructure management software, which was announced on 19 September 2018. SolarWinds appointment of Falanx as the first TMSP across Europe and South Africa creates the opportunity to access SolarWinds' MSP customers. SolarWinds' customer managers introduce Falanx as a preferred security provider, offering managed services support to its Threat Monitoring Service program, along with the Falanx Cyber portfolio of security services. In turn, each MSP can leverage the SolarWinds technology and Falanx services into their own client base. This multiplying effect offers Falanx Cyber access to a very significant market place of pre-qualified consumers.

SolarWinds has engaged with the three inaugural TMSP's, of which Falanx Cyber is one, requesting feedback into the development and product specification of the SolarWinds Threat Monitor product. This preparatory work has been focused on creating a highly scalable platform and seeding this 'mass market' opportunity with education programmes and disruptive pricing. The significant marketing power of SolarWinds will be applied to fully launch the product with the support of the TMSP's in H2 2019.

The combination of strong and growing demand for the Falanx Cyber portfolio of services, market pull of the MSP 'Channel' model and the unique opportunity offered by SolarWinds, indicate another year of high growth ahead. In 2019, the division had overall organic growth of 10% although our key service line of monthly recurring monitoring grew by over 90%. Overall the cyber sector is experiencing strong macroeconomic drivers and is forecast to grow significantly over the next few years. To keep pace with this continuing high growth, Falanx Cyber has further invested in people, processes and infrastructure to expand capacity and maximise the revenue growth opportunities of the current year and beyond.

Falanx Intelligence (Assynt)

Our strategic Intelligence business unit, Falanx Assynt, provides market-leading geopolitical reporting and analysis on major emerging markets to global corporate customers. The two principal business lines are now the subscription-based Assynt Report service and the Embedded Analyst business.

Revenue and EBITDA reduced in H1 as a consequence of remodeling and investing in the business to move away from historic 'spot' revenues and toward a greater proportion of high-quality recurring revenue. In 2018/19, the two MRR product lines represented 85% (2017/18: 72%) of total Intelligence revenues. The remaining 15% of revenues were from one-off Business Intelligence ("BI") and Strategic Intelligence consulting projects. These 're-balancing' measures ensured a return to growth in H2, with revenues growing by 32% compared with H1. For the full period 2018/19, revenue of £1.64m (2017/18: £1.89m) was generated with an adjusted EBITDA loss of £0.05m (2017/18: profit £0.25m). The second half turnaround led to a much-improved monthly recurring revenue performance and was achieved after a planned increase in cost base to build expansion capability to support future growth and the division was profitable at an adjusted EBITDA level in the second half of the year.

The first half of the year was focused on consolidation and investment, including the first serious reformulation and upgrade of our flagship product, the Assynt Report, for ten years. We invested over £0.1m in the creation of our proprietary, customer focused, online portal. This has replaced the previous email-based distribution system which had reached 'end of life', while at the same time much improving customer experience, product presentation, ease of consumption and opportunity to scale service. Feedback from existing customers has been overwhelmingly positive, with the increased sophistication and presentation of the product, including the introduction of maps and graphics, generating great interest among new clients. The introduction of the new Assynt Report Mobile App in June 2019 will further improve the accessibility of our product to subscribing customers.

Chief Executive Officer's Report

For our Assynt Report subscriber base of global corporates (many of which are headquartered outside of the UK), we have produced over 1,200 reports analysing events in 37 countries, including specialist analysis of international jihadist trends. Our overall international business grew by 20%. Over the course of the year we have expanded our country coverage to include regular reports on three additional countries in sub-Saharan Africa and Latin America. We plan to expand our Africa coverage further during the current financial year.

The reputation and demand of the Embedded Analyst service, aimed firmly at the FTSE-100 and NASDAQ-100 market, continued to grow strongly, with three existing clients seeking additional capacity and strong interest from new clients, particularly in the USA. As a result, the total number of embedded analysts increased by 40% over the course of the financial year, with additional positions scheduled to come on stream in late 2019. This includes a major new contract with one of the largest global (US-based) technology companies, which has an annual revenue potential to make it the Division's largest. This illustrates our growing reputation and has led to discussions ongoing with other similar organisations.

In addition to our increased focus on high quality recurring revenue via the Assynt Report and Embedded Analysts, we are now focusing on Strategic Intelligence projects which are more clearly aligned with our core geopolitical analysis and emerging market expertise. This has enabled us to pitch at a higher price point and increase share of the 'value-add' components of projects with in-house resources, further improving traditionally high levels of customer retention and account expansion.

The Assynt business has a robust platform for growth over the next three years and the significant client wins since the start of 2019 provide strong validation for this being a separate division and a valuable asset

Falanx Technologies

Our technology development organisation continues to develop proprietary and innovative technology and integrate 3rd party technologies to support Falanx Cyber service lines, MDR (formally known in Falanx as MidGARD), Penetration Testing, Awareness and Consultancy.

Our strategic technology development program has shifted away from traditional 'on-premise' engineering, toward customers and applications that have embraced high growth and in particular, public Cloud such as Amazon Web Services, Microsoft Azure and Google Cloud Platform. A few years ago, only a small percentage of customers were considering public Cloud as a viable alternative to the traditional data infrastructure offerings from vendors such as Oracle, HPE Vertica and IBM, or on-premise solutions offered by their local data centre vendor. However, the landscape has now changed dramatically, and we are therefore focused on enabling Falanx Cyber to secure our customers in the Cloud.

As a result of this focus, the Falanx Technologies team have successfully developed our own proprietary CASB (Cloud Access Security Broker) capability. This functionality is required as many traditional network security monitoring tools are not 'Cloud Native' and therefore require additional third party software to bridge the gap to cloud hosted applications such as Salesforce, Office 365 and Sage. The development of our own capability is a significant resource, allowing Falanx Cyber secure its customers as they transition to the Cloud.

These technologies allow users to significantly reduce cost, increase security and gain greater insight to their security 'Big Data' assets. We are evaluating strategies to maximise the full potential of our development work, which could have uses beyond traditional security. It has already been evaluated by industry experts and the feedback has been positive and is currently being evaluated by US based organisations as an alternative to some of their existing infrastructure.

Approved by the Board on 18 September 2019 and signed on its behalf by

M D Read
Chief Executive Officer

Chief Financial Officer's Report

Revenue

Group revenues grew by 73% to £5.2m (2018: £3.0m). Revenues in the second half of the year were approximately £3.03m and represented growth of 39% compared with the first 6 months. This was as a result of increased contract momentum in each division as well as much stronger professional services delivery and better utilisation of professional services resources in the Cyber division which followed the integration of First Base (which was acquired 23 March 2018). Assynt recorded stronger BI revenues in the second half and began to benefit from large recurring subscription and embedded analyst contracts which began to deliver at the end of the year.

The business has continued to benefit from a strong element generated from the recurring contracts in each division, and overall this was 56% (2018: 62%). Whilst the proportion fell, this was due to a much improved services performance, an overall an increase of circa £0.97m was recorded. At the end of the period monthly recurring revenues across the Group stood at approximately £240,000 per month (2018: £190,000). The majority of the growth was from monitoring contracts and managed Cyber services in line with the Board's strategy of moving to higher quality revenues. At the period end the Group had approximately £3.2m of future revenue (2018: £2.3m) under contract including deferred income of £1.1m (2018: 0.7m).

We have added (through acquisition and organic efforts) several larger accounts (typically spending more than £0.1m per annum) and this, combined with our much expanded customer base with around 340 customers invoiced by us in the year, has reduced our customer concentration profile significantly with no single customer accounting for more than 6% of revenue.

Cost of sales

Cost of sales represents cost items which vary more closely as a function of sales demand and therefore revenues. The Intelligence division's cost base is largely employment costs for full time and external consultants who produce intelligence reports for customers as well as certain database access licences. The Cyber division costs include the team who deliver the monitoring and professional services, external licence fees for technology platform and its support (some of which are fixed and some of which are variable).

Gross margin

The Group's gross margin was 44% (2018: 31%). Each division experienced margin improvement as a result of favourable revenue mix with a significantly increased contribution from high margin recurring revenues, as well as improved utilisation of professional services staff. This grew overall gross margin from 36% in the first 6 months to approximately 49% in the second half.

Operational and cash based costs

Administrative expenses excluding depreciation and amortisation and exceptional costs increased from £2.5m to £3.5m as the Group grew its infrastructure and headcount to support growth. Average headcount in the year was 72 (2018: 51) reflecting the impact of acquisitions in 2018 and 2019. Both divisions expanded their sales and marketing capacity in support of growth plans, and the results for 2019 included a full year of management costs at both divisional and Group levels.

Exceptional costs

Exceptional costs were £0.18m (2018: £0.53m) mainly represented certain restructuring costs post acquisition and transaction related fees. Share option charge were £0.06m (2018: £0.05m). These are detailed in notes 5 and 12 to these accounts.

EBITDA

Adjusted EBITDA loss for the year was £1.2m (2018: £1.6m) after adjusting for the items highlighted above. Headline reported EBITDA loss was £1.5m (2018: £2.2m).

Depreciation and amortisation

Depreciation and amortisation was £0.37m (2018: £0.30m) and largely (£0.28m) represented amortisation of the intangible assets arising on the purchase of First Base in March 2018 and Securestorm in July 2018 where the customer base is amortised over 10 years and 3 years respectively on a straight-line basis. The remainder arose from depreciation of plant and equipment and software assets. The prior period represented software licences for the Cyber division purchased in 2014 and 2015. The remainder represented usual amortisation charges around the Company's assets.

Financing costs

Financing costs were £4,257 (2018: £2,900) and arose from bank overdrafts operated in the year.

Taxation Charge

The Group recorded a non cash deferred taxation credit of £0.5m (2018: £nil) arising from revaluation of customer bases from acquired organisations. The corresponding amount has been treated as goodwill.

Chief Financial Officer's Report

Result for the year

The Group's operating loss was reduced by 10% to £1.8m (2018: £2.0m) and this was attributable to revenue growth, higher margins and less restructuring. Loss per share fell by 53% to 0.58p (2018: 1.24p).

Non-current assets

The Group continued to invest in technology during the year and a further £0.4m (2018: £0.5m) of development costs were capitalised in support of monitoring technology development of Project Furnace in the technology division. Spend on tangible and intangible fixed assets was £0.13m (2018: £0.07m) primarily on technology and infrastructure costs. The intangible assets from the customer base of First Base and Securestorm are amortised over a period of 10 years and 3 years respectively from date of acquisition (March 2018 and July 2018). This customer base has continued to grow during the year and experiences little churn. The intangible assets created from R&D investment in Project Furnace has been reviewed against likely expected cash flows. As referenced in the Falanx Cyber Technology section of the Chief Executive Officer's report this ongoing development work has initial market interest.

The intangible assets arising from acquisition such as Goodwill and Customer bases were tested for impairment in the line with the Group's policy and no adjustment to carrying value was required, although £0.46m of customer assets from the acquisition of First Base was reclassified as goodwill and this was reflected in opening balances. A further £0.5m of goodwill arose from deferred tax adjustments related to the acquisition of acquired customer bases, the majority of which arose in the prior year and this is described further below.

The Company continues to review optimal routes to market for this in conjunction with its advisors. The Company continues to invest in its corporate infrastructure and particularly its technology estate to ensure it is optimised for growth plans and risk management.

Working capital

Amounts due from customers, net of bad debt provision increased to £1.2m from £0.9m due to greater business volumes and timing of certain billings. Overall debtor days fell from 65 to 47 and showed the strong cash performance and record of collection. Other debtors increased, caused by slightly higher contract assets (accrued income) which was billed early in the new financial year and from the prepayment of certain 3rd party licence fees which has previously been paid on a monthly basis. The Group continued to have a very low incidence of delayed and/or non-payment of debts by customers and our average losses over the last two years were only 0.07% of revenue.

Contract liabilities (deferred income) increased to £1.1m (2018: £0.7m) on greater volume of advanced billings to customers in both divisions. This accounted for most of the increase in current liabilities which increased from £2.13m to £2.43m with a reduction in certain liabilities which were recorded in the March 2018 balance sheet. Creditors were within payment terms at the March 2019 balance sheet date.

Capital structure

The Company issued the following shares during the period:

On 16 July 2018 the company issued 2,222,222 ordinary shares at a price of 4.5p each to the vendors of Securestorm Limited as consideration of £100,000 for the acquisition of its entire share capital. On 14 November 2018 the Company issued 138,499,999 ordinary shares at a price of 3.0p each to institutional investors raising £4.155m gross (£3.977m net) after deducting commission and transaction related costs.

At the 31 March 2019 the Company had 400,401,185 ordinary shares of nil nominal value in issue. The Company also had 41,061,251 warrants outstanding at 31 March 2019 and full details are in note 20 to these financial statements. Approximately 26m of these warrants lapsed in May 2019. On 27 March 2019 the company varied its memorandum and articles of association and introduced a threshold of 1p below which shares cannot be issued without shareholder permission.

At the year-end shareholders' funds stood at £7.6m (2018: £5.3m).

Statement of Cash Flows

During the year the Group raised £3.977m net by the issue of new shares in November 2018. A net working capital outflow of £0.35m (2018: inflow £0.01m) arose from the settlement of certain liabilities outstanding at the end of 2018 and also from the liabilities inherited from the acquisition of Securestorm Limited in July 2018. Operational cash flow remains closely aligned with EBITDA performance, and has averaged at circa 90% over the last 2 years with variations arising from short term timing issues. £0.46m was used in ongoing investment in technology platforms. Cash balances at 31 March stood at £2.4m (2018: £0.9m).

Chief Financial Officer's Report

Restatement of Prior Year Results

£0.08m of foreign exchange losses were recorded as a charge against operating losses in the year ended 31 March 2018 and has been reclassified as Other Comprehensive Income. A deferred tax asset arising from the revaluation (under IFRS 3) of the customer base intangible acquired with First Base Technologies LLP in March 2018 resulted in a credit against corporation tax of £0.47m. £0.46m of intangible assets previously capitalised as customer base related on the same acquisition were reclassified as goodwill. Consequently, loss per share reduced from 1.56p to 1.24p per share for the year ended 31 March 2018.

Post balance sheet events

In July 2019 the Company entered into a lease for premises in Reading. This will form the basis of the operations of Falanx Cyber which will be moving its operations from Birmingham to Reading in August 2019. This was done after an extensive review of the optimal position to locate the Cyber Security Operations Centre (SOC) from an access to relevant skills perspective and to help the overall expansion of the business. This premises will be operationally leveraged for maximum utilisation. The net impact of the lease is expected to add an additional £0.1m to cash operating costs per annum and will be accounted for under IFRS 16.

Approved by the Board on 18 September 2019 and signed on its behalf by

I R Selby
Chief Finance Officer

Directors

Alex Hambro

Alex Hambro (non-executive Chairman, appointed 28/3/19). Alex has been active in the investment sector both in the UK and the USA for some 30 years, during which time he has acted as a principal investor, manager and sponsor of private equity and venture capital management teams. As well as his responsibilities at Falanx, Alex is a founder and Chairman of Judges Scientific plc, an AIM listed group of scientific instrumentation companies. In addition to his two AIM company responsibilities, Alex is also Chairman of Crescent Capital Ltd and Bapco Closures Holdings Ltd and a Non-Executive Director of Octopus Apollo VCT plc, Hertsford Capital plc, and Whitley Asset Management Ltd. Alex is currently a principal at Welbeck Capital Partners, a specialist in the creation of secured convertible loan notes and other hybrid equity solutions to finance growth opportunities for small-cap AIM companies and which has supported Falanx during 2018 fundraisings.

Mike Read

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

John Blamire

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

Ian Selby

Ian Selby (Chief Financial Officer and Company Secretary) is a Chartered Accountant with significant experience in the technology, security and business services sectors. He was previously the CFO of AIM listed Westminster Group plc where he supported the development of their successful managed services business and the raising of the associated financing. Prior to this, he was Group Finance Director of Zenith Hygiene Group plc, where he was instrumental in executing a successful trade sale and prior to this was the CFO of a listed software company focused on financial and public sectors. Ian has held international finance roles in listed technology companies including Halliburton Inc, Sybase Inc and Micro Focus plc. He qualified as a Chartered Accountant with Coopers & Lybrand Deloitte and holds a degree in Physics from the University of Birmingham. Ian is responsible for finance, premises, HR and since June 2019 IT.

Emma Shaw

Emma Shaw (Non-executive Director) is the Managing Director of Esoteric Limited, an Electronic Sweeping, Counter-Espionage and Intelligence gathering company. An MBA graduate, and a Chartered Security Professional (CSyP) Emma's early career was spent with the Royal Military Police, followed by a career in the Ministry of Defence. Emma is also the former Chairman and Fellow of the Security Institute; a Board member of the Defence Industry Security Association (DISA); a Fellow of the Chartered Management Institute and member of the Advisory Council for CSARN.

The Directors present their report and the audited financial statements for the year ended 31 March 2019.

Directors' report

Business Review

The Group's results for the year are set out in the consolidated statement of comprehensive income on page 26 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	2019	2018	Comment
Group revenue - £'m	Changes in total revenue compared to prior year	Revenue growth gives a quantified indication of the rate at which the Group's business activity is expanding over time	£5.2	£3.0	Increase of 73% attributable to increased revenue in the Cyber division, with 39% growth in the second half of the year compared to the first half of the year
Gross margin	Percentage of total revenue retained by the Group after direct costs deduction	Provides an indication of sales profitability and proportion of revenue available to cover other running costs	44%	31%	Improved margin due revenue mix and better utilisation in professional services following acquisition and integration
EBITDA - £'m	A measure of profits excluding non-cash items such as depreciation and amortisation	Offers a clearer reflection of the ability to generate cash	£(1.5)	£(2.2)	Increase in revenue and reduced costs
Adjusted EBITDA - £'m	A measure of profits adjusted for non-underlying items such as restructuring and acquisition related	Underlying performance of business operations	£(1.2)	£(1.6)	Much reduced restructuring charges and acquisition related costs
Cash conversion	Operational cash flow / EBITDA	Measures the ability of the business to convert profit into cash	132%	96%	A close correlation between trading performance and cash generation/usage.
Recurring revenue %	Recurring revenue lines / total revenue	Shows visibility of recurring revenue growth rate	56%	62%	Reduction in % due to significant growth in non-recurring professional services revenue, although an underlying increase of circa £0.97m recorded
Contracted revenue - £'m	Binding commitments from customers for future revenues	Shows visibility into contracted revenues underpinning future revenue forecasts	£3.2	£2.3	Greater levels of advance customer commitments including advance payments (contract liabilities)
Monthly recurring revenue - £'m	Revenue from the provision of services on a recurring basis	Shows predictable monthly metrics to track progress against objective of becoming profitable solely on recurring revenue	£0.24	£0.19	Increase in revenue from protective monitoring and consulting in the Cyber division and embed service in the Intelligence division
Number of Invoiced customers	Number of customers invoiced over the preceding 12 months	Measure of customer concentration (includes acquired customer base)	340	332	Growth of 2.4% largely attributable to increased customer base of the Cyber division
Headcount	Average headcount during the year	Shows average number of employees in the year	72	51	Increase in operations staff to deliver future revenue commitments
Contract liabilities (deferred income) - £'m	Contracted and invoiced revenue yet to be recognised (deferred income)	Shows visibility into invoiced amounts to be recognised in future periods	£1.1	£0.7	Increase due to growth in the Cyber division and contract value increases in Assynt

Directors' report

Dividends

The consolidated statement of comprehensive income for the year is set out on page 26 and shows the loss for the year.

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

Events after reporting date

Information relating to events since the end of the year is disclosed in note 32 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
M D Read
I R Selby

Non-Executive Directors

E Shaw
A Hambro appointed 28 March 2019

Directors' interests

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

	2019		2018	
	Number of shares	% Held	Number of shares	% Held
M D Read [^]	10,403,940	2.60%	9,243,940	3.56%
J R Blamire	7,900,000	1.97%	7,900,000	3.04%
E Shaw	866,667	0.22%	866,667	0.33%
I R Selby ^{**}	1,069,348	0.27%	666,667	0.26%
A Hambro	250,000	0.06%	—	—

[^] M D Read has 1,250,000 warrants with an exercise price of 6 pence which expired on 10 May 2019 and a further 6,000,000 warrants at an exercise price of 4 pence vesting and exercisable as detailed in note 20.

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

3.50 pence options	2019	2018
	Number	Number
M D Read	1,500,000	—
J R Blamire	1,500,000	—
I R Selby	1,500,000	—
E Shaw	250,000	—

These Share Options were granted at a price 19% over the then current share price. They vest in three tranches: the first tranche when the share price reaches 6.5p (25%), the second tranche when the share price reaches 9p (25%) and the third tranche when the share price reaches 12p (50%). The Share Options only vest if the average share price has reached the relevant threshold level for a period of three months, save for the event of a change of control in the Company, in which case they will vest in full. Based on the mid-market closing price on 20 December 2018 of 2.95p there is no gain at all unless the share price increases by 120% and full gains are not achieved until a gain of 307% has been achieved. They were granted under the rules of the EMI scheme, and where an individual grant does not fall within HMRC EMI rules they are granted as an unapproved option which will typically be subject to PAYE and NI.

Directors' report

5.00 pence options	2019	2018
	Number	Number
M D Read	5,000,000	5,000,000
J R Blamire	4,500,000	4,500,000
I R Selby	5,000,000	5,000,000
E Shaw	500,000	500,000

These options were granted on 14 March 2018 at a 10% premium to the prevailing share price, and vest in three tranches: the first tranche when the share price reaches 7.5p (25%), the second tranche when the share price reaches 10p (25%) and the third tranche when the share price reaches 12.5p (50%). The Share Options only vest if the average share price has reached the relevant threshold level for a period of three months, save for the event of a change of control in the Company, in which case they will vest in full. Based on the mid-market closing price of 4.5p on the date of issue, there is no gain at all unless the share price increases by 66% and full gains are not achieved until a gain of 178% has been achieved. They were granted under the rules of the EMI scheme, and where an individual grant does not fall within HMRC EMI rules they are granted as an unapproved option which will typically be subject to PAYE and NI.

5.875 pence options	2019	2018
	Number	Number
J R Blamire	500,000	500,000
E Shaw	750,000	750,000

These options were granted on 24th January 2017 and vest as below.

Date from which Options are exercisable	% which can be exercised
Earlier of 12 months from the Date of Grant and date at which the share price of the Company has consistently been at 6p or above for 6 months	33.3%
Earlier of 24 months from the Date of Grant and date at which the Share Price of the Company has consistently been at 12p or above for 6 months	33.3%
Earlier of 36 months from the Date of Grant and date at which the Share Price of the Company has consistently been at 20p or above for 6 months	33.4%

Directors' interests in transactions

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

Directors' report

Directors' remuneration

	Salary and fees	Benefits in kind	Termination payment	Pension contribution	Bonus	2019 Total	2018 Total
	£	£	£	£	£	£	£
Executive Directors:							
M D Read	148,333	—	—	—	25,000	173,333	45,000
J R Blamire	125,000	—	—	806	25,000	150,806	140,391
I R Selby**	125,000	—	—	806	25,000	150,806	46,803
J D Abbott***	—	—	—	—	—	—	158,462
P S A Bladen*	—	—	—	—	—	—	212,819
Non-executive Directors:							
E Shaw****	35,000	—	—	—	—	35,000	40,000
A Hambro*****	—	—	—	—	—	—	—
	433,333	—	—	1,612	75,000	509,945	643,475

Executive Directors are appointed on standard executive service agreements with notice periods of between 6 and 12 months. Bonus are payable based on a combination of personal and corporate performance objectives. Bonus payments are non-pensionable. Standard benefits include participation in companywide healthcare and life assurance schemes.

Mike Read did not take any additional remuneration above his Chairman fees of £25,000 per annum in 2018 despite taking over duties as full time Chief Executive Officer in November 2017 in order to support the Company's financial position and help it husband resources at that point. This additional effort has been recognised by a contingent £100,000 bonus payable under certain circumstances (such as departure (good leaver), death, redundancy, retirement, change of control) provided that the Company has achieved certain valuation metrics at that point.

* P S A Bladen resigned 13 November 2017

** I R Selby appointed 15 January 2018

*** J D Abbott resigned 31 March 2018

**** E Shaw provided additional services in the year relating to Group restructuring and the fee of £15,000 (included in her remuneration for the year). In the prior year fee of £20,000 included in the remuneration was settled by the issuance of 444,444 shares at 4.5 pence each on 6 March 2018.

***** A Hambro appointed 28 March 2019

Group's policy on payment of creditors

It is the Group's policy to pay suppliers in accordance with the terms and conditions agreed between the Group and its suppliers, provided that the goods and services have been supplied in accordance with the agreed terms and conditions. At the end of the financial year ended 31 March 2019, creditors' days were 62 days (2018: 66 days). At present the vast majority of the Group's creditors, including taxation are within agreed terms.

Political and charitable donations

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

Financial Instruments

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

Financial instruments are disclosed and discussed in note 24 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. The Group continues to invest in employee development and retention, and in the year recruited a dedicated and professionally qualified HR manager to support this.

Directors' report

Health and safety

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

Principal Risks and Uncertainties

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

Cyber Security

The Group is a high-profile provider of Cyber Security services to governmental and corporate customers. A breach of its own cyber security could be reputationally highly damaging and could lead to a loss of existing customers and reduced ability to gain new customers. This could by definition, create pressure on the Group's cash flows.

The Group mitigates this by a combination of people, processes and technologies. A dedicated CISO is in situ to provide independent (of operations) oversight of the business functions to review our IT security. Regular training is given to all staff including online courses run by dedicated providers and this includes refresher training. The CISO is running seminars and briefings around the organisation to advise on appropriate practices. The business continues to invest in its infrastructure and resources to ensure that its internal systems are configured to ensure good security. The Group continually reviews its technology infrastructure for delivery of customer services to align them with market requirements and this includes the use of 3rd party and proprietary systems.

Reliance on Key Contracts and Business Relationships

The Group is reducing its customer concentration risk by acquisition of further customers through organic development as well as M&A. In the 12 months to 31 March 2019, no customer on an annual contract represents more than 10% of revenue. Many customers, particularly in the Cyber division's consulting revenues do not have long term agreements but have repeatedly transacted with the Group for many years. Where the Group uses external licences for its operations it seeks protections such as multiple suppliers and escrow arrangements for source code.

Pipeline opportunities

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

The Company may need additional access to capital in the future

The Group's capital requirements depend on numerous factors, including its ability to expand its business and its strategy of making complementary acquisitions. If its capital requirements vary materially from its current plans, the Group may require further financing. Any additional equity financing may be dilutive to shareholders, and debt financing, if available, may involve restrictions on financing and operating activities and adversely affect the Group's dividend policy. In addition, there can be no assurance that the Group will be able to raise additional funds when needed or that such funds will be available on terms favourable or acceptable to the Group. If the Group is unable to obtain additional financing as needed, the Group may be required to reduce the scope of the Group's operations or anticipated expansion, dispose of assets or to cease trading.

Management of future growth

The Group's plans for growth will challenge the Group's management team, customer support, marketing, administrative and technological resources. If the Group is unable to manage its growth effectively its business, operations or financial condition may deteriorate. The Group will consider future acquisition opportunities. If the Group is unable successfully to integrate an acquired company or business, the acquisition could lead to disruptions to the business. If the operations or assimilation of an acquired business does not accord with the Group's expectations, the Group may have to decrease the value afforded to the acquired business or realign the Group's structure.

Going Concern

The Group made losses of £1.8m (2018: £2.0m) in the year of which £1.2m (2018: £1.6m) relates to the Adjusted EBITDA performance of the business. Cash balances as at 31 March 2019 stood at £2.4m and these were seen by the Board as sufficient to achieve break even and cash generation on its organic plans. Should the Group not achieve its revenue and growth targets, the Board routinely prepares alternative stress test scenarios to deal with lower performance and any ensuing shortfall in working capital. This assumes that cost reductions and discretionary expansion spend would be curtailed as well as cessation of certain investment spends. Other measures could involve the disposal of assets or business units. Furthermore, the Group could seek, as in previous years, the support of investors and Directors (debt or equity) and has received offers of invoice discounting facilities should it want them.

Based upon the above the Directors have a reasonable expectation that the Group has adequate working capital for the twelve months following the date of signing these accounts. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Directors' report

Information to shareholders - Website

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

Substantial shareholdings

On 7 August 2019, the following were holders of 3% or more of the Group's issued share capital:

Registered holder	Ordinary shares	Percentage of issued share capital
Octopus VCT funds	50,000,000	12.49%
Amati AIM VCT	45,000,000	11.24%
Unicorn VCT	33,333,333	8.32%
Miton plc	33,333,333	8.32%

Auditors

Falanx Group Limited, the global cybersecurity and intelligence provider, announces that, following a periodic review, BDO LLP was on 28 May 2019 appointed as auditors to the Group. Kingston Smith LLP, the outgoing auditors confirmed that there were no circumstances connected with its resignation which it considers should be brought to the attention of the members or creditors of the Company.

Disclosure of information to the auditors

So far as the Directors are aware, there is no relevant audit information of which the Group's auditors are unaware and they have taken all steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Statement of Directors' Responsibilities

The Statement of Directors' Responsibilities can be found on page 18 of these financial statements. The Statement of Directors' Responsibilities forms part of the Directors' report.

On behalf of the Board

I R Selby
Director

18 September 2019

Statement of Directors' Responsibilities

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

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

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

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website.

Corporate Governance Report

Statement by the Chairman on Corporate Governance

As a Company listed on the AIM market of the London Stock Exchange Falanx Group Limited (Falanx) has chosen to comply with the Quoted Companies Alliance Corporate Governance Code "the Code" in accordance with AIM Rule 26.

This report describes how the Group has complied with the Code and explains any departures from the ten principles within the Code. A description of the Board and its committees, together with the Group's systems of internal financial control is set out below.

1. Generation of Long-Term Growth and Shareholder Value

The Company is addressing markets which it believes have long term growth potential with industry growth rates of greater than GDP. The Security sector has traditionally grown ahead of GDP against a backdrop of political, economic, social and technological drivers. The Company provides highly relevant services to its clients to help them protect their organisations and consistently invests in innovation. The Company's strategy is to generate sustainable cash flows and profits from predictable and growing recurring revenues.

2. The Board

The Board comprises a non-executive Chairman, the Chief Executive Officer, the Chief Financial Officer, the Chief Strategy Officer and one independent non-executive director. It is intended that Board will evolve as the Group grows to include at least one more independent non-executive director including a qualified accountant or similar as audit committee chair and a search is currently underway. In March 2019 Alex Hambro was appointed as non-executive chairman.

The Board meets at least 11 times a year. The Chief Executive, the Chief Strategy Officer and the Chief Financial Officer are engaged full-time and the independent non-executive Director and non-executive Chairman are required to spend two days per month considering Company matters and attending the monthly Board meeting. Executive Directors along with senior management meet on at least monthly basis and they are in regular close communication as a matter of routine.

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

Directors biographies are on <https://falanx.com/meet-the-board/>.

3. Board matters

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

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

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

4. Corporate culture

The Board is responsible for ensuring a high standard of corporate conduct. The Board achieves this by ensuring that appropriate policies on behaviour and ethics are in place and signed up to by all employees. Performance is appraised taking into account not just the achievement of objectives, but the behaviour's demonstrated to do so. All managers and the Board lead by example in their behaviour and ethical values demonstrated. The relevant senior management present to the Board at least quarterly (and mostly monthly) on their area's performance. The Company has recently recruited its first dedicated and professionally qualified HR manager who will work to support the high standards expected. The Company has a dedicated Chief Information Security Officer who manages the specific risks around the Group's operations. The Company seeks to minimise its environmental impact where possible, an example being the use of video conferencing to reduce travel costs.

5. Board Performance and Delivering Growth

The performance of the Board is primarily measured by the achievement of certain KPI's in the business which are aligned with the growth strategy. These include measures against budgeted gross margins, Adjusted EBITDA, recurring revenues, forward contract book, customer satisfaction, debtor performance, cash usage and generation, project deliveries and return on invested capital.

6. Succession Planning

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

Corporate Governance Report

7. Company Secretary

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

8. Board Committees

The Board has a remuneration committee and an audit committee.

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

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

9. Engagement with Shareholders

On 27 March 2019 the company announced a variation of its memorandum and articles of association to reduce Directors' powers to issue shares and to bring it more into line with typical UK structures. These changes were voluntarily done by the Company and were not required under BVI law. The Board values the views of its shareholders. The company will going forward, hold Annual General Meetings which are used to communicate with all investors, and they are encouraged to participate. The Directors are available to answer questions. Separate resolutions are proposed on each issue so that they can be given proper consideration and there is a formal resolution to approve the Annual Report. Shareholders can also contact the Company Secretary or the Chairman via the Company's website.

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

10. Internal control

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

Management structure

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

Quality and integrity of personnel

The integrity and competence of personnel are ensured through high recruitment standards including vetting of staff under relevant security standards, and subsequent training courses. High quality personnel are an essential part of the control environment. Staff are given regular training on cyber security and a dedicated platform is in place to support this.

Identification of business risks

The Board is responsible for identifying the major business risks faced by the Group and for determining the appropriate courses of action to manage those risks. The Boards of our Group businesses also actively identify risks and are reviewed at most Board meetings and are formally reviewed in greater depth on a quarterly basis and ensure mitigating controls and appropriate insurances are in place. These are done at both a top level and are cascaded down through the organisation. Business risks are covered in more detail on page 16.

Budgetary process

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

Authorisation procedures

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

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

Corporate Governance Report

11. Advisors

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

Statement of Compliance

Save for the Companies Act, there is no mandatory corporate governance regime in the British Virgin Islands with which the Group must comply. However, the Directors recognise the importance of sound corporate governance and in accordance with AIM Rule 50 complies with the QCA Guidelines for AIM Companies.

Board of Directors

The Board's principal responsibilities include assisting in the formulation of corporate strategy, reviewing and approving all significant corporate transactions, monitoring operational and financial performance, reviewing and approving annual budgets and generally assisting management to enhance the overall performance of the Group in order to deliver maximum value to its shareholders. The Group holds Board meetings at least eight times each financial year and at other times as and when required. The Group will be adding additional relevant non-executive Directors in the year to further balance the Board.

Committees

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

Audit Committee

The Audit Committee comprises Alex Hambro (Chairman) of Emma Shaw (non-executive) and meets at least twice a year. Other Executive Directors are permitted to attend meetings at the discretion of the Chairman of the Committee. There is an opportunity for any meeting to be in private between the Non-Executive Director and the Company's auditor to consider any matter they wish to bring to the attention of the Committee. The terms of reference and areas of delegated responsibility of the Audit Committee are in the consideration and approval of the following matters:

- monitoring the quality and effectiveness of the internal control environment, including the risk management procedures followed by the Group;
- reviewing the Group's accounting policies and ensuring compliance with relevant accounting standards;
- reviewing the Group's reporting and accounting procedures;
- ensuring that the financial performance of the business is properly measured, controlled and reported on;
- reviewing the scope and effectiveness of the external audit and compliance by the Group with statutory and regulatory requirements;
- approving the external auditors' terms of engagement, their audit plan, their remuneration and any non-audit work;
- considering reports from the auditor on the outcome of the audit process and ensuring that any recommendations arising are communicated to the Board and implemented on a timely basis;
- reviewing the Board's statement on internal control in the Annual Report; and
- ensuring compliance with the relevant requirements of the AIM Rules.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee (previously two separate committees) comprises Emma Shaw (Chairman), Alex Hambro and Mike Read and meets as and when necessary. It keeps under review the skill requirements of the Board and the skill, knowledge, experience, length of service and performance of the Directors. It also reviews their external interests with a view to identifying any actual, perceived or potential conflicts of interests, including the time available to commit to their duties to the Group. It sets and reviews the scale and structure of the Executive Directors' remuneration packages, including share options and the terms of the service contracts. The remuneration and the terms and conditions of the Non-Executive Directors are determined by the Executive Directors with due regard to the interests of the shareholders and the performance of the Group. The Committee also makes recommendations to the Board concerning the allocation of share options to employees.

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

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

Corporate Governance Report

Internal Control

The Board has overall responsibility for ensuring that the Group maintains a system of internal control to provide it with reasonable assurance regarding the reliability of financial information used within the business and for publication. The Board is also responsible for ensuring that assets are safeguarded, and risk is identified as early as practicably possible. As noted, the Audit Committee has a significant role in this area. The internal control systems established are designed to manage rather than completely eliminate risk and can only provide reasonable but not absolute assurance against misstatement or loss. The Group does not currently have an internal audit function, and this will be kept under review as the Group progresses. The Board reviews the effectiveness of the systems of internal control and its reporting procedures and augments and develops these procedures as required to ensure that an appropriate control framework is maintained at all times. The principal control mechanisms deployed by the Group are:

- Board approval for all strategic and commercially significant transactions;
- detailed scrutiny of the monthly management accounts with all material variances investigated;
- executive review and monitoring of key decision-making processes at subsidiary Board level;
- Board reports on business performance and commercial developments;
- periodic risk assessments at each business involving senior executive management;
- standard accounting controls and reporting procedures; and
- regularly liaising with the Group's auditor and other professionals as required.

Shareholder Communication

The Group's website (www.falanx.com) is the primary source of information on the Group. This includes an overview of the activities of the Group, information on the Group's subsidiaries and details of all recent Group announcements. All announcements are reviewed by the Board and its NOMAD ahead of announcement and the Board continually keeps the need for any regulatory announcement under review.

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 18 September 2019 and signed on its behalf by

I R Selby
Director

Independent auditors' report

to the members of Falanx Group Limited

Opinion

We have audited the financial statements of Falanx Group Limited (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 March 2019 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statements of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 March 2019 and of the Group's loss for the year then ended; and
- have been properly prepared in accordance with IFRS as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate, or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

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

Key audit matter	How we addressed the key audit matter in the audit
<p><i>Carrying value of intangibles – customer relationships</i></p> <p>Intangible assets, specifically customer relationships, represent a significant part of the assets of the Group and there are significant judgements and estimates that need to be made in carrying out the valuation of these assets which is therefore considered to be a significant risk. These judgements are made in respect of the underlying assumptions include revenue growth rates, revenue multiples, attrition rate, return on workforce, useful life and the discount factor applied to present value of the balances.</p> <p>Management is required to consider whether there are any indications of impairment but in this case determined to conduct an impairment review in order to assess carrying values at the end of the 12 month re-measurement period.</p> <p>The valuation was carried out by a third party. The accounting policies are disclosed in Notes 2 and 3 and details of the intangibles including inputs to the valuation model are disclosed in Note 14.</p>	<p>In this area our audit work included the following:</p> <ul style="list-style-type: none">• The third party valuation model was subjected to a thorough evaluation by our internal valuation experts.• The inputs and assumptions used in the model were checked to supporting documentation and industry benchmarks.• The appropriateness and disclosure of the significant judgements and estimates used by management's was assessed in relation to the results of the evaluation of the model.• We held a discussion with the external valuer to challenge the key assumptions, gain a better understanding of their independence and quality control procedures and their approach to valuation.• The instructions provided to the valuer was reviewed for completeness and to check that there was no evidence of management bias <p>Key observation: Based on the outcome of the above procedures, we did not identify any indication that any impairment was required.</p>

Independent auditors' report

to the members of Falanx Group Limited

Our application of materiality

We set certain thresholds for materiality. These helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

We determined the materiality for the Group financial statements as a whole to be £87,000, calculated with reference to a benchmark of the Group's losses before tax, of which it represents about 5%.

Whilst materiality for the financial statements of a whole was £87,000, each component of the Group was audited to a lower level of materiality. Significant component materiality ranged from £6,000 to £48,000.

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. The Group's performance materiality was determined as a percentage of materiality for the financial statement as a whole in the range of 65% to 45% depending on our assessment of risk.

We reported to the Audit Committee all potential adjustments in excess of £4,300. We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of the valuation of customer relationships which have a high level of estimation uncertainty involved.

We considered the risk of the financial statements being misstated or not prepared in accordance with the underlying legislation or standards. We then directed our work toward areas of the financial statements which we assessed as having the highest risk of containing material misstatements.

There are 5 significant components in the Group, which are all registered and operate in the UK, each of which is subject to a full scope audit by BDO LLP.

We gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considered the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud. These included but were not limited to compliance with Companies Act 2006, the AIM rules, the principles of the QCA Corporate Governance Code and IFRS as adopted by the European Union.

We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion.

We focused on laws and regulations that could give rise to a material misstatement in the Group financial statements. Our tests included, but were not limited to:

- agreement of the financial statement disclosures to underlying supporting documentation;
- enquiries of management;
- review of minutes of board meetings throughout the period; and
- obtaining an understanding of the control environment in monitoring compliance with laws and regulations.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

Independent auditors' report

to the members of Falanx Group Limited

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Report and Financial Statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs(UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Use of our report

This report is made solely to the Parent Company's members, as a body, in accordance with our engagement letter dated 7 May 2019. Our audit work has been undertaken so that we might state to the Parent Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Paul Fenner
for and on behalf of BDO LLP
Chartered Accountants
London, UK

18 September 2019

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

Consolidated income statement

for the year ended 31 March 2019

	Note	2019 £	Restated 2018 £
Revenue	4	5,212,136	3,020,935
Cost of sales		(2,924,210)	(2,079,891)
Gross profit		2,287,926	941,044
Administrative expenses		(4,144,508)	(3,406,009)
Operating loss	6	(1,856,582)	(2,464,965)
Analysis of operating loss			
Operating loss		(1,856,582)	(2,464,965)
Share option expense		60,715	48,763
Depreciation and amortisation		369,071	298,138
Exceptional costs	5.1	180,921	528,563
Adjusted EBITDA loss	5.2	(1,245,875)	(1,589,501)
Finance income	9	1,526	633
Finance costs	9	(4,257)	(2,900)
Finance costs – net		(2,731)	(2,267)
Loss before income tax		(1,859,313)	(2,467,232)
Income tax credit	10	28,442	474,798
Loss for the year		(1,830,871)	(1,992,434)
Earnings per share			
Basic earnings per share	11	(0.58)p	(1.24)p
Diluted earnings per share	11	(0.58)p	(1.24)p

Consolidated statement of comprehensive income

for the year ended 31 March 2019

	Note	2019 £	Restated 2018 £
Loss for the year		(1,830,871)	(1,992,434)
Other comprehensive income:			
Re-translation of foreign subsidiaries	31	3,053	(74,609)
Other comprehensive income for the year, net of tax		3,053	(74,609)
Total comprehensive income for the year		(1,827,818)	(2,067,043)
Attributable to:			
Owners of the parent		(1,827,818)	(2,067,043)
Total comprehensive income for the year		(1,827,818)	(2,067,043)

Items in the statement above are disclosed net of tax. The income tax relating to each component of other comprehensive income is disclosed in note 10.

Results for 2018 have been restated, refer to note 31 for the prior year adjustment.

The notes on pages 30 to 58 are an integral part of these consolidated financial statements.

Consolidated statement of financial position

as at 31 March 2019

	Note	2019 £	Restated 2018 £
Assets			
Non-current assets			
Property, plant and equipment	13	111,852	132,544
Intangible assets	14	5,386,573	4,930,371
		5,498,425	5,062,915
Current assets			
Inventories	17	3,828	4,382
Trade and other receivables	18	2,112,097	1,467,434
Cash and cash equivalents	19	2,443,686	914,961
		4,559,611	2,386,777
Total assets		10,058,036	7,449,692
Equity			
Capital and reserves attributable to equity holders of the Company			
Share capital	20 / 21	17,903,427	13,868,734
Translation reserve		(108,580)	(111,633)
Shares option and warrant reserve	12	358,959	255,483
Retained earnings	22	(10,526,752)	(8,695,881)
Total equity		7,627,054	5,316,703
Liabilities			
Non-current liabilities			
Deferred tax liability		7,593	9,529
		7,593	9,529
Current liabilities			
Trade and other payables	23	1,313,558	1,374,981
Contract liabilities	4	1,109,831	748,479
		2,423,389	2,123,460
Total liabilities		2,430,982	2,132,989
Total equity and liabilities		10,058,036	7,449,692

The notes on pages 30 to 58 are an integral part of these consolidated financial statements.

The financial statements on pages 26 to 29 were authorised for issue by the Board of Directors on 18 September 2019 and were signed on its behalf by:

M D Read
Director

I R Selby
Director

Company number: 1730012 (British Virgin Islands)

Consolidated statement of changes in equity

for the year ended 31 March 2019

	Note	Share capital £	Retained earnings £	Translation reserve £	Share option and warrant reserve £	Total £
Balance at 1 April 2017 restated		7,410,507	(6,703,447)	(37,024)	196,606	866,642
Loss for the year		—	(1,992,434)	—	—	(1,992,434)
Re-translation of foreign subsidiaries		—	—	(74,609)	—	(74,609)
Transactions with owners:						
Issue of share capital		6,783,438	—	—	—	6,783,438
Costs of issue of share capital		(325,211)	—	—	—	(325,211)
Share based payment charge	12	—	—	—	58,877	58,877
Balance at 31 March 2018		13,868,734	(8,695,881)	(111,633)	255,483	5,316,703
Loss for the year		—	(1,830,871)	—	—	(1,830,871)
Re-translation of foreign subsidiaries		—	—	3,053	—	3,053
Transactions with owners:						
Issue of share capital		4,255,000	—	—	—	4,255,000
Costs of issue of share capital		(220,307)	—	—	—	(220,307)
Share based payment charge	12	—	—	—	103,476	103,476
Balance as at 31 March 2019		17,903,427	(10,526,752)	(108,580)	358,959	7,627,054

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

Retained earnings represents the cumulative earnings of the Group attributable to the owners of the parent.

The translation reserve represents the cumulative movement in the translation of foreign subsidiaries into the presentation currency.

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

The notes on pages 30 to 58 are an integral part of these consolidated financial statements.

Consolidated cash flow statement

for the year ended 31 March 2019

	Note	2019 £	Restated 2018 £
Cash flows from operating activities			
Loss before tax		(1,859,313)	(2,467,232)
Adjustments for:			
Depreciation		75,526	65,430
Amortisation and impairment		293,546	232,708
Share based payment	6	60,715	81,263
Loss on disposal of property, plant and equipment		—	1,026
Net finance cost recognised in profit or loss		2,731	2,267
		(1,426,795)	(2,084,538)
Changes in working capital:			
Decrease in inventories		554	4,118
Increase in trade and other receivables		(588,755)	(741,701)
Increase in trade and other payables		98,006	75,156
Cash used in operations		(1,916,990)	(2,066,965)
Interest paid		(4,257)	(2,900)
Net cash used in operating activities		(1,921,247)	(2,069,865)
Cash flows from investing activities			
Interest received		1,526	633
Acquisition of property, plant and equipment		(51,251)	(67,694)
Disposal of property, plant and equipment		—	150
Expenditure on development cost		(461,008)	(499,179)
Acquisition of subsidiaries net of cash acquired		(19,803)	(3,160,483)
Net cash used in investing activities		(530,536)	(3,726,573)
Cash flows from financing activities			
Proceeds from issue of shares		4,155,000	6,617,500
Costs of share issuance		(177,545)	(325,212)
Net cash generated from financing activities		3,977,455	6,292,288
Net increase in cash equivalents		1,525,672	495,850
Cash and cash equivalents at beginning of year		914,961	430,459
Foreign exchange gains on cash and cash equivalents		3,053	11,348
Cash and cash equivalents at end of year		2,443,686	914,961

The notes on pages 30 to 58 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

for the year ended 31 March 2019

1. General information

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

The Company is a public limited company which is listed on the AIM Market of the London Stock Exchange and is incorporated and domiciled in the British Virgin Islands. The address of its registered office is PO Box 173, Kingston Chambers, Road Town, Tortola, British Virgin Islands. The UK registered office is Five Kings House, 1 Queen Street Place, London, EC4R 1QS.

2. Summary of significant accounting policies

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

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and International Financial Reporting Interpretations Committee ("IFRIC") interpretations. The functional and presentational currency for the financial statements is Sterling. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available for sale financial assets, financial assets and financial liabilities at fair value through profit or loss.

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

2.1.1 Going concern

The Group made losses of £1.8m (2018: £2.0m) in the year of which £1.2m (2018: £1.6m) relates to the Adjusted EBITDA performance of the business. Cash balances as at 31 March 2019 stood at £2.4m and these were seen by the Board as sufficient to achieve break even and cash generation on its organic plans. Should the group not achieve its revenue and growth targets the Board routinely prepares alternative stress test scenarios to deal with lower growth and any ensuing shortfall in working capital. This assumes that cost reductions and discretionary expansion spend would be curtailed as well as cessation of certain investment spends. Other measures could involve the disposal of assets or business units. Furthermore, the Group could seek, as in previous years, the support of investors and Directors (debt or equity) and has received offers of invoice discounting facilities should it want them.

Based upon the above the Directors have a reasonable expectation that the Group has adequate working capital for the twelve months following the date of signing these accounts. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

2.1.2 New and Revised Standards

Standards in effect in 2019

The following IFRS and IFRIC Interpretations have been issued and have been applied by the Group in preparing these financial statements:

- IFRS 9, 'Financial Instruments'
- IFRS 15, 'Revenue from Contracts with Customers'
- IFRS 2 Amendments, 'Classification and Measurement of Share-based Payment Transactions'
- IFRIC 22, 'Foreign currency transactions and advance consideration'

The Company intends to adopt these Standards and Interpretations when they become effective, rather than adopt them early.

- IFRS 16, 'Leases'
- IFRIC 23, 'Uncertainty over income tax treatments'

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the Group in future periods except that IFRS 16 is a significant change to lessee accounting and all leases will require balance sheet recognition of a liability and a right-of-use asset except short term leases and leases of low value assets. The lease estate of the Group is small and only short-term leases were outstanding at the balance sheet date.

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.

Alternative performance measures (APM)

In the reporting of financial information, the Directors have adopted the APM 'Adjusted EBITDA' (APMs were previously termed 'Non-GAAP measures'), which is not defined or specified under International Financial Reporting Standards (IFRS).

Notes to the consolidated financial statements

for the year ended 31 March 2019

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

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

Purpose

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

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

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

2.2 Consolidation

Subsidiaries

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

2.3 Segmental reporting

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

2.4 Revenue recognition

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

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities.

Revenue is recognised on the following bases:

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

Notes to the consolidated financial statements

for the year ended 31 March 2019

The Group has adopted application of IFRS 15 "Revenue from contracts with customers" from 1 April 2018, applying the cumulative catchup method of transition. The core principle is that revenue should only be recognised as the client receives the benefit of the services provided under a commercial contract, in an amount that reflects the consideration to which the provider expects to be entitled for the transfer of the goods or services.

Performance obligations and timing of revenue recognition

Revenue from the provision of professional services such as penetration testing, consultancy and strategic intelligence assignments are recognised as services are rendered, based on the contracted daily billing rate and the number of days delivered during the period. Revenue from pre-paid contracts are deferred in the balance sheet and recognised on utilisation of service by the client. This treatment was used in prior years. There has been no change in recognition compared to the previous policy.

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

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

Determining the transaction price

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

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

Contract Assets (accrued incomes) balance were £197,230 (2018: £59,887) and is included in prepayments and accrued income (note 18). Contract Liabilities (deferred incomes) balance of £1,109,831 (2018: £748,479). Included in the Contract Liabilities at the 31 March 2019 were approximately £154,000 residual balance from prior year. All Contract Assets at the 2019 year end arose towards the end of the period.

The Group has used the cumulative catchup transitional approach and no adjustment has been required. The Board considers that the information in note 4 adequately depicts how the nature, amount, timing and uncertainty of revenue and cash flow are affected by economic factors.

2.5 Taxation

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

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

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

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

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

Notes to the consolidated financial statements

for the year ended 31 March 2019

2.6 Foreign Currency

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

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

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

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

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

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

2.7 Property, plant and equipment

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

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

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

2.8 Intangible assets

Acquired intangible assets are shown at historical cost. Acquired intangible assets have a finite useful life and are carried at cost, less accumulated amortisation over the finite useful life. All charges in the year are shown in the income statement in administrative expenses.

Goodwill

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

Software and brand licences

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

Research and development

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

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

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

Other development expenditures that do not meet these criteria are charged to the income statement in the year incurred. Development costs recognised as assets are amortised over their estimated useful life, which does not exceed 5 years.

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for the year ended 31 March 2019

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

Customer relationships

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

- First Base: 10 years
- Securestorm: 3 years

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 Inventories

Inventories mainly comprises finished goods which is stated at the lower of cost and net realisable value. Cost is based on purchase price and net realisable value is based on estimated selling price less disposal costs.

2.11 Financial instruments

Financial Instruments IFRS 9 'Financial instruments' replaces IAS 39 'Financial instruments: Recognition and Measurement' with the exception of macro hedge accounting. The standard is effective for accounting periods beginning on or after 1st January 2018. The standard covers three elements:

- Classification and measurement: Changes to a more principle-based approach to classify financial assets as either held at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss, dependant on the business model and cash flow characteristics of the financial asset;
- Impairment: Moves to an impairment model based on expected credit losses;
- Hedge accounting: The IFRS 9 hedge accounting requirements are designed to allow hedge accounting to be more closely aligned with the Group's underlying risk management. A new International Accounting Standard Board (IASB) project is in progress to develop an approach to better reflect dynamic risk management in entities' financial statements.

The Group has applied IFRS 9 for the first time in the year ended 31 March 2019, in replacement of IAS 39. The Group applied the simplified method of the expected credit loss model when calculating impairment losses on its financial assets measured at amortised cost, such as trade receivables. This resulted in greater judgement due to the need to factor in forward-looking information when estimating the appropriate amount to provisions.

In applying IFRS 9 the Group considered the probability of a default occurring over the contractual life of its trade receivables balances on initial recognition of those assets. The Group has reviewed its historic bad debt rate as 0.07% based on the total bad debt expense recorded by the Group since 1 April 2017 to 31 March 2019 compared to the aggregate of invoices issued (net of VAT and credit notes). The Group has not restated comparatives on adoption of IFRS 9 as there has been no material impact and the provision calculated under the expected loss model is not significantly different. Due to this there has been no adjustment recorded in respect of the IFRS 9 transition in opening equity at 1 April 2018.

The classification of certain financial instruments was also affected on initial application of IFRS 9. Financial assets previously categorised as Loan and receivables under IAS 39 are now classified as Amortised cost.

(a) Financial Assets

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

- Initial Recognition and Measurement: Financial Assets are classified as amortised cost and initially measured at fair value.
- Subsequent Measurement: Financial assets are subsequently measured at amortised cost, using the effective interest method, less impairment. Interest is recognised by applying the effective interest method, except for short-term receivables when the recognition of interest would be immaterial. The company only offers short periods of credit to its customers and recorded average debtor days of 47 at 31 March 2019 (2018: 65)
- Derecognition of Financial Assets: The Company derecognises a Financial Asset only when the contractual rights to the cash flows from the asset expire, or it transfers the Financial Asset and substantially all the risks and rewards of ownership of the asset to another entity.

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(b) Financial Liabilities and Equity Instruments

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

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

2.12 Share capital

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

2.13 Reserves

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

2.14 Trade payables

Trade payables are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

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

2.15 Leases

Leases where the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, are charged to the income statement on a straight-line basis over the term of the lease. IFRS 16 has not been implemented in this reporting period as the Company's lease portfolio is small and short term (less than 12 months).

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

2.16 Pensions

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

2.17 Share-based payments

The cost of share-based payment arrangements, which occur when employees receive shares or share options, is recognised in the income statement over the period over which the shares or share options vest.

The expense is calculated based on the value of the awards made, as required by IFRS 2, 'Share-based payment'. The fair value of the awards is calculated by using the Black-Scholes and Monte Carlo option pricing models taking into account the expected life of the awards, the expected volatility of the return on the underlying share price, vesting criteria, the market value of the shares, the strike price of the awards and the risk-free rate of return. The charge to the income statement is adjusted for the effect of service conditions and non-market performance conditions such that it is based on the number of awards expected to vest. Where vesting is dependent on market-based performance conditions, the likelihood of the conditions being achieved is adjusted for in the initial valuation and the charge to the income statement is not, therefore, adjusted so long as all other conditions are met.

Where an award is granted with no vesting conditions, the full value of the award is recognised immediately in the income statement.

2.18 Provisions

Provisions are recognised in the statement of financial position where there is a legal or constructive obligation to transfer economic benefits as a result of a past event. Provisions are discounted using a rate which reflects the effect of the time value of money and the risks specific to the obligation, where the effect of discounting is material.

Provisions are measured at the present value of expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time, value of money and the risks specific to the obligation. The increase in provision due to the passage of time is recognised as interest expense.

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3. Critical accounting estimates and judgements

The preparation of the Group financial statements in conformity with IFRSs as adopted by the European Union requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the present circumstances. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Group financial statements are disclosed below.

Judgement:

Impairment of intangible assets

Management have assessed indicators of impairment and conducted an impairment review of intangible assets. They have made judgements as to the likelihood of them generating future cash flows, the period over which those cash flows will be received and the costs which are attributable against them. The recoverable amount is determined using the value in use calculation. The use of this method requires the estimation of future cash flows and the selection of a suitable discount rate in order to calculate the present value of these cash flows.

In support of the assumptions, management use a variety of sources. In addition, management have undertaken scenario analyses, including a reduction in sales forecasts, which would not result in the value in use being less than the carrying value of the cash-generating unit. However, if the business model is not successful, the carrying value of the intangible assets may be impaired and may require writing down.

Management have exercised judgement in selecting the appropriate discount rate for application to intangible assets when carrying out impairment calculations and have applied a pre-tax discount rate of 15%. This is based on industry benchmarks. A review of the purchase price allocation for the business and assets of First Base Technologies LLP (incorporated in 2010 and acquired by Falanx on 23 March 2018) was carried out during the year and the original carrying value of the acquired customer base asset was reduced by £0.46m to £2.38m, based on a revision to the discount rate used from 12.75% to 15%, with the £0.46m being reclassified as goodwill. This adjustment is reflected in notes 14, 28 and 31 to these accounts and has been classified as a prior year adjustment.

Estimate:

Amortisation period of customer relationships

The First Base customer relationships intangible asset detailed in note 14 is being amortised over a 10-year period. The Directors consider this to be a realistic period given that this asset has a long trading history and that the annual churn of the acquired customer base when measured over a period from 2015 to 2018 was less than 10%. Customer specific projects drive demand in this division and the fact that a customer has not traded with the entity in a given period does not mean that it has no intention of doing so in the future based on the customers own project schedules.

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4. Segmental reporting

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

Reportable segments

The reportable segment results for the year ended 31 March 2019 are as follows:

	Intelligence	Cyber	Other segment	Total
	£	£	£	£
Assynt report	1,402,196	—	—	1,402,196
Professional services	238,765	2,567,845	—	2,806,610
Monitoring managed services	—	1,003,330	—	1,003,330
Revenues from external customers	1,640,961	3,571,175	—	5,212,136
Gross Margin	548,966	1,738,960	—	2,287,926
Segment Reported EBITDA	(54,706)	(88,250)	(1,344,555)	(1,487,511)
Share option expense	5,766	13,221	41,728	60,715
Exceptional costs (Note 5)	—	128,997	51,924	180,921
Segment Adjusted EBITDA	(48,940)	53,968	(1,250,903)	(1,245,875)
Finance costs-net	(827)	(2,134)	230	(2,731)
Depreciation and amortisation	(16,103)	(309,995)	(42,973)	(369,071)
Segment profit/(loss) for the year	(71,636)	(400,379)	(1,387,297)	(1,859,313)

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4. Segmental reporting continued

The reportable segment results for the year ended 31 March 2018 are as follows:

	Intelligence £	Cyber £	Other segment £	Total £
Assynt report	1,363,797	—	—	1,363,797
Professional services	530,934	585,827	—	1,116,761
Monitoring managed services	—	523,377	—	523,377
Other	—	—	17,000	17,000
Revenues from external customers	1,894,731	1,109,204	17,000	3,020,935
Gross margin	708,304	215,740	17,000	941,044
Segment Reported EBITDA	216,214	(999,501)	(1,383,540)	(2,166,827)
Share option expense	6,850	17,276	24,637	48,763
Exceptional costs (Note 5)	35,000	91,228	402,335	528,563
Segment Adjusted EBITDA	258,064	(890,997)	(956,568)	(1,589,501)
Finance costs-net	(2,668)	25	376	(2,267)
Depreciation and amortisation	(12,153)	(282,977)	(3,008)	(298,138)
Segment profit/(loss) for the year	201,393	(1,282,453)	(1,386,172)	(2,467,232)

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

Segment assets and liabilities as at 31 March 2019 and capital expenditure for the year then ended are as follows:

	Intelligence £	Cyber £	Other segment £	Total £
Contract assets	63,528	133,702	—	197,230
Other assets	2,085,245	5,252,009	2,039,553	9,376,807
Contract liabilities (deferred income)	679,068	430,763	—	1,109,831
Other liabilities	267,139	665,231	388,781	1,321,151
Capital expenditure - Tangible	2,203	54,480	—	56,683
Capital expenditure - Intangible	76,265	673,483	—	749,748

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for the year ended 31 March 2019

4. Segmental reporting continued

Segment assets and liabilities as at 31 March 2018 and capital expenditure for the year then ended are as follows:

	Intelligence £	Cyber £	Other segment £	Total £
Contract assets	37,037	22,850	—	59,887
Other assets	827,476	5,088,773	1,007,442	6,923,691
Contract liabilities (deferred income)	398,211	350,268	—	748,479
Other liabilities	243,641	562,265	578,604	1,384,510
Capital expenditure - Tangible	14,640	38,644	14,410	67,694
Capital expenditure - Intangible	—	4,382,982	—	4,382,982

Geographical information

The Group's business segments operate in six geographical areas, although all are 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 by geographical location	2019	2018
	£	£
United Kingdom	4,301,738	2,265,734
Europe	448,169	273,130
Australasia	78,948	131,459
United States	289,195	272,203
Middle East	86,208	70,924
Other countries	7,878	7,495
	5,212,136	3,020,945
Non-current assets	2019	2018
	£	£
United Kingdom	5,014,425	4,596,801
	5,014,425	4,596,801

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4. Segmental reporting continued

Major customers

No customer contributed 10% or more to the Group's revenue in 2019 (2018: 2). The highest individual customer contributed c6% of revenues.

Contract Assets (accrued incomes) balances were £197,230 (2018: £59,887) and are included in prepayments and accrued income (note 18). Included in the Contract Liabilities (deferred incomes) at the 31 March 2019 were approximately £154,000 residual balance from prior year. All Contract Assets at the 2019 year end arose towards the end of the period.

	Contract Assets 2019	Contract Assets 2018	Contract Liabilities 2019	Contract Liabilities 2018
	£	£	£	£
At 1 April	59,887	45,238	(748,479)	(432,827)
Transfers in the year from contract assets to trade receivables	(59,887)	(45,238)	—	—
Transfers from contract liabilities to revenue in the year	—	—	663,643	408,751
Amount recognised as revenue in the year not yet invoiced	197,230	59,887	—	—
Amount invoiced in advance not recognised as revenue in the year	—	—	(1,024,995)	(724,403)
At 31 March	197,230	59,887	(1,109,831)	748,479

5. Exceptional costs and Adjusted EBITDA

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

5.1 Exceptional costs

		2019	2018
		£	£
Acquisition costs	a)	16,024	201,532
Restructuring costs	b)	164,897	300,150
Cloud business development	e)	—	26,881
		180,921	528,563

a) Acquisition costs

Advisory and introduction costs incurred on acquisition of subsidiaries not capitalised.

b) Restructuring costs

Cost of restructuring the key management including severance payment and transition costs for integration of acquired subsidiary (First Base).

c) Cloud business development

Costs incurred in business development for a cloud business. This initiative was however discontinued in the year to 31 March 2018 as the Directors identified it as not viable in the long term.

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5. Exceptional costs and Adjusted EBITDA continued

5.2 Adjusted EBITDA

	2019	Restated 2018
	£	£
Operating loss	(1,856,582)	(2,464,965)
Depreciation and amortisation	369,071	298,138
EBITDA	(1,487,511)	(2,166,827)
Share option expense	60,715	48,763
Exceptional costs (note 5.1)	180,921	528,563
Adjusted EBITDA	(1,245,875)	(1,589,501)

A credit of £74,609 arising from foreign exchange translation movements on foreign subsidiaries was originally reported as an adjustment against EBITDA in the year ended 31 March 2018. This has been reclassified to other comprehensive income.

6. Operating loss

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

	2019	2018
	£	£
Depreciation of owned property, plant and equipment	75,526	65,430
Amortisation and impairment of intangible fixed assets	293,546	232,708
Loss on disposal of property, plant and equipment	—	1,026
Operating lease rentals – Land & Buildings	180,193	130,444
Share based payment expense	60,715	81,263
Foreign exchange loss	4,587	10,126

7. Auditors' remuneration

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

	2019	2018
	£	£
Remuneration receivable by the Company's auditors for the audit of consolidated and Company financial statements	17,500	23,000
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	30,500	28,000
– other services pursuant to legislation	—	16,000
– tax services	6,000	5,750
	54,000	72,750

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8. Employee benefit expense

	2019	2018
	£	£
Wages and salaries, including termination benefits	3,951,007	2,987,800
Social security costs	435,292	346,270
Other pension costs	57,773	15,460
Share options granted to employees	60,715	48,763
	4,504,787	3,398,293

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

	2019	2018
Operations	42	28
Development team	4	2
Sales and marketing	10	8
Administration and management	16	13
	72	51

Directors' emoluments

	2019	2018
	£	£
Emoluments, including benefits in kind	508,333	536,991
Compensation for loss of office	—	105,000
Pension costs	1,612	1,484
	509,945	643,475

The emoluments of the highest paid Director were as follows:

	2019	2018
	£	£
Emoluments, including benefits in kind	173,333	106,808
Compensation for loss of office	—	105,000
Pension costs	—	1,011
	173,333	212,819

The Directors consider that the only key management personnel of the Group are the Directors only.

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for the year ended 31 March 2019

9. Finance income and costs

	2019	2018
	£	£
Interest receivable	1,526	633
Interest payable - other	(4,257)	(2,900)
Net finance expense recognised in profit/(loss)	(2,731)	(2,267)

10. Income tax expense

	2019	2018
	£	£
Current tax		
Current tax on loss for the year	—	—
Over provision in prior year	1,494	(18,798)
Total current tax	1,494	(18,798)
Deferred tax		
Deferred tax credit for the year	(29,936)	(456,000)
Total deferred tax	(29,936)	(456,000)
Income tax credit	(28,442)	(474,798)

The parent Company is resident in the UK for tax purposes together with certain subsidiaries. Other subsidiaries are resident in foreign tax jurisdictions, however no group company currently has taxable profits.

Potential deferred tax asset

The extent to which deferred tax assets can be recognised is based on an assessment of the probability of the Group's future taxable income against which the deferred tax assets can be utilised. This is based on projected forecasts and budgets which are reviewed by the Directors and judgement is made as to whether the deferred tax asset can be recognised. At 31 March 2019, a deferred tax asset has not been recognised (2018: £nil). Accumulated tax losses (subject to HMRC) agreement stood at approximately £10.9m (2018: £9.2m).

The tax charge for the year is different from the standard rate of corporation tax in the United Kingdom of 19% (2018: 19%). The difference can be reconciled as follows:

	2019	2018
	£	£
Loss before tax	(1,859,313)	(2,467,232)
Tax calculated at the applicable rate based on the loss for the year 19% (2018: 19%)	(353,269)	(468,774)
Tax effects of:		
Creation of tax losses	278,064	410,400
Expenses not deductible for tax purposes	21,535	39,369
Accelerated capital allowances	53,670	19,005
Current tax on loss for the year	—	—

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11. Basic and diluted earnings per share

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

	2019	Restated 2018
Earnings attributable to equity holders of the Company (£)	(1,830,371)	(1,992,434)
Weighted average number of ordinary shares in issue	313,614,123	161,299,740
Basic and diluted loss per share (pence per share)	(0.58)	(1.24)

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

At 31 March 2019, 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. The prior year was restated from 1.56p per share as detailed in note 31.

12. Share based payment

The Company operates share-based payment arrangements to remunerate Directors and key employees in the form of a share option scheme. Vesting of the options is conditional on the completion of three years' service from the date of grant of the options (the vesting period) as well as share price performance. Most options vest on change of control such as an acquisition of the Company. The exercise price of the option is normally equal to the market price of an ordinary share in the Company at the date of grant. The options may be exercised over periods ranging from one to ten years from the date of grant and lapse if not exercised by that date.

	2019		2018	
	Average exercise price (pence)	Options	Average exercise price (pence)	Options
At 1 April	7.25	31,838,100	12.72	9,104,766
Granted	3.50	13,550,000	5.00	24,150,000
Granted	5.00	4,249,999	5.13	200,000
Granted	7.125	2,000,000	6.13	1,150,000
Granted	—	—	6.50	500,000
Granted	—	—	7.38	200,000
Forfeited	6.13	(150,000)	4.00	(100,000)
Forfeited	5.00	(2,500,000)	5.00	(2,000,000)
Forfeited	4.00	(33,333)	5.875	(1,166,666)
Forfeited	—	—	7.00	(200,000)
Exercised	—	—	—	—
Expired	—	—	—	—
At 31 March	6.13	48,954,766	7.25	31,838,100

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

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for the year ended 31 March 2019

12. Share based payment continued

Expiry date	Exercise price (pence)	Shares	
		2019	2018
28 July 2024	44.5	1,699,440	1,699,440
2 June 2025	14.5	100,000	100,000
16 May 2026	4.13	605,326	605,326
30 September 2026	4.00	266,667	300,000
7 October 2026	5.00	1,000,000	1,000,000
24 January 2027	5.875	1,933,334	1,933,334
3 July 2027	7.125	2,000,000	—
17 July 2027	6.50	500,000	500,000
22 August 2027	6.13	1,000,000	1,000,000
4 September 2027	6.13	—	150,000
19 September 2027	7.38	200,000	200,000
20 November 2027	5.13	200,000	200,000
14 March 2028	5.00	21,650,000	24,150,000
17 July 2028	5.0	4,249,999	—
7 January 2029	3.50	13,550,000	—
		48,954,766	31,838,100

At the balance sheet date, the average life outstanding on options was 8.93 years (2018: 9.56 years). No options had vested at either balance sheet date. All options had a 10-year life from date of grant. All options outstanding at the relevant period ends had price based vesting criteria which had not been achieved and were therefore unvested.

During the year 17,799,999 share options were granted. They were granted under the rules of the EMI scheme, and where an individual grant does not fall within HMRC EMI rules they are granted as an unapproved option which will typically be subject to PAYE and NI.

13,550,000 share options were granted at 3.50p, a price 19% over the then current share price. They vest in three tranches: the first tranche when the share price reaches 6.5p (25%), the second tranche when the share price reaches 9p (25%) and the third tranche when the share price reaches 12p (50%). The Share Options only vest if the average share price has reached the relevant threshold level for a period of three months, save for the event of a change of control in the Company, in which case they will vest in full.

4,249,999 share options were granted at price of 5p. They vest in three tranches: the first tranche when the share price reaches 7.5p (25%), the second tranche when the share price reaches 10p (25%) and the third tranche when the share price reaches 12.5p (50%). The share options only vest if the average share price has reached the relevant threshold level for a period of three months, save for the event of a change of control in the Company, in which case they will vest in full.

2,000,000 share options were granted at 7.125p. They vest in four tranches: the first tranche when the share price reaches 7.125p (25%), the second tranche when the share price reaches 10p (25%), the third tranche when the share price reaches 15p (25%) and the fourth tranche when the share price reaches 20p (25%). The share options only vest if the average share price has reached the relevant threshold level for a period of six months, save for the event of a change of control in the Company, in which case they will vest in full.

The weighted average fair value of the 17,799,999 (2018: 26,200,000) options granted during the year was determined using the Black-Scholes and Monte Carlo option pricing models. This resulted in a cost of 0.84 pence per option (2018: 3.41p). The significant inputs to the model were exercise price as shown above, an expected option life of three and a half years, expected volatility of 70% (2018: 50%) and a risk-free rate of return estimated between 1.02% (2018: 0.35%) and 0.92% (2018: 1.16%). The volatility is based on analysis of the volatility of the company's historical share price.

Notes to the consolidated financial statements

for the year ended 31 March 2019

12. Share based payment continued

The total share-based payment expense recognised in the income statement in respect of employee share options granted to Directors and employees is £60,715 (2018: £48,763). The fair value of warrants issued to the vendors of the trade and assets First Base Technologies LLP was £10,114. This is described in note 28 to these accounts.

A similar exercise was carried out on warrants (see note 20) using similar methodologies and a charge of £42,761 (2018: nil) was recorded. This arose as a commission on fundraising and the associated charge has been reflected against share capital as a cost of issue of share capital.

13. Property, plant and equipment

	Fixtures and fittings £	Computer equipment £	Total £
Cost			
At 1 April 2018	62,948	203,928	266,876
Additions through business combinations	—	5,432	5,432
Additions	3,453	47,798	51,251
Disposals	—	—	—
At 31 March 2019	66,401	257,158	323,559
Depreciation			
At 1 April 2018	32,293	102,039	134,332
B/fwd through business combinations	—	1,849	1,849
Charge for the year	12,906	62,620	75,526
Released on disposal	—	—	—
At 31 March 2019	45,199	166,508	211,707
Net book value			
At 31 March 2019	21,202	90,650	111,852
Cost			
At 1 April 2017	59,701	160,103	219,804
Additions	6,754	60,940	67,694
Disposals	(3,507)	(17,115)	(20,622)
At 31 March 2018	62,948	203,928	266,876
Depreciation			
At 1 April 2017	22,986	65,362	88,348
Charge for the year	12,525	52,905	65,430
Released on disposal	(3,218)	(16,228)	(19,446)
At 31 March 2018	32,293	102,039	134,332
Net book value			
At 31 March 2018	30,655	101,889	132,544

Notes to the consolidated financial statements

for the year ended 31 March 2019

14. Intangible assets

	Goodwill	Software and brand licences	Website costs	Development costs	Customer relationships	Total
	£	£	£	£	£	£
Cost						
At 1 April 2018	1,021,992	916,301	—	652,145	2,915,000	5,505,438
IFRS 3 re-measurement (note 28)	926,199				(460,085)	466,114
Additions	130,347	—	83,599	377,409	158,393	749,748
At 31 March 2019	2,078,538	916,301	83,599	1,029,554	2,613,308	6,721,300
Amortisation and impairment						
At 1 April 2018	53,438	912,743	—	—	75,000	1,041,181
Amortisation charge for year	—	3,558	9,382	—	280,606	293,546
Impairment in the year	—	—	—	—	—	—
At 31 March 2019	53,438	916,301	9,382	—	355,606	1,334,727
Net book value						
At 31 March 2019	2,025,100	—	74,217	1,029,554	2,257,702	5,386,573
At 1 April 2017	434,188	916,301	—	152,967	75,000	1,578,456
Additions	587,804	—	—	499,178	2,840,000	3,926,982
At 31 March 2018	1,021,992	916,301	—	652,145	2,915,000	5,505,438
Amortisation and impairment						
At 1 April 2017	—	740,973	—	—	67,500	808,473
Amortisation charge for year	—	171,770	—	—	7,500	179,270
Impairment in the year	53,438	—	—	—	—	53,438
At 31 March 2018	53,438	912,743	—	—	75,000	1,041,181
Net book value at 31 March 2018	968,554	3,558	—	652,145	2,840,000	4,464,257

Notes to the consolidated financial statements

for the year ended 31 March 2019

14. Intangible assets continued

14.1 Goodwill

As detailed in note 2.8 to the consolidated financial statements, the Directors test goodwill annually for impairment by calculating the value in use of each cash generating unit using discounted cash flow techniques and comparing it to the carrying amount of goodwill.

As allowed under IFRS 3, the allocation of the fair value of the purchase consideration across the tangible and intangible assets acquired on 23 March 2018 was reassessed within 12 months of purchase. The main changes were around the discount rate used which was increased from 12.75% to 15.00% and also adjustments made to reflect the value of an assembled workforce and full tax charges (ignoring the Group's £10.9m of tax losses). This resulted in a reduction in the potential value of the acquired customer base from £2.84m as originally recorded to £2.37m. This is shown as an adjustment on opening balances in the tabular note above

The Directors have undertaken an impairment review of the goodwill at the reporting date relating to the acquisition of Falanx Cyber Defence Limited, Cloudified Limited, the trade and assets of First Base Technologies LLP and Securestorm Limited.

Goodwill on acquisition of Falanx Cyber Defence, the trade and assets of First Base Technologies LLP and Securestorm Limited, relates to the professional services line of business brought in to enhance the Cyber division's service offering. As of 1 April 2019, the operations of all the entities have been amalgamated into Falanx Cyber Defence Limited to streamline operations.

The purchase of Cloudified Limited led to the development of the Group's technology platform Project Furnace.

Analysis of development cost and goodwill allocated to the Cyber segment:

	2019	2018
	£	£
Project Furnace	1,203,920	826,511
Professional cyber security services	1,850,734	1,720,387
Total	3,054,654	2,546,898

a) Recoverability of development costs – Project Furnace

The intangible asset created from the R&D investment in Project Furnace represents monitoring technology which is expected to begin contributing to the cyber segment's cash flows in the next 2 years including possible spin out programmes. The development costs and the associated goodwill have been included in the carrying amount of the segment which is compared to its estimated recoverable amount described in (b) below. No impairment was required.

b) Other elements of Cyber Segment

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

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

Discount rate	15%	12.75%
Average forecast EBITDA growth next 5 years	7%	8%
Growth rate 5-10 years	10%	10%

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

Goodwill of First Base has been evaluated by reviewing similar inputs save for growth scenario reflecting current growth rates of 10% over the 10-year horizon to reflect overall growth in the asset from new customers, and then comparing the excess of the NPV of future cash flows to the overall intangible including the customer relationships asset.

Notes to the consolidated financial statements

for the year ended 31 March 2019

14. Intangible assets continued

The estimated recoverable amount of the CGU exceeded its carrying amount (including developments costs and customer relationship intangibles) by £0.4m (2018: £0.5m) The Directors have prepared a sensitivity analysis which shows that scenarios including:

- an increase in the discount rate from 15% to 26%
- a reversal of a growth rate of +10% to a net shrinkage of -1%. Recent Cyber security industry statistics indicated growth rates of 10-15% CAGR being expected
- a fall in expected net EBTIDA contribution from 35% of revenues to 24% of revenues
- would result in the value in use falling below the carrying value but do not consider these likely so no adjustment is reflected.

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

14.2 Customer relationships

The customer relationships intangible assets arise on the acquisition of subsidiaries when accounted for as a business combination and relate to the expected value to be derived from contracted and non-contractual relationships. The value placed on the contractual customer relationships, as per the third party valuation carried out, is based on the expected cash revenue inflows over the estimated remaining life of each existing contract. The value placed on the non-contractual customer relationships is based on past revenue performance by virtue of the customer relationships; but using an average attrition rate over the period since 2015. Associated cash outflows have been based on historically achieved margins. The net cash flows are discounted at a rate of 15% (2018: 12.75%) which the Directors consider is commensurate with the risks associated with capturing returns from customer relationships. This is further described in note 3 to these accounts.

The Directors consider that the period expected to benefit in respect of the customer relationships acquired with the trade and assets of First Base Technologies LLP is ten years. The Directors consider that the period expected to benefit in respect of the customer relationships acquired with Securestorm Limited is three years as it is a smaller and newer business than First Base and has a significant level of customer concentration.

Overall the business has grown with orders in the first quarter of the current financial year (3 months to 30 June 2019) being approximately 10% greater than the same period in 2018, which in turn was greater than 2017. This growth has been reflected in the overall assessment of the intangibles (both goodwill and customer list) and more than supports their carrying values against a range of sensitivity tests carried out around expected growth rates and discount rates (ranging between 15% and 26%). The following other sensitivities have been applied to the determination of the value of the customer base. This was carried out by a multi period excess earnings model and was based on a 10-year horizon.

Growth rate (long term economic average)	1.5%
EBITDA Margin	24.0 - 35.0%
Return on Workforce	1.81%
Tax Rate	17-19%

A similar analysis has been carried out on the intangibles arising from the purchase of Securestorm Limited in July 2018. This has generated a customer intangible of £0.16m and a goodwill balance of £0.1m. The customer base will be amortised on a straight-line basis over a period of 3 years due to high customer concentration (although this is under a multi-year contract) and relatively short existence (founded 2014).

Similar tests to those performed on the First Base intangibles have been applied to the intangibles arising from this transaction and no impairment of goodwill has been identified.

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for the year ended 31 March 2019

15. Subsidiaries

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

Name	Country of incorporation	Nature of business	Proportion of shares Shares held by parent
Falanx Cyber Defence Limited	England and Wales	Cyber defence solution	100%
Falanx Cyber Holdings Limited	England and Wales	Cyber defence solution	100%
First Base Technologies (London) Limited	England and Wales	Cyber defence solution	100%
Securestorm Limited	England and Wales	Cyber security consultancy	100%
Falanx Cyber Technologies Limited	England and Wales	Research and development	100%
Falanx Cyber Defence Spain S.L.	Spain	Research and development	100%
Cloudified Limited	England and Wales	Software development in telecommunications, security and data analytics	100%
Falanx Assynt Limited	England and Wales	International business intelligence consultancy	100%
Falanx Group US LLC	United States of America	International business intelligence consultancy	100%
FG Consulting Services DMCC	United Arab Emirates	Management consultancy	100%
Stirling Risk (Asia) Limited	Hong Kong	Provision of risk assessments and investigation services	100%
Falanx Protection Limited	British Virgin Islands	Dormant	100%

Auditsec Services Limited was acquired on 11 September 2017. The company was dissolved on 24 April 2018.

16. Deferred taxation

	2019 £	Restated 2018 £
Group		
Balance at 1 April	(9,529)	(9,529)
Credit to income statement	1,936	—
Deferred tax liability recognised through business combinations	(28,000)	(456,000)
Utilisation of tax losses	28,000	456,000
Balance at 31 March	(7,593)	(9,529)

The deferred tax liability represents:

	2019 £	2018 £
Accelerated capital allowances	(7,593)	(9,529)
	(7,593)	(9,529)

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

The above deferred tax liability was calculated based on the expected UK corporation tax rate of 19% (2018: 19%), being the rate which is expected to apply in the future when the liability is settled. The Group has losses of c£10.9m (subject to HMRC agreement), available to offset against future taxable profits. A deferred tax asset has not been recognised on these losses due to the uncertainty of sufficient future taxable profits against which the losses can be utilised.

Notes to the consolidated financial statements

for the year ended 31 March 2019

17. Inventories

	2019	2018
	£	£
Finished goods	3,828	4,382
	3,828	4,382

18. Trade and other receivables

	2019	2018
	£	£
Trade receivables - gross	1,181,433	881,639
Allowance for credit losses	(2,800)	(8,000)
Trade receivables	1,178,633	873,639
Contract assets	197,230	59,887
Other receivables	261,957	336,179
Prepayments	474,277	197,729
	2,112,097	1,467,434

Trade and other receivables are stated at amortised cost.

19. Cash and cash equivalents

	2019	2018
	£	£
Cash and cash equivalents in statement of cash flows	2,443,686	914,961

20. Share capital

	2019		2018	
	Number of shares	Nil par value	Number of shares	Nil par value
Allotted, called up and fully paid at 1 April	259,678,964	—	125,780,904	—
New shares issued	140,722,221	—	133,898,060	—
Allotted, called up and fully paid at 31 March	400,401,185	—	259,678,964	—

On 17 July 2018 the Company announced the issue of 2,222,222 new ordinary shares of nil par value at a price of 4.5 pence each to the vendors of Securestorm Limited in satisfaction of the acquisition consideration for Securestorm Limited.

On 14 November 2018 the Company announced the issue of 138,499,999 new ordinary shares of nil par value at a price of 3 pence raising net proceeds of £3.977m after deducting commission and transaction related costs. Gross proceeds from this placing were £4.155m and the costs associated with the subscription were charged to the share capital account. The proceeds of the placing shares were for working capital and development expenditure.

At 31 March 2019 a total of 41,061,251 warrants issued to various shareholders remained outstanding. No residual value has been allocated to the warrants as the issue price of the subscribed shares equated to their fair values. Of the total amount, 30,477,917 warrants had a 3 year time to expiry condition at the time of issue, 4,583,334 warrants had a 5 year time to expiry condition at the time of issue and the remaining 6,000,000 had an exercise period ending 36 months after each vesting period at the time of issue.

Notes to the consolidated financial statements

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20. Share capital continued

Expiry	Exercise price (pence)	Warrants	
		2019	2018
4 May 2019	6.0	24,156,250	24,156,250
10 May 2019*	6.0	2,125,000	2,125,000
15 January 2021	10.0	250,000	250,000
15 January 2021	15.0	250,000	250,000
15 January 2021	20.0	250,000	250,000
6 March 2021	4.50	2,646,667	2,646,667
23 March 2021	4.50	800,000	800,000
5 May 2021	6.0	4,583,334	4,583,334
		35,061,251	35,061,251
M D Read**	4.0	6,000,000	6,000,000
		41,061,251	41,061,251

* Of the total warrants expiring in 2019 with an exercise price of 6 pence, 1,250,000 are held by M D Read.

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

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

At 31 March 2018, 1,500,000 warrants with an exercise price of 4 pence each had vested and are due to expire on 22 February 2020. The remaining 4,500,000 had not vested. Accelerated vesting occurs when there is a change of control of the Company.

26,281,250 warrants with a price of 6 pence lapsed between 4 May 2019 and 10 May 2019.

21. Share Capital (movement in value)

	2019	2018
	£	£
At 1 April	13,868,734	7,410,507
Premium on issue of nil par value ordinary shares	4,255,000	6,783,438
Costs of share issues	(220,307)	(325,211)
At 31 March	17,903,427	13,868,734

Notes to the consolidated financial statements

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22. Retained earnings

	2019	Restated 2018
	£	£
At 1 April	(8,695,881)	(6,703,447)
Loss for the year	(1,830,871)	(1,992,434)
At 31 March	(10,526,752)	(8,695,881)

23. Trade and other payables

	2019	2018
	£	£
Trade payables	680,441	460,009
Other payables	30,484	24,280
Taxation and social security	411,706	421,006
Accruals	190,927	469,686
	1,313,558	1,374,981

24. Financial instruments

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

Market risk

The main risks arising from the Group's financial instruments are liquidity risk, credit risk and foreign currency risk. The Directors regularly review and agree policies for managing each of these risks and are set out in the subsections below. The totals for each category of financial instruments and the carrying amounts, measured in accordance with IFRS 9 as detailed in the policies, are as follows:

Financial assets

	2019	2018
	£	£
Trade and other receivables	1,440,590	1,209,818
Cash and cash equivalents	2,443,686	914,961
	3,884,276	2,124,779

Financial liabilities

	2019	2018
	£	£
Trade and other payables	710,925	484,289
Accruals	190,927	469,686
	901,852	953,975

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting these obligations associated with financial liabilities. The responsibility for liquidity risks management rests with the Board of Directors, which has established an appropriate liquidity risk management framework for the management of the Group's short term and long-term funding and liquidity requirements. The Group manages liquidity risks by maintaining adequate reserves by continuously monitoring monthly expected forecasts and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

Notes to the consolidated financial statements

for the year ended 31 March 2019

24. Financial instruments continued

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

	2019	2018
	£	£
Trade and other payables due in:		
Less than one month	510,113	288,906
Six months to one year	200,812	195,383
Total	710,925	484,289

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 average credit period is 30 days from date of invoice, but non-standard terms may be agreed with certain customers. The bulk of the Group's cash assets were held with HSBC and the Board has considered the associated risk as minimal.

The carrying amount of financial assets represents the maximum credit exposure; therefore, the maximum exposure to credit risk at the statement of financial position date was £3,884,276 (2018: £2,124,779). The amount represents the total of the carrying amount of current assets.

The maximum amount exposure to credit risk for trade receivables at the statement of financial position date was £1,181,433 (2018: £881,639). As at the date of signing these financial statements, the Group does not expect to incur material credit losses of its financial assets or other financial instruments and therefore credit exposure is considered minimal.

As at 31 March 2019, trade receivables past due for the Group totalled £288,805 (2018: £187,758) of which £2,800 (2018: £8,000) have been impaired. As at 31 March 2019, trade receivables past due but not impaired are as follows:

	2019	2018
	£	£
Up to 3 months	285,424	166,492
3 months to 6 months	581	21,306
6 months to 12 months	—	—
Expected credit loss provision at 31 March	286,005	187,798

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

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

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

	2019	2018
	£	£
Provision for bad and doubtful debts at 1 April	8,000	—
Amount released	(8,000)	—
Amount provided	2,800	8,000
Expected credit loss provision at 31 March	2,800	8,000

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24. Financial instruments continued

Foreign currency risk

The Group has limited exposure to foreign currency risk. More than {97%} of revenue and associated activity is generated and settled in the functional (and presentational) currency of the respective group entities. More than 80% of Group revenue is earned from the UK market in sterling with the balance earned in USD, Euro, Hong Kong dollars and Emirati Dirham. The Group's investment in foreign operations exposes it to foreign currency risk on the net assets of subsidiaries denominated in these currencies. However the risk is currently low because the underlying net assets held in the non-UK parts of the Group are low.

A ten per cent weakening of sterling against the relevant currencies for example, would increase the loss by £8,847 (2018: £19,117) in the coming year and would increase equity by £11,980 (2018: £48,783).

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.

25. Capital risk management

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

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

The Group set the amount of capital in proportion to its overall financing structure, i.e. equity and financial liabilities. The Group manages the capital structure and 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.

26. Pension

The Group operates a defined contribution pension scheme in accordance with the Government Directive on Work Place Pensions. The total contributions for the year were £57,773 (2018: £15,460).

27. Financial commitments

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

	2019	2018
	£	£
Due within one year	122,239	101,502
Between two and five years	625	59,360
	123,864	160,862

Operating lease obligations represent rentals payable by the Group and its subsidiaries for the office premises at Five Kings House in London, Fazeley Studios in Birmingham, King Business Centre in Hassocks and Leeming Building in Leeds respectively.

The lease estate of the Group is small and only short-term leases were outstanding at the balance sheet date. All leases expire within 12 months of the balance sheet date. The impact of IFRS 16 is considered to be insignificant.

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28. Business combinations

Assets of First Base Technologies LLP

On 23 March 2018 the Group completed the acquisition of the business and assets of First Base Technologies LLP for a total consideration of £3,210,114. The trade and assets of First Base Technologies LLP, a business operating in the cyber security sector were then transferred to a newly incorporated subsidiary First Base Technologies (London) Limited, to increase the scale of the cyber division business. As a result of the acquisition, the Group is expected to increase its presence in the cyber security market and achieve cross selling in the enlarged Group. It also expects to reduce certain costs through economies of scale.

As allowed under IFRS 3, the allocation of the fair value of the purchase consideration across the tangible and intangible assets acquired on 23 March 2018 was reassessed within 12 months of purchase. The main changes were around the discount rate used which was increased from 12.75% to 15.00% and also adjustments made to reflect the value of an assembled workforce and full tax charges (ignoring the Group's £10.9m of tax losses). This resulted in a reduction in the potential value of the acquired customer base from £2.84m as originally recorded to £2.37m and the consequent difference of £0.46m has been treated as a prior year adjustment as explained in note 14.

The following table summarises the fair value of assets acquired, and liabilities assumed at the acquisition Date:

	Book value	Fair value adjustment	Fair value
	£	£	£
Intangible asset – customer relationships		2,379,915	2,379,915
Cash and cash equivalents	139,567	–	139,567
Other receivables	86,947	–	86,947
Deferred tax liability	–	(456,000)	(456,000)
Trade and other payables	(226,514)	–	(226,514)
Total provisional fair value	–	1,923,915	1,923,915
Consideration			3,210,114
Goodwill			1,286,199

The provisional fair values include recognition of an intangible asset related customer relationships, which will be amortised over a 10-year period on a straight-line basis. A discount rate of 12.75% has been used in this analysis.

No trade receivables were acquired on acquisition.

Deferred tax has been calculated on the value of the intangible assets acquired at a corporation tax rate of 17.8%, which is the effective tax rate over the amortisation period, and a corresponding amount recognised as goodwill. The amount recognised as goodwill will not be deductible for tax purposes.

Acquisition costs totalled £195,100 and are disclosed within the statement of comprehensive income.

In the period from 24 March 2018 to 31 March 2018, First Base has contributed £33,490 to Group revenues and profit of £3,122 to the Group's comprehensive income. If the acquisition had occurred on 1 April 2017, Group revenue would have increased by circa £1.9 million and Group EBITDA for the period would have increased by circa £0.6 million.

The net cash sum expended on acquisition in the year ended 31 March 2018 is as follows:

	£
Cash paid as consideration on acquisition	3,000,000
Less cash acquired at acquisition	(139,567)
Net cash movement	2,860,433

The remaining £200,000 of cash consideration was settled in April 2018 and was included as a liability in the Statement of Financial Position at 31 March 2018.

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for the year ended 31 March 2019

28. Business combinations continued

The Sellers of the business and assets of First Base Technologies LLP were granted 800,000 warrants on 23 March 2018 to subscribe for shares at an exercise price of 4.5 pence per share. They will vest equally at intervals of 12, 24, and 36 months from the date of grant. The warrants have been fair valued at £10,114 using the Black Scholes method with the value included in the total consideration. The credit is reflected in the share option reserve.

Securestorm Limited

On 17 July 2018 the Company acquired 100% of the issued share capital of Securestorm Limited, a cyber security consultancy business. The consideration of £100,000 was satisfied by the issuance of 2,222,222 Falanx new ordinary shares at 4.5 pence each. The integration of Securestorm is expected to generate enhanced revenue opportunity and cost synergies. The business contributed £67,071 net loss and £250,421 revenue to the Group for the period from 17 July 2018 to 31 March 2019. Securestorm was fully integrated within the Cyber division in the year ended 31 March 2019. If the acquisition had occurred on 1 April 2018, Group revenue would have increased by circa £0.1 million and Group EBITDA for the period would have reduced by circa £30k.

Unaudited management accounts for the 12 months to 30 June 2018 show revenues of £543,898 and an operating loss of £153,192. Tangible assets, current assets and current liabilities were £369, £81,259 and £208,866 at 30 June 2018 respectively. The current liabilities are mainly due to HMRC where a deferred payment scheme has been agreed and is in place. The majority of losses were incurred before December 2017. These have since been eliminated by customer contract wins and cost reductions. In recent months Securestorm has been at break even with a strengthening pipeline of business.

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

	Book value	Fair value adjustment	Fair value
	£	£	£
Intangible asset – customer relationships		158,393	158,393
Tangible assets	3,583	—	3,583
Cash and cash equivalents	(19,801)	—	(19,801)
Trade and other receivables	55,908	—	55,908
Deferred tax liability	—	(28,000)	(28,000)
Trade and other payables	(200,430)	—	(200,430)
Total provisional fair value	—	130,393	(30,347)
Consideration – all in shares			100,000
Goodwill			130,347

The provisional fair values include recognition of an intangible asset related customer relationships, which will be amortised over a 3-year period on a straight-line basis. A discount rate of 15% has been used in this analysis.

Deferred tax has been calculated on the value of the intangible assets acquired at a corporation tax rate of 17.8%, which is the effective tax rate over the amortisation period, which has an impact of increasing goodwill. The amount recognised as goodwill will not be deductible for tax purposes.

Acquisition related costs of £16,024 have been charged to administrative expenses in the consolidated income statement for the year ended 31 March 2019.

A review of the purchase price allocation for the business and assets of First Base Technologies LLP (incorporated in 2010 and acquired by Falanx on 23 March 2018) was carried out during the year and the original carrying value of the acquired customer base asset was reduced by £0.46m to £2.38m with the £0.46m being reclassified as goodwill. This adjustment is reflected in notes 14, 28 and 31 to these accounts and has been classified as a prior year adjustment. The valuation exercise was carried out by an external (and independent of the Company) valuation team. Tax rates of 19% were used (although the company has tax losses of circa £10.9m subject to HMRC agreement) and no deferred tax element has been reflected in these financial statements.

Notes to the consolidated financial statements

for the year ended 31 March 2019

29. Control

No ultimate party controls Falanx Group Limited.

30. Related party transactions

There were no transactions with related parties during the year.

31. Prior year adjustments

Foreign exchange losses on Group assets of £74,609 were recorded as a charge against operating losses in the year ended 31 March 2018. These were subsequently reclassified against other comprehensive income. This has consequently reduced the loss per share from 1.56p to 1.24p per share for that period.

32. Events after the reporting period

New Office Lease

On 21 June 2019 the Company entered into a lease for premises in Reading. This will form the basis of the operations of Falanx Cyber which will be moving its operations from Birmingham to Reading in August 2019. This was done after an extensive review of the optimal position to locate the SOC from an access to relevant skills perspective and to help the overall expansion of the business. This premises will be operationally leveraged for maximum utilisation. The net impact of the lease is expected to add an additional £0.1m to operating costs per annum and will be accounted for under IFRS16.

Lapse of warrants

26,281,250 warrants with a price of 6 pence lapsed between 4 May 2019 and 10 May 2019.

Advisers

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

BDO LLP
150 Aldersgate Street
London EC1A 4AB

Joint broker

Turner Pope Investments (TPI) Limited
Becket House
36 Old Jewry
London EC2R 8DD

Nominated adviser and joint broker

Stifel Nicolaus Europe Limited
150 Cheapside
London EC2V 6ET

Bankers

HSBC Bank PLC
8 Canada Square
London E14 5HQ

Solicitors

DWF LLP
20 Fenchurch Street
London EC3M 3AG

Blake Morgan LLP

6 New St Square
Holborn
London EC4A 3DJ

Registrars

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

Falanx Group Limited

Five Kings House,
1 Queen St Place,
London, EC4R 1QS

0207 856 9457
info@falanx.com
www.falanx.com