



## **FALANX GROUP LIMITED**

**("Fal anx" or "the Company")**

### **INTERIM RESULTS AND UNAUDITED FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 SEPTEMBER 2014**

#### **Continued Growth and Expansion**

Fal anx Group Limited, a security and risk management consultancy working with blue chip and government clients worldwide, is pleased to announce its Interim Results for the period ending 30 September 2014.

The period was seminal in terms of the Group's progress towards future growth and profitability. The Group has begun to realise its strategic goals and its Resilience and Cyber Divisions have engaged with new partner companies to augment their capability.

Events in the Middle East have continued to raise awareness of the risks posed by political turmoil and terrorism, while the risk of cyber-attack also continues to be of major concern to governments and commercial enterprises internationally. There has been increased interest from clients seeking support in understanding these risks and in constructing a response where their interests may be affected. In particular, our newly established Cyber Defence service, which offers a unique set of capabilities, already has clients on board with a number of major projects in the pipeline.

#### **Highlights:**

- Fal anx Cyber - Cyber Defence service launched
  - Substantial investment in Cyber Division led to loss but enabled Fal anx to win prestigious CERT-UK contract against major competitors
  - Strategic Alliance with MDS to deliver bundled Assured Cloud and Cyber Defence service
  - Cyber Defence capability enhanced through agreements with Assuria and Digital Shadows
  - State-of-the-art Cyber-Security Operations Centre established
- Fal anx Intelligence - significant uplift in profitability
- Fal anx Resilience - new contracts
  - Major new Middle East security technology contract under negotiation
  - Renewal of major contract with Middle Eastern Government delayed by change of client personnel - now expected to start in early 2015

The Interim Report and Accounts will be posted to Shareholders today and will be available for download on the Company's website: <http://www.falanxgroup.com>

**John Blamire, CEO of Falanx Group, commented:**

*“Falanx Intelligence has seen improved profitability, Falanx Resilience is in active discussion with government clients for two major contracts which we expect to be initiated early in 2015, and we have successfully launched our unique Cyber Defence proposition. The Cyber Division already has a significant pipeline of business and post-period won the CERT UK contract, which is a significant milestone.*

*I remain confident that the Group will see significant growth in both the short and medium term.”*

**22<sup>nd</sup> December 2014**

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**Chairman's Statement**

Events around the World continue to raise awareness of the risks posed by political turmoil, terrorism and cyber-attack. This has led to increased interest in our range of products and services from both the commercial and government sectors.

The period saw significant activity throughout the Group with improvement in profitability for our Intelligence Division, some excellent prospects in the pipeline for our Resilience Division and heavy investment in our Cyber Division. Falanx Intelligence produced the best performance in its history, increasing profitability significantly over the previous year; Falanx Resilience began preparations for two major prospects in the Middle East; and we established Falanx Assuria, Falanx Cyber's flagship operation offering a unique and affordable service in a fast-growing market.

To meet increased interest in our services we further streamlined our structure by reducing our four business divisions to three, enabling us to give improved focus to each. The three Falanx business divisions are now: Falanx Intelligence based on Stirling Assynt's forward-looking political and security risk assessments and business intelligence services; Falanx Resilience providing capacity building and physical security consultancy and technology; and Falanx Cyber based on Falanx Assuria's unique Cyber Defence capability. This structure matches our client needs and our approach remains that of a broadly-based 'solutions engineer'.

**Falanx Intelligence**

Stirling Assynt provides a highly respected political and security risk assessment service, bespoke assessments and business intelligence services, and has operated in around 100 countries. We serve a broad range of clients including airlines, legal firms, oil and gas companies, utilities, hotel groups, financial services and governments.

We reported in October that as a result of an increased marketing and sales effort Stirling Assynt's services had attracted new custom, and that the company had taken on a number of new blue chip clients. Over this period cost efficiencies have led to a significant improvement in profitability. Of note has been the success of the seconded analyst service, which by early January 2015 will involve six analysts working in client companies: these include a large international bank, a major international insurance company, a global accountancy firm and one of the UK's biggest telecoms providers.

### **Falanx Resilience**

Following the completion of the first phase of a major consultancy project in the Middle East in May 2014, there was a delay in starting the next phase as a result of management changes in the client organisation. Falanx Resilience resources were subsequently redirected in this period to support the establishment of our Cyber Defence capability. However, Falanx Resilience has now begun discussions to deliver a major new phase for the same client over the next three years, expanding on the work we started in the earlier phase. The scope of this new phase is still under discussion, but the client's requirements reflect an increase in scale which should provide higher revenues than for the previous phase.

We are also in detailed negotiations with a major government client in the Middle East for supply of a range of blast mitigation products manufactured by a partner company, which we expect to conclude in the current financial year.

### **Falanx Cyber**

Falanx Assuria, our new Cyber Defence company, has been successfully established with the support of Falanx's partner, Assuria Limited, which provides the advanced UK-developed protective monitoring technology for our Cyber Security Operations Centre (C-SOC). Falanx Assuria's proposition is unique, and there has been significant interest so far both from governments and commercial entities alike. Our service looks set to become a significant player in the cyber security market in the coming years.

In order to enhance the proposition, in July Falanx entered into a strategic alliance with MDS Technologies Limited ("MDS"), a member of the Skyscape Alliance which delivers a significant amount of the UK Government's Assured Cloud data storage. This alliance enables us to offer a comprehensive cyber security solution with MDS's Assured Cloud service bundled together with Falanx Assuria's Cyber Defence solution as a single proposition to clients internationally.

In September, we signed a partnership agreement with Digital Shadows, a niche company supplying intelligence on cyber threats. This further strengthens our Cyber Defence proposition.

Following a major effort by the Falanx Assuria team supported by Falanx Resilience staff, the C-SOC is now operational and provides services to both government and commercial clients. It is the UK's first Cyber Defence managed services offering, and provides UK Government recommended levels of security at significantly lower rates than our competitors, ensuring effective defence at affordable cost including for SMEs, for whom there has been no cost-effective solution up to now. The new website explaining the proposition in detail is at [www.falanxassuria.com](http://www.falanxassuria.com).

Post period we won a new two-year contract against strong competition from major suppliers to provide managed Cyber Defence services to CERT-UK, the UK's Computer Emergency Response Team. CERT-UK is the UK Government's lead agency for advising industry and public organisations on cyber threats and how to implement best practice to mitigate risks and vulnerabilities. Working in partnership with CERT-UK, Falanx Cyber will deploy its advanced Protective Monitoring capability to protect all of CERT-UK's own data and information systems. This will detect and interdict cyber threats and enable CERT-UK to fulfil its objectives securely.

## **Financial Review**

Falanx Group's turnover for the six months ending 30 September 2014 was £0.97 million (2013: £2.18 million). This reduction on the 2013 revenues reflects the completion of the first phase in May 2014 of a major Falanx Resilience contract for a Middle Eastern Government. The second phase has been delayed by senior management restructuring, however the Board anticipates that it will commence in early 2015.

Falanx Intelligence's revenues of £0.8 million (2013: £0.8 million) have produced a higher operating profit margin of 10% compared to 6% over the same period in 2013. This was achieved through efficiencies leading to a reduction in overheads. We expect to continue to achieve this margin and also to increase revenues in the next six month period as a result of the improved marketing and sales effort.

Of our three Divisions, both Falanx Intelligence and Falanx Resilience made a profit in the reporting period – £90k and £40k before tax respectively. Following the launch of our cyber defence services in Q4 2014, we continue to expect Falanx Cyber to become profitable in mid 2015.

The operating loss for the Group was £709,269 (2013: Profit - £35,083) and the loss before taxation was £708,997 (2013: Profit - £3,150). During this period we invested £0.4 million in developing our Cyber Defence team and operational capability bringing the total invested in Cyber Defence to over £0.9 million to date. The C-SOC is now operational and is starting to deliver returns.

The Company raised £2.03 million through the issue of 11,166,667 ordinary shares at a price of 18 pence per share in April 2014, and the cash balance of the Company at 30 September 2014 was £1.32 million (2013: £0.49 million).

## **Outlook**

Falanx Intelligence has seen improved profitability and Falanx Resilience is in active discussion with government clients for two major contracts which we expect to be initiated early in 2015. Our unique Cyber Defence proposition has been validated post-period by winning the CERT UK contract, and subsequently has attracted significant interest from government and commercial entities both in the UK and internationally.

I remain confident that the Group is on track and that we will see significant growth in both the short and medium term.

**K P A Barclay**  
**Executive Chairman**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE SIX MONTHS PERIOD ENDED 30 SEPTEMBER 2014**

	<b>6 Months to 30 Sep 2014 (Unaudited)</b>	6 Months 30 Sep (Unaudited)	Year to 31 Mar (Audited)
	£	£	£
<b>Continuing operations</b>			
Revenue	<b>971,306</b>	2,184,803	4,436,639
Cost of sales	<b>(777,015)</b>	(1,085,591)	(3,030,192)
	<b>194,291</b>	1,099,212	1,406,447
Administrative expenses	<b>(903,560)</b>	(1,064,129)	(1,397,080)
<b>Operating Profit/(Loss)</b>	<b>(709,269)</b>	35,083	9,367
Finance income	<b>272</b>	68	122
Finance expense	-	(1)	(1)
Net finance expense	<b>272</b>	67	121
<b>Profit/(Loss) before income tax</b>	<b>(708,997)</b>	3,150	9,488
Income tax expense	-	-	(54,339)
<b>Profit/(Loss) for the period from continuing</b>	<b>(708,997)</b>	3,150	(44,911)
Gains on foreign subsidiary translation	<b>3,337</b>	-	-
<b>Total comprehensive loss for the period</b>	<b>(705,660)</b>	3,150	(44,911)
<b>Earnings per share</b>			
Basic earnings per share - continuing and total	<b>(1.41)p</b>	0.12p	(0.12)p
Diluted earnings per share - continuing and total	<b>(1.41)p</b>	0.12p	(0.12)p

**FALANX GROUP LIMITED**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 30 SEPTEMBER 2014**

	<b>6 Months to 30 Sep 2014 (Unaudited)</b>	6 Months to 30 Sep 2013 (Unaudited)	Year to 31 Mar 2014 (Audited)
	£	£	£
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant & equipment	14,524	10,766	9,033
Intangible assets	401,880	75,000	30,000
Deferred tax	203,862	258,261	203,862
	<b>620,266</b>	<b>344,027</b>	<b>242,895</b>
<b>Current assets</b>			
Inventory	33,075	-	33,075
Trade and other receivables	612,564	937,083	1,260,306
Cash and cash equivalents	1,320,850	493,215	210,414
	<b>1,966,489</b>	<b>1,430,298</b>	<b>1,503,795</b>
<b>Total assets</b>	<b>2,586,755</b>	<b>1,774,325</b>	<b>1,746,690</b>
<b>Equity</b>			
<b>Capital and reserves attributable to equity holders of the Company</b>			
Share premium account	2,537,631	396,087	540,964
Foreign currency translation reserve	3,338	-	-
Retained earnings	(654,483)	172,075	54,514
<b>Total equity</b>	<b>1,886,485</b>	<b>568,162</b>	<b>595,478</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	700,270	1,206,163	1,151,212
	<b>700,270</b>	<b>1,206,163</b>	<b>1,151,212</b>
<b>Total liabilities</b>	<b>700,270</b>	<b>1,206,163</b>	<b>1,151,212</b>
<b>Total equity and liabilities</b>	<b>2,586,755</b>	<b>1,774,325</b>	<b>1,746,690</b>

**FALANX GROUP LIMITED****CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	<b>Share premium</b>	<b>Retained earnings</b>	<b>Foreign currency translation reserve</b>	<b>Total</b>
	£	£	£	£
<b>Balance at 30 September 2013</b>	396,087	172,075	-	568,162
Loss for period	-	(117,561)	-	(117,561)
<b>Transactions with owners:</b>				
Issue of share capital	155,226	-	-	155,226
Cost of share capital issue	(10,349)	-	-	(10,342)
<b>Balance as at 31 March 2014</b>	<b>540,964</b>	<b>54,514</b>	-	<b>595,478</b>
Loss for the period	-	(708,997)	-	(702,022)
<b>Other comprehensive income:</b>				
Gains on foreign subsidiary translation	-	-	3,337	3,337
<b>Transactions with owners:</b>				
Issue of share capital	2,014,167	-	-	2,014,167
Costs of issue of share capital	(17,500)	-	-	(17,500)
<b>Balance as at 30 September 2014</b>	<b>2,537,631</b>	<b>(654,483)</b>	<b>3,337</b>	<b>1,886,485</b>

**FALANX GROUP LIMITED**

**CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD ENDED 30 SEPTEMBER 2014**

	<b>6 Months 30 Sep (Unaudite £</b>	6 Months to 30 Sep 2013 (Unaudited) £	Year to 31 Mar 2014 (Audited) £
<b>Cash flows from operating activities</b>			
Profit/(Loss) before tax	<b>(708,997)</b>	35,083	9,367
Adjustments for:			
Depreciation	<b>3,159</b>	2,315	4,972
Amortisation of intangibles	<b>70,410</b>	-	30,000
Foreign exchange loss	<b>3,345</b>	-	-
Net finance income recognised in profit or loss	<b>(272)</b>	-	122
	<b>(632,355)</b>	37,398	21,961
Changes in working capital:			
(Increase)/Decrease in inventories	-	-	(33,075)
(Increase)/Decrease in trade and other receivables	<b>647,742</b>	(248,460)	(571,683)
Increase/(Decrease) in trade and other payables	<b>(450,942)</b>	198,435	268,484
Cash used in operations	<b>(435,555)</b>	(12,627)	(336,274)
Interest paid	-	(1)	(1)
Net cash used in operating activities	<b>(435,555)</b>	(12,628)	(336,275)
<b>Cash flows from investing activities</b>			
Interest received	<b>272</b>	68	-
Acquisition of equipment/fixtures and fittings	<b>(8,658)</b>	(3,851)	(4,739)
Acquisition of intangibles	<b>(442,290)</b>	-	-
Net cash from investing activities	<b>(450,676)</b>	(3,747)	(4,739)
<b>Cash flows from financing activities</b>			
Net Proceeds from issue of shares	<b>1,996,667</b>	392,937	412,814
Net cash used in financing activities	<b>1,996,667</b>	392,937	412,814
<b>Increase/(decrease) in cash equivalents</b>	<b>1,110,436</b>	376,562	93,761
Cash and cash equivalents at beginning of the	<b>210,414</b>	116,653	116,653
<b>Cash and cash equivalents at end of the period</b>	<b>1,320,850</b>	493,215	210,414



### **1. General information**

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

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

### **2. Basis of preparation**

These interim statements have been prepared on a basis consistent with International Financial Reporting Standards (IFRS). They do not contain all of the information required for full financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 March 2014. These interim financial statements do not constitute statutory accounts within the meaning of the Companies Act.

The interim financial information has not been reviewed nor audited by the auditors. The interim financial information was approved by the Board of Directors on 18 December 2014. The information for the year ended 31 March 2014 is extracted from the statutory financial statements for that year which have been reported on by the Group’s auditors and delivered to the Registrar of Companies. The audit report was unqualified.

The accounting policies applied by the Group in these interim financial statements are the same as those applied by the Group in its consolidated financial statements for the year ended and as at 31 March 2014.

The interim report is the responsibility of, and has been, approved by the Directors. The Directors are responsible for preparing the interim financial statements in accordance with the AIM rules for Companies.

### **3. Critical accounting estimates and judgements**

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

The significant judgements made by management in applying the Group’s accounting policies were the same as those applied in the last annual financial statements for the year ended 31 March 2014.

### **4. Segmental reporting**

The Directors consider that the Group’s internal financial reporting is organised along product and service lines and, therefore, segmental information has been presented about business segments. The segmental analysis of the Group’s business was derived from its principal activities as set out below. The information below also comprises the disclosures required by IFRS 8 in respect of products and services as the Directors consider that the products and services sold by the disclosed segments are essentially similar and, therefore, no additional disclosure in respect of products and services is required. The other segment below and overleaf is made up of the parent company’s administrative operation.

#### ***Reportable segments***

The reportable segment results for the year ended 30 September 2014 are as follows:

	Intelligence	Resilience	Cyber	Other segments	Total
	£	£	£	£	£
Revenues from external customers	815,190	156,116	—	—	971,306
<b>Total revenue</b>	<b>815,190</b>	<b>156,116</b>	<b>—</b>	<b>—</b>	<b>971,306</b>
Operating expenses	(722,560)	(186,673)	(201,619)	(489,179)	(1,600,031)
Finance income	177	—	—	95	272
Depreciation and amortisation	(6,439)	—	(67,130)	—	(73,569)
<b>Segment profit/(loss) for the year</b>	<b>86,368</b>	<b>(30,557)</b>	<b>(268,749)</b>	<b>(489,084)</b>	<b>702,022</b>

The reportable segment results for the year ended 30 September 2013 are as follows:

	Intelligence	Resilience	Cyber	Other segments	Total
	£	£	£	£	£
Revenues from external customers	823,290	1,361,513	—	—	2,184,803
<b>Total revenue</b>	<b>823,290</b>	<b>1,361,513</b>	<b>—</b>	<b>—</b>	<b>2,184,803</b>
Operating expenses	(769,106)	(1,084,070)	—	(294,229)	(2,147,405)
Finance income	67	—	—	—	67
Depreciation and amortisation	(6,065)	—	—	—	(6,065)
<b>Segment profit/(loss) for the year</b>	<b>48,186</b>	<b>277,443</b>	<b>—</b>	<b>(294,229)</b>	<b>31,400</b>

Segment assets and liabilities as at 30 September 2014 and capital expenditure for the year then ended are as follows:

	Intelligence	Resilience	Cyber	Other segments	Total
	£	£	£	£	£
<b>Total assets</b>	<b>1,377,298</b>	<b>107,741</b>	<b>423,521</b>	<b>678,195</b>	<b>2,586,755</b>
<b>Liabilities</b>	<b>408,079</b>	<b>151,002</b>	<b>22,721</b>	<b>128,468</b>	<b>700,270</b>
<b>Capital expenditure</b>	<b>1,146</b>	<b>—</b>	<b>449,803</b>	<b>—</b>	<b>450,949</b>

Segment assets and liabilities as at 30 September 2013 and capital expenditure for the year then ended are as follows:

	Intelligence	Resilience	Cyber	Other segments	Total
	£	£	£	£	£
<b>Total assets</b>	<b>1,078,929</b>	<b>436,434</b>	<b>—</b>	<b>255,212</b>	<b>1,770,575</b>
<b>Liabilities</b>	<b>737,099</b>	<b>242,931</b>	<b>—</b>	<b>101,133</b>	<b>1,081,163</b>
<b>Capital expenditure</b>	<b>3,815</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>3,815</b>

## 5. Earnings per share

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

	<b>6 Months to 30 Sep 2014</b>	6 Months to 30 Sep 2013	Year to 31 Mar 2014
	<b>(Unaudited)</b>	(Unaudited)	(Audited)
Loss attributable to equity holders of the company (£)	<b>(702,022)</b>	35,150	(44,911)
Weighted average number of ordinary shares in issue	<b>50,152,595</b>	30,035,462	37,343,121
<b>Basic (loss)/profit per share (pence per share)</b>	<b>(1.40)</b>	0.12	(0.12)

As at 30 September 2014, the potentially dilutive ordinary shares were anti-dilutive because the Group was loss-making.

## **6. Related party transactions**

### ***Payment for services***

From 1 April 2014 to 30 September 2014 Andrea Barclay, the partner of K P A Barclay, Executive Chairman was paid £2,750 (2013: £6,150) in respect of research and report writing for the 100% owned subsidiary Stirling Assynt (Europe) Limited.

### ***Fees and commissions***

On 18 August 2014 the Company signed an agreement with KC Investments (a shareholder) to pay 5% commission on funds raised from third parties. Total commission payable of £17,500 has been accrued in relation to funds raised in April 2014.

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