



Report and Financial Statements

Year ended 31 March 2018

Company number 1730012 (British Virgin Islands)

Contents

Corporate statement	1
Business overview	2
Executive Chairman's statement	3
Chief Executive Officer and Chief Operating Officer's report	5
Chief Finance Officer's report	8
Directors' and advisers	11
Directors' report	12
Statement of Directors' responsibilities	17
Corporate Governance report	18
Independent auditors' report	20
Consolidated income statement	23
Consolidated statement of comprehensive income	23
Consolidated statement of financial position	24
Consolidated statement of changes in equity	25
Consolidated cash flow statement	26
Notes to the consolidated financial statements	27



Falanx Group Limited, listed on the Alternative Investment Market (AIM) 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 Defence: Comprehensive cloud-based cyber defence services, born from the amalgamation of the Falanx Cyber Defence and Falanx Cyber Holdings (formerly Falanx Assuria) businesses

Falanx Intelligence: Political & Security Risk and Business Intelligence services operating as Falanx Assynt (formerly Stirling Assynt)

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



Falanx Cyber

Falanx Cyber Defence brings together **Falanx Cyber Defence, Falanx Cyber Holdings, First Base Technologies and Securestorm** to provide comprehensive Cyber Defence services to government and commercial organisations worldwide.



Falanx Technologies

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



Falanx Intelligence

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

Business Overview

Financial Highlights

- Revenues increased to £3.0m (2017: £2.7m) and gross margin increased to 31% (2017: 20%)
- Contribution from monthly recurring revenue increased to 62% of revenue (2017: 55%). Monthly recurring revenue run rate at 31 March 2018 was £0.19m (2017: £0.15m)
- Much greater future revenue visibility (contracted plus deferred income) £3.0m (2017: £1.8m)
- Underlying EBITDA loss £1.6m (2017: £1.2m), reported loss £2.5m (2017: £1.7m) with £0.7m of one off restructuring and transaction costs
- Cash balances £0.9m (2017: £0.4m)
- Shareholders' funds £4.9m (2017: £0.8m) and the Company remains debt free

Operational Highlights

- Acquisition of three technology and cyber security focussed companies; Cloudified, AuditSec, First Base
- Substantially increased and diversified customer base across all lines of service
- Creation of new cyber service lines: MidGARD Monitoring; Threat Awareness Training; and Red-Team Testing
- Significantly strengthened management team
- Continued proprietary cyber technology development

Post Period Highlights

- Monthly recurring revenue at the end of July 2018 has increased to £0.24m
- Recent acquisitions combined with contract wins have approximately doubled proforma revenues to £6m, placing the business in a strong position to exploit growth
- EBITDA Profitability in July 2018 following strong deliverables in the month
- Acquisition and integration of trade and assets of First Base Technologies LLP, providing significantly increased Cyber Assessment and Awareness services, progressing well with orders up by 25% since the start of January 2018 versus the prior year
- Acquisition of Securestorm Limited, enhances Cyber Consultancy and extends reach into UK Government was completed in July (see note 31)

Outlook

The Board has received highly favourable indications from our partners and vendors that our strategy to scale our security services is appropriate and will be supported. As such, the Board targets a much-improved financial performance for this year. In addition to our 'business as usual' plan which combines organic growth and targeted acquisitions that are financially attractive, the Group plans to:

- Increase the contribution from high quality recurring revenues
- Increase sales by distributing through large Managed Service Providers (MSPs)
- Utilise proprietary technology development to drive down cost and add attractive new features
- Progress current discussions with several major global enterprises for adoption of our highly disruptive cyber technology stack

Executive Chairman's Statement

Since I took over the role of executive Chairman and CEO in November of last year, Falanx has evolved incredibly quickly, as has the Cyber Security and Intelligence market we have chosen to operate in. In the past 8 months we have significantly increased our cyber revenues, restructured our management team, refocused our strategy, broken into new markets, acquired and integrated several businesses and their extremely talented teams, forged new channel partnerships and delivered large scale security solutions.

Results

In this year of major change our revenues grew to £3.0m (2017 £2.7m), adjusted EBITDA loss of £1.6m (2017: £1.2m) and shareholders' funds stood at £4.9m (2017: £0.8m). Our forward visibility of revenue improved dramatically with the total of deferred and order book sales standing at £3.0m (2017: £1.8m) and 62% of our revenues were recurring (2017: 55%). A restructuring charge of £0.7m was incurred in making the necessary changes reflected in this report. In the year the Group completed the acquisitions of First Base Technologies (trade and assets from LLP), Auditsec Services Limited, Cloudified Limited and in July 2018 we acquired Securestorm Limited.

This is all happening against a backdrop of the cyber security and intelligence services market growing and evolving at a phenomenal rate. I am extremely proud of the Falanx team, who have worked unflinchingly, energetically and not least with a fair amount of good humour during a year of major progress.

The Business Model

During my short tenure at the helm of Falanx, driving towards profitability, introduction of new service offerings and the acquisition of talent, has been my main focus. Broadening our appeal to clients by offering the full range of complimentary security services and increasing our opportunity to address their needs wherever they may be in their buying cycle. Our team has been extremely busy in integrating expert delivery resources with a new sales and marketing program. This is now bearing fruit.

We have expert staff who deliver growing professional service lines of, Intelligence, Consulting, Awareness and Assessment, which we are providing individually, bundled or within an entire change program. These services, generating a mixture of repeat and recurring revenue, support our clients and their requirements as we help to mature their security posture and transition them to our managed Monitoring and Response security services which have entirely recurring revenue streams and higher margin.

Strategy

Now that we have completed the first phase of building the foundations for growth, my focus increasingly falls upon the question of scale. I have successfully scaled technology services businesses when growing Internet Service Providers in the 1990's, Broadband and Hosting in the 2000's and now Cyber Security in the 2010's. All have similarities in terms of the fragmented nature of their markets against a backdrop of strong growth. Some of these issues can and have been solved through acquisition and consolidation, which we will continue to do, others will be solved through a combination of innovation and partnership.

Value enhancing acquisitions are an opportunity for us, and I will remain open to the opportunity to buy businesses that strengthen our current suite of services or allow us to break into new areas that are complimentary. In this regard, our mantra will remain to focus on sensibly priced opportunities that drive customers and revenue to our framework of managed services, resulting in the conversion of repeat business into high margin, recurring revenue, from sustainable long-term contracts.

Our strategy will continue to evolve in three core ways, to solve the question of profitability and scale. Firstly, our core 'specialist' security offerings will be augmented with those a business would normally expect to acquire through its IT services partner. The establishment of Falanx as a nationally recognised MSSP (Master Security Services Provider) with a complimentary MDR (Managed Detection and Response) service is a key target to achieve scale. I would call this an extension of 'Business As Usual' (BAU) with growth in line or ahead of the market. Secondly, we will continue to innovate and engineer our technology to reduce running costs by automating as much as possible, and we will use our technology to deal with the implications of the market transitioning to cloud hosting, ever more inter-connected technology and rapidly growing data volumes and our ability to analyse them. Thirdly, I anticipate the need to partner with larger technology vendor and services organisations (Managed Service Providers – MSPs), who require our specialist security services and thus enable us to get scale faster than the conventional route of direct sales.

As we described in last year's report, our 'Security as a Service' business model is now recognised as an emerging segment within the IT industry - which Gartner calls Managed Detection and Response (MDR). This is now beginning to converge with the more traditional MSP (Managed Service Provider) market place to create the hybrid MSSP (Managed Security Service Provider). Currently only some of the very largest security and IT service vendors occupy this convergent area of the market, which would place us on the same short list of illustrious organisations. Seeing this come to fruition, convinces me more than ever we chose the right time and right model.

With increase in scale, comes the challenges of managing and servicing that growth. To scale our business appropriately, we need to be able to deal with ever increasing volumes of data, the multitude of cloud storage and processing options open to customers and the ever-increasing inter-connectivity of intelligent devices, also known as the 'Internet of Things'. The continued development of our own tools and platforms under Project Furnace provides us with much greater levels of flexibility to deliver market requirements, reduced long-term costs and the creation of valuable new software.

Executive Chairman's Statement

Our Commitment

Based on my experience and knowledge of building high-growth, scalable, technology services businesses and following an initial review after taking up my executive role, many discussions with our clients, delivery teams, channel partners and technology vendors, we are confident about delivering the best solution to our market and for Falanx to achieve its full potential. My team and I have 'skin in the game' and are fully committed to developing and scaling our business, and it is my job to deliver the results for you, our shareholders.

Board and Senior Management

Following the business review, we have restructured and strengthened the board and management team. Ian Selby joined the Board as CFO in January 2018 to support growth and strengthen the financial management of the business. Both Stuart Bladen and Jay Abbott left the company and stood down from the board in the year and I would like to thank them both for their efforts and contribution and wish them well for the future. John Blamire became COO to help drive the delivery and technology programmes. Emma Shaw continues as our NED covering Remuneration Committee and giving guidance on the strategic direction of the company. We will be strengthening the board in the next few months with further NED appointments.

At a senior management level, Charles Hollis joined the management team as Managing Director of Falanx Assynt in July 2017 to re-energise and provide strategic direction to that business unit. Rick Flood joined as Chief Marketing Officer and has focused on sales execution and marketing. Richard Morrell joined as CTO to drive the technology and innovations needed for growth.

Outlook

The Board has received favourable indications from our most significant customers and partners that our strategy to scale our security services is the right one. As such, the Board anticipates increasingly strong performance and much improving performance. To do this we will focus on:

- Growing the 'Business as Usual' as I have outlined
- Using Technology to meet the market changes and launch new products to give flexibility and reduce costs,
- Using our channel partners (eg, MSPs) trusted adviser status to sell our 'Security as a Service' into their client base

We all see Cyber and political risks continue to dominate our headlines. They are highly likely to grow exponentially, placing security issues at the forefront of people's minds. As outlined the rapid deployment of complex network solutions and the rapid change in technology is only going to add to the challenges our customers will encounter – and we are here to help them.

We look forward to the challenges ahead.

Approved by the Board on 13 Aug 2018 and signed on its behalf by



M D Read
Chairman and Chief Executive Officer

Chief Executive Officer and Chief Operating Officer's Report

Cyber Division

During the year the division's revenues grew by 18% to £1.1m (2017: £0.9m). This includes a small contribution from larger contracts which were signed in the final quarter. The recurring revenue base from monitoring contracts approximately doubled in the year. Underlying EBITDA loss was £0.9m (2017: £0.7m). This was after charging £0.2m of costs associated with a former sales team which was replaced in its entirety in the year. The acquisition of the trade and assets of First Base Technologies LLP in March 2018 has significantly added to the division which at the end of the period had approximately 250 customers (2017: 50).

Sales and Marketing

The entire go-to-market strategy for Cyber has been reviewed and improved. Our initial focus has been on developing and cementing current partner relationships as the primary route to market in the SME space, leveraging their trusted relationships to sell through those partners to their end customers. In addition, we continue to search for, identify and win significant direct customers for our services.

The expansion of our manpower-based capabilities and capacity through acquisition has also led to growth in sales and access to customers. Already we are seeing a growing pipeline of opportunity to cross-sell varying cyber services into customers who previously bought just one service from Falanx. We currently have a combination of more than 25 opportunities to sell monitoring solutions into pen-testing customers and vice versa.

As a result, we have seen an increase in the number of customers who now consume more than one service from the Falanx Cyber stable. Currently the largest bundle being consumed by a single client is for 5 services, being monitoring, penetration testing, incident response, GDPR consulting and cyber essentials. Our aim is to repeat this 'bundling' into a growing number of existing and new customers.

We continue to develop our sales capabilities including sales enablement of the channel partners to make their job easier when positioning cyber services to their customers. We have the opportunity to present to their communities over the coming weeks and further expand our reach through their trusted networks. Our sales 'reach' is significantly enhanced through their sales efforts and we will continue to identify and sign up additional partners with the customer base suited to consumption of our range of cyber services.

Our market successes for monitoring continue to grow in both the Government and Commercial sectors and a strong pipeline of monitoring opportunities means our recurring revenues will continue to grow in significance, often through multi-year contracts.

We have reworked our website to position it for future growth and giving us increased dexterity in the way in which we communicate with all our stakeholders online.

Technology Strategy

Only a few years ago outsourced data centres presented a major challenge to the CTO (Chief Technology Officer), with the prospect of corporate assets resting outside the traditional protection of the company firewall. Those organisations, who were previously cautious of Cloud, now look to place complete infrastructure requirements with multiple Cloud vendors. Gartner have forecasted a 21.4 percent growth in IaaS (Infrastructure as a Service) alone for the provisioning of services outside core networks for 2018. Amazon, Rackspace, Microsoft Azure (and Office365 for application provision) are now standard IT infrastructure. Our strategy is to assist the enterprise in securing their assets in this rapidly evolving Cloud environment, by providing a technology stack that breaks their dependency upon costly, inflexible and consultancy heavy products.

Project Furnace is the evolution of Falanx's investment in the creation of a highly capable technology stack. Furnace allows users to span the rapidly growing array of public and private Cloud, currently used by enterprise. By exploiting our many years of SOC (Security Operations Centre) experience, we have built a best of breed microservice architecture to provide enterprise and their in-house developers the tools to plug dangerous security gaps that have emerged during the rapid proliferation of Cloud. Built from best of breed components, technology acquired as part of the Cloudified acquisition and our proprietary service architecture MidGARD, Project Furnace has reached a level of maturity whereby an opportunity now exists to replace large-scale proprietary application stacks. Our aim is to offer enterprises the output of Project Furnace to assist them in improving performance, visibility of risks and greatly reducing costs regardless of the location or type of data.

Operational Delivery Model

Operational delivery to support customers has been greatly strengthened by the development of a strong management team across all lines of service. Our organisation is structured to deliver high quality customer outcomes whilst maximising the efficiency of delivery by having the necessary infrastructure. Each service team is now lead by a highly experienced subject matter expert with strong commercial experience. As a result, quality of service and resource utilisation has been increased across the board. This has resulted in a marked increase in the availability of the leadership team to contribute to client engagement, creation of new services and the training and development of staff.

The core operational structure of Intelligence, Cyber and Technologies remains unchanged, however the services, teams and structure within them has developed considerably over the year.

Current Service Offerings

Falanx Cyber has gone through another year of continued structuring and growth in both capacity, lines of service and increased delivery. Consisting now of four core lines of service, Consult, Assessment, Awareness, Monitor & Respond, we provide the full breadth of 'Cyber Resilience' services as recommended by NCSC (National Cyber Security Centre) in the UK and NIST (National Institute for Standards and Technology) in the USA.

Chief Executive Officer and Chief Operating Officer's Report

Consult

Containing our previous resources and the now recently acquired Securestorm, has significant cyber consulting capacity to engage with UK Government and small to medium enterprise businesses alike. Our cyber security consulting services are designed to support our client's organisation in implementing the most effective cyber security practices. Our consultants partner with our clients to fully understand their requirements, to help them improve their systems, processes and protect their organisation from cyber threats.

Assessment

The acquisition of the trade and assets of First Base Technologies LLP combined with our existing penetration testing assessment team has greatly broadened our Assessment delivery capability. Our 'Assess' services help clients understand the threats and risks relevant to their organisations through our highly qualified penetration testing teams critically examining the most critical assets in their environment and test their security.

Awareness

Our 'Awareness' services are designed to increase staff awareness of cyber-attacks, from the Board of Directors downward. Using custom built scenarios, our experts simulate real-time attacks through email and voice phishing and physical intrusions to test and improve the resilience of their staff and systems.

Monitor & Respond

We understand that the vast majority of organisations are unlikely to have all of the skills, in-house, needed to monitor and respond to a cyber security incident. When this situation occurs our team of Cyber Security experts are on hand to support our clients. With options for full incident response contracts through to ad-hoc support, we are able to help our clients when they need us most, 24/7, 365 days a year.

Product Line Development

New Services

We constantly explore, develop and invest in security services intended to provide our clients with adaptable layers of protection, designed to meet a wide variety of threats and budgetary restrictions. As with all of our long-standing services, these new offerings can be provided discretely or bundled. New service lines that are coming on line are;

- Incident Response: The management of a security breach to an existing or new customer is run from our Cyber SOC in the heart of Birmingham. With our incident responders able to reach a client's office, from one of our four locations (Leeds, Birmingham, London and Brighton) in any part of England, within 3 hours.
- Automated Vulnerability Scanning: Due to the close relationship of the recently acquired SecureStorm with one of the world's leading vulnerability scanning technologies Edgescan. We intend to offer our clients a highly cost-effective alternative to the traditional 'Penetration Test' where appropriate. This will allow us to capture business previously lost due to the inherently higher cost of manual testing.
- Threat Awareness Training: Due to the acquisition of First Base, we are now able to offer our clients with cyber security awareness training for their staff and management. We see a rapidly growing opportunity for such training services as 'best practice' within industry bodies recommends personnel are trained in Cyber Risk as an essential first step to becoming cyber secure. We are also able to scale this training via the application of our online training service supported by the NCSC (National Cyber Security Centre) accredited CybSafe platform, sourced through the acquisition of Securestorm.
- Red Team Assessment: Is a specific application of penetration testing that test a client organization's ability to detect an attack, respond, and minimize or negate its effect. Our Red Team acts as an attacker, attempting to exploit the client's organisation without detection. Our Red Team escalates the nature of each attack to test the detection and response capabilities (security monitoring and incident response), providing constructive feedback to the client that will then inform them of steps they may take to increase their security posture.

Skills Management

Recognising that the Cyber talent market is becoming more competitive we have a number of initiatives in order to successfully recruit, motivate and retain the right staff. We proactively invest in staff development and skills and provide a career pathway for our new hires including undergraduates and more experienced staff. Falanx Cyber are currently in their third annual cycle of recruiting and developing interns. For several years we have had strong links with several universities and, we have a strong and steady intake of students.

Geographic expansion

We have a network of offices around the UK to service customers. Our main cyber centres are in Sussex (following the acquisition of First Base), Birmingham, London and Leeds. We focus on maintaining a flexible and low-cost office footprint which will allow our staff to service our customers and where relevant allow staff to work remotely to reduce premises costs.

Chief Executive Officer and Chief Operating Officer's Report

Falanx Intelligence Services (Assynt)

Divisional revenues were £1.9m (2017: £1.8m) and it recorded underlying EBITDA of £0.26m (2017: £0.27m). Approximately 72% (2017: 67%) of revenues were from recurring services for report subscriptions and embedded analysts.

Falanx Assynt, our strategic intelligence division, continues to provide geo-political analysis, intelligence consulting and managed intelligence services to around 60 blue chip organisations worldwide. It derived approximately 2/3 of its revenues last year from high quality recurring contracts from embedded analysts and report subscriptions with the remainder arising from specific business intelligence assignments. The division, under the management of Charles Hollis, who joined in July 2017, is focussed on driving these recurring contracts given their strong financial dynamics. The medium term goal is to achieve profitability purely on recurring and retained revenues – through Assynt Report subscriptions and the provision of embedded analysts to key clients. This baseline revenue will continue to be supplemented by bespoke Intelligence Consulting projects, leveraging off our recognised expertise and knowledge of emerging markets, international geopolitics and jihadist activities worldwide.

This year we have continued to experience very high retention rates for our Assynt Report product, while continuing to attract new subscribers across all business sectors, as well as among international NGOs and government organisations. We continue to focus on emerging markets, notably the MENA region, South and South East Asia, Latin America, Russia and Ukraine and have regional offices in the US, UAE and Hong Kong to support our multinational customer base. In the past few months we have begun to expand our geographic coverage and are looking to substantially increase our reporting on sub-Saharan Africa by the end of the year. Our reports provide, giving a depth of analysis and a predictive focus which they are not able to find elsewhere. We are also known for our specialism in international jihadist activities and our "Black Banners Monthly" periodical remains highly regarded.

The embedded analyst business has continued to grow, with the acquisition of two new US-based clients over the last year and the up-selling of managed analyst services to existing clients. We have retained 100% of our existing clients. We expect the embedded analyst business to continue to grow over the course of this financial year, with active discussions in train for more placements in the UK and Asia.

Our Intelligence Consulting business has taken a back seat over the last year as we have undergone a number of staff changes at a senior level and have placed primary marketing focus on growing the retained revenue businesses. However, revenues have held up over the year and we have delivered a number of high value projects to clients playing into our strengths in geo-political analysis including a study for a FTSE 100 FMCG company looking to formulate a strategy for building a distribution network in a jurisdiction severely damaged by conflict, a study for an Alternative Investment vehicle into hydrocarbon investments in a leading MENA country and an analysis for a client of jihadist financing flows.

Our knowledge in these areas is a good fit with our Cyber Intelligence capability, particularly 'Red Team' exercises which are relevant to the Assynt customer base and we are already selling bundled services.

We continue to look for potential acquisitions which might reinforce or extend the Falanx Assynt business, while remaining mindful that our long-term clients value above all our consistency and quality of output. Accelerating growth while retaining these values remains a challenge, but if we can find the right acquisitions which allow us to do so, we are willing to consider them on a case by case basis.

Approved by the Board on 13 August 2018 and signed on its behalf by



M D Read
Chief Executive Officer



J R Blamire
Chief Operating Officer

Chief Finance Officer's Report

Revenue

Group revenues grew by 10% to £3.0m (2017: £2.7m). The majority of the growth came from the Cyber business which grew by 18% due to greater contract momentum in the second half of the year. Contribution from larger monitoring deals was limited as they are multiyear contracts and were only implemented towards the end of the reporting period. The business has improved the proportion of revenues generated from recurring contracts in each division from 55% in 2017 to 62% in 2018. At the end of the period monthly recurring revenues across the Group stood at approximately £190,000 per month (2017: £146,000). The majority of the growth was from monitoring contracts in line with the Board's strategy of moving to higher quality revenues. At the period end the Group had approximately £2.3m of future revenue (2017: £1.4m) under contract. At the date of this report monthly recurring revenues were circa £240,000 following further sales of monitoring solutions after the year end. 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 (322 customers (2017: 118)), has very significantly reduced our customer concentration risk with our largest accounts representing less than 5% of our enlarged Group's revenues.

The acquisition of the trade and assets of First Base Technologies LLP completed on 23 March 2018 contributed approximately one week to the revenue for the year ended 31 March 2018.

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). In the year to 31 March 2017 approximately £0.1m of premises costs for the monitoring station were recorded as a cost of sales and are now reflected as administrative expenses as they are largely fixed.

Gross Margin

The Group's gross margin increased from 20% to 31% during the year. 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.

Operational & Cash Based Costs

Administrative expenses excluding depreciation and amortisation and non-underlying items increased from £1.7m to £2.5m as the Group grew its infrastructure and headcount to support growth. This included increased premises costs arising from a relocation of the London office as well as additional space in Birmingham for staff to support the Cyber division's growth plans. Further investment was made in increased sales and marketing capabilities in Assynt with the hire of a new managing director and commercial director. Average headcount in the year was 51 (2017: 35) reflecting the impact of acquisitions in 2017 and 2018. Central costs increased by 9% reflecting increased advisory and management costs.

Non-underlying items

As referenced in the CEO's review, the Company has made significant changes to its Board and management as well as completing several acquisitions. These activities by their nature incurred certain costs which are outside of the Group's usual operations.

	2018	2017
	£	£
Reported EBITDA loss	(2,241,436)	(1,221,617)
Acquisition costs (advisory and introduction)	201,532	54,670
Board restructuring costs	300,150	–
Share option charge	48,763	21,755
Foreign exchange loss / (gain)	74,609	(67,638)
Cloud business development	26,881	–
Underlying EBITDA loss	(1,589,501)	(1,212,830)

Restructuring costs include costs of Board and management changes which mainly affected the Cyber division and the central and board functions. In addition to the costs listed above there was a major restructuring of the sales team in the Cyber division in the second half of the year, and consequently a further £0.23m of cost has been eliminated. In aggregate the company has been FX neutral over the last 2 years.

Chief Finance Officer's Report

EBITDA

Underlying EBITDA loss for the year was a £1.6m (2017: £1.2m) after adjusting for the items highlighted above. Headline reported EBITDA loss was £2.2m (2017: £1.2m).

Depreciation and Amortisation

Depreciation and amortisation was £0.29m (2017: £0.36m) and largely represented amortisation of previously purchased software licences for the Cyber division. These costs have been reduced due to use of internal IP and revised licencing arrangements with certain external vendors where they are now paid on a monthly basis.

Financing Costs

Financing costs were £2,900 (2017: £110,000) with the prior year charge arising from the convertible loan note issued to Darwin Capital which was repaid in full prior to 31 March 2017.

Result for the Year

The Group's operating loss increased to £2.5m (2017: £1.6m) with £0.65m of the increase relating to non-underlying items. Loss per share is consistent with the prior year at 1.56p (2017: 1.52p).

Statement of Financial Position

Non-Current Assets

The Group continued to invest in technology during the year and a further £0.5m (2017: £0.2m) of development costs were capitalised in support of monitoring technology development in the Cyber division. Spend on tangible fixed assets was £0.07m (2017: £0.1m) primarily on technology and infrastructure costs.

Working Capital

Amounts due from customers, net of bad debt provision increased to £0.9m from £0.4m. This was driven primarily by certain large customer renewals which were billed in the final month of the year, but which were not paid until April 2018. Other receivables increased by £0.3m and these predominantly related to certain settlement monies from the March 2018 fundraise, which were settled in April 2018.

Days sales outstanding stood at 52 (2017: 42) and overall the company had a very low incidence of delayed and/or non payment of debts by customers.

Current liabilities (excluding deferred income) included a final £0.2m due to the vendors of First Base Technologies LLP which was settled in April 2018. The vast majority of the Group's creditors including taxation are within agreed terms.

Deferred income increased to £0.75m (2017: £0.43m) as a result of the acquisition of the trade and assets of First Base Technologies LLP in March 2018 as well as a greater volume of advanced billings to customers in both divisions.

Capital Structure

The Company issued the following shares during the period:

Date	Comment	Number of shares	Share Price (£)	Value (£)
4 May 2017	Placing	29,090,909	0.06875	2,000,000
4 May 2017	Settlement of broker fees	545,455	0.06875	37,500
5 July 2017	Cloudified Limited acquisition	1,122,807	0.07125	80,000
11 September 2017	Auditsec Services Limited acquisition	750,000	0.07125	53,438
15 January 2018	Settlement of broker fees	166,667	0.075	12,500
6 March 2018	Placing	102,222,222	0.045	4,600,000

At the 31 March 2018 the Company had 259,678,964 ordinary shares in issue. The Company also had 41,061,251 warrants outstanding at 31 March 2018 and full details are in note 20 to these financial statements.

At the year-end shareholders' funds stood at £4.9m (2017: £0.8m).

Chief Finance Officer's Report

Statement of Cash Flows

During the year the Group raised £6.3m net by the issue of new shares. Approximately £3.0m (net of acquired balances) was used on acquisition consideration with the remainder being used for transactional support around M&A (£0.2m), investment in product (£0.4m) with the remainder being used for general corporate purposes.

Cash balances stood at £0.9m (2017: £0.4m).

Post Period Events

On 16 July 2018 the Company acquired 100% of the issued share capital of Securestorm Limited, a niche cyber security consultancy business. The consideration of £100,000 was satisfied by the issuance of 2,222,222 new ordinary shares at 4.5 pence each. Net liabilities on acquisition were approximately £0.13m. The current liabilities are mainly due to HMRC where a deferred payment scheme has been agreed and is in place. Per unaudited management accounts for the 12 months to 30 June 2018 it recorded revenues of £0.54m and operating losses of £0.15m, the majority of losses were incurred before December 2017. These have since been mitigated by customer contract wins and cost reductions. The integration of Securestorm is expected to generate enhanced revenue opportunity and cost synergies.

Impact of Recent Acquisitions and Contract Wins on Group

The Group has in recent months undertaken significant acquisitions and has won further new contracts. This has significantly enlarged the Group's revenues on a pro forma basis as set out below:

	£'000
Falanx Group audited revenues at 31 March 2018	3,020
First Base Technologies (trade and assets acquired 23 March 2018, unaudited management accounts of First Base Technologies LLP for year ended 31 March 2018)	1,900
Securestorm (acquired 16 July 18, unaudited management accounts for year ended 30 June 2018)	543
Legal Firm monitoring contract (announced 7 February 2018)	233
UK Government monitoring contract (announced 16 May 2018)	230
Other contract growth in First Base Technologies (10% new name per announcement 16th May 2018)	190
Pro forma revenue	6,116

Following strong delivery of services and the associated revenue recognition, the Group reported a profit at an EBITDA level in July 2018.

Approved by the Board on 13 August 2018 and signed on its behalf by



I R Selby
Chief Finance Officer

Directors and Advisers

Mike Read

Mike Read (Chief Executive Officer and Chairman) 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 Operating 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.

Ian Selby (appointed 15 January 2018)

Ian Selby (Chief Financial Officer) 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.

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.

Company number

1730012 (British Virgin Islands)

Registered Agents

Maples Corporate Services (BVI) Limited

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

Bankers

Barclays Bank PLC

UK Banking
1 Churchill Place
London E14 5HP

Registered office

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

Auditors

Kingston Smith LLP

Devonshire House
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London EC1M 7AD

HSBC Bank PLC

8 Canada Square
London E14 5HQ

Brokers

Turner Pope Investments (TPI) Limited

Becket House
36 Old Jewry
London EC2R 8DD

Solicitors

DWF LLP

20 Fenchurch Street
London EC3M 3AG

Nominated adviser

Spark Advisory Partners Limited

5 St John's Lane
London EC1M 4BH

Registrars

Computershare Investor Services (BVI) Limited

Woodbourne Hall
PO Box 3162
Road Town, Tortola
British Virgin Islands

Directors' report

The Directors present their report and the audited financial statements for the year ended 31 March 2018.

Business Review

The Group's results for the year are set out in the consolidated statement of comprehensive income on page 23 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	2018	2017	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	£3.0	£2.7	Increase of 10% attributable to increased revenue in the Cyber division
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	31%	20%	Improved margin due to efficiency savings and better utilisation
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	£(2.2)	£(1.2)	Increase in overhead cost largely due to increased staff cost and non-underlying costs
Adjusted EBITDA - £'m	A measure of profits adjusted for non-underlying items	Underlying performance of business operations	£(1.6)	£(1.2)	Increase in underlying costs attributable to increased staff cost for the sales team
Cash conversion	Operational cash flow / EBITDA	Measures the ability of the business to convert profit into cash	96%	99%	A close correlation between profit and cash
Recurring revenue %	Recurring revenue lines / total revenue	Shows visibility of recurring revenue growth rate	62%	55%	Quality of revenue
Contracted revenue - £'m	Binding commitments from customers for future revenues	Shows visibility into contracted revenues underpinning future revenue forecasts	£2.3	£1.4	Increase in recurring revenue contracts
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	£0.19	£0.14	Increase in revenue from protective monitoring in the Cyber division
Number of live customers	Number of customers invoiced over the preceding 12 months	Measure of customer concentration (includes acquired customer base)	332	118	Growth of 181% largely attributable to the acquired customer base of First Base for the Cyber division
Headcount	Average headcount during the year	Shows average number of employees in the year	51	35	Increase in operations staff to deliver future revenue commitments
Deferred Income - £'m	Contracted and invoiced revenue yet to be recognised	Shows visibility into invoiced amounts to be recognised in future periods	£0.7	£0.4	Increase due to growth in the Cyber division

Directors' report

Dividends

The consolidated statement of comprehensive income for the year is set out on page 23, 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 31 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	(became executive director on 13 November 2017)
I R Selby	appointed 15 January 2018
P S A Bladen	resigned 13 November 2017
J D Abbott	resigned 31 March 2018

Non-Executive Director

E Shaw

Directors' interests

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

	2018		2017	
	Number of shares	% Held	Number of shares	% Held
M D Read [^]	9,243,940	3.56%	1,250,000	0.99%
J R Blamire	7,900,000	3.04%	7,900,000	6.28%
J D Abbott ^{***}	—	—	7,125,536	5.66%
E Shaw	866,667	0.33%	200,000	0.16%
I R Selby ^{**}	666,667	0.26%	—	—
P S A Bladen [*]	—	—	310,000	0.25%

[^] M D Read has 1,250,000 warrants with an exercise price of 6 pence expiring 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:

5.00 pence options	2018	2017
	Number	Number
M D Read	5,000,000	—
J R Blamire	4,500,000	—
I R Selby ^{**}	5,000,000	—
E Shaw	500,000	—
P S A Bladen [*]	—	3,000,000

Directors' report

5.875 pence options	2018	2017
	Number	Number
P S A Bladen*	—	1,250,000
J R Blamire	500,000	500,000
J D Abbott***	—	500,000
E Shaw	750,000	750,000

* P S A Bladen resigned 13 November 2017 ** I R Selby appointed 15 January 2018 *** J D Abbott resigned 31 March 2018

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' remuneration

	Salary and fees	Benefits in kind	Termination payment	Pension contribution	Bonus	2018 Total	2017 Total
	£	£	£	£	£	£	£
Executive Directors:							
M D Read	25,000	—	—	—	20,000	45,000	50,000
J R Blamire	100,000	—	—	391	40,000	140,391	108,568
I R Selby**	26,721	—	—	82	20,000	46,803	—
J D Abbott***	108,462	—	—	—	50,000	158,462	25,000
P S A Bladen*	106,808	—	105,000	1,011	—	212,819	69,001
Non-executive Directors:							
E Shaw****	40,000	—	—	—	—	40,000	28,000
I A Manley	—	—	—	—	—	—	23,000
D P Carr	—	—	—	—	—	—	1,000
	406,991	—	105,000	1,484	130,000	643,475	304,569

* 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 £20,000 (included in her remuneration for the year) was settled by the issuance of 444,444 shares at 4.5 pence each on 6 March 2018.

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 2018, creditors' days were 66 days (2017: 54 days) with the increase being due to certain large invoices being received at the end of the year. 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.

Directors' report

Employees

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

Health and safety

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

Principal Risks and Uncertainties

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

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 2018, only one 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 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 £2.5m (2017: £1.7m) in the year of which £1.6m (2017: £1.2m) relates to the underlying operations of the business. At the end of March 2018 the Group acquired the trade and assets of First Base Technologies LLP which has given it a larger customer base and a profitable business which generated circa £0.6m of operating cash in the year to 31 March 2018. Falanx's organic business has improved its revenue performance since the start of the current financial year with the larger monitoring contracts signed since the start of the calendar year coming onstream and commencing to produce cash. The Group is increasing the proportion of revenues from either recurring or repeat customers and is therefore reducing the levels of new business to achieve cash neutral performance. Furthermore the cost base has been streamlined over the last few months. Since the start of the calendar year First Base Technologies customer billings are up by 25% year on year and demand is growing across our Cyber offerings. In July 2018 the Group was profitable at an EBITDA level following strong deliveries in that month.

In assessing whether the going concern assumption is appropriate, the Directors take into account all relevant available information about the next twelve months following the signing of these financial statements. The Directors have prepared detailed profit and cash flow forecasts for the the next 12 months which the Directors consider to be conservative. This scenario assumes lower growth in revenues than the core plan as well as reductions in parts of the cost base. Should these stress test scenario targets not be met and a shortfall in working capital identified, the Directors have a range of other options. These include further operating cost and platform investment reductions and facilities such as invoice discounting. The Group could seek, as in previous years, the support of investors and directors (debt or equity).

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 9 August 2018, the following were holders of 3% or more of the Group's issued share capital:

Registered holder	Ordinary shares	Percentage of issued share capital
Unicorn VCT	33,333,333	12.73%
Michael David Read	9,243,940	3.52%
John Blamire	7,900,000	3.02%

Auditors

The auditors Kingston Smith LLP have indicated their willingness to continue in office and a resolution that they be re-appointed will be proposed at the annual general meeting.

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 17 of these financial statements. The Statement of Directors' Responsibilities forms part of the Directors' report.

On behalf of the Board



J R Blamire
Director

13 August 2018

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 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 intend to comply with appropriate recognised corporate governance standards as far as practicable and to the extent appropriate given the Group's size, assets, liabilities and other relevant information. In practice this means that the Group will be complying with the QCA Guidelines for AIM Companies.

Board of Directors

The Board's principal responsibilities include assisting in the formulation of corporate strategy, reviewing and approving all significant corporate transactions, monitoring operational and financial performance, reviewing and approving annual budgets and generally assisting management to enhance the overall performance of the 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 Committee and Nomination Committee.

Audit Committee

The Audit Committee comprises John Blamire (Chairman), Emma Shaw and Mike Read 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) 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.

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 13 August 2018 and signed on its behalf by



J R Blamire
Director

Independent auditors' report

to the members of Falanx Group Limited

Opinion

We have audited the financial statements of Falanx Group Limited for the year ended 31 March 2018 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Cash Flows, the Consolidated Statement of Changes in Equity and notes to the financial statements, 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 (IFRSs) as adopted by the European Union.

In our opinion the group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 March 2018 and of its loss for the year then ended; and
- have been properly prepared in accordance with IFRSs 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 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.

Audit Area and Description

Carrying value of intangibles (customer relationships and goodwill)

As a result of acquisitions made in the year intangible assets represent a significant part of the assets of the Group. The intangible assets arising on acquisition largely comprise customer relationships and goodwill.

Audit approach

We reviewed the assumptions underpinning the valuation of customer relationships and goodwill arising on acquisition. We assessed the Directors' assertion that no impairment was required by reference to trading performance and forecasts. We considered the appropriateness of the amortisation policy for customer relationships.

Carrying value of intangibles (development costs)

The Group has continued to develop its MidGARD/Furnace product in the year. The associated capitalised development costs represent a material asset of the Group at the reporting date.

Audit approach

We assessed the capitalised costs against the IAS 38 recognition criteria. We assessed the Directors' assertion that no impairment was required by reference to forecasts. We considered the appropriateness of the amortisation policy for development costs.

Our application of materiality

The scope and focus of our audit was influenced by our assessment and application of materiality. We define materiality as the magnitude of misstatement that could reasonably be expected to influence the readers and the economic decisions of the users of the financial statements. We use materiality to determine the scope of our audit and 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.

Due to the nature of the Group we considered income to be the main focus for the readers of the financial statements, accordingly this consideration influenced our judgement of materiality. Based on our professional judgement, we determined materiality for the Group to be £71,000, based on a percentage of revenue.

On the basis of our risk assessments, together with our assessment of the overall control environment, our judgement was that performance materiality (i.e. our tolerance for misstatement in an individual account or balance) for the Group was 60% of materiality, namely £42,600.

We agreed to report to the Audit Committee all audit differences in excess of £3,550, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also reported to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. The

Independent auditors' report

to the members of Falanx Group Limited

An overview of the scope of our audit continued

entire Group is audited by one audit team, led by the Senior Statutory Auditor. Our approach in respect of key audit matters is set out in the table in the Key Audit Matters Section above.

The audit is performed centrally and comprises all of the companies within the Group.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. 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.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we have not identified material misstatements in the Directors' Report.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 17, 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK) we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure

Independent auditors' report

to the members of Falanx Group Limited

Auditor's responsibilities for the audit of the financial statements continued

about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Use of our report

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

MATTHEW MEADOWS (Senior Statutory Auditor)

for and on behalf of Kingston Smith LLP, Statutory Auditor
Devonshire House
60 Goswell Road
London EC1M 7AD
13 August 2018

Consolidated income statement

for the year ended 31 March 2018

	Note	2018 £	2017 £
Continuing operations			
Revenue	4	3,020,935	2,743,217
Cost of sales		(2,079,891)	(2,194,564)
Gross profit		941,044	548,653
Administrative expenses – excluding depreciation and amortisation		(2,530,545)	(1,696,966)
Depreciation and amortisation		(298,138)	(356,817)
Administrative expenses – research		–	(64,517)
Non-underlying items	5	(651,935)	(8,787)
Operating loss	6	(2,539,574)	(1,578,434)
Finance income	9	633	196
Finance costs	9	(2,900)	(110,000)
Finance costs – net		(2,267)	(109,804)
Loss before income tax		(2,541,841)	(1,688,238)
Income tax credit / (expense)	10	18,798	(12,416)
Loss for the year from continuing operations		(2,523,043)	(1,700,654)
Loss for the year		(2,523,043)	(1,700,654)
Earnings per share			
Basic earnings per share – continuing and total operations	11	(1.56)p	(1.52)p
Diluted earnings per share – continuing and total operations	11	(1.56)p	(1.52)p

Consolidated statement of comprehensive income

for the year ended 31 March 2018

	2018 £	2017 £
Loss for the year	(2,523,043)	(1,700,654)
Other comprehensive income:	–	–
Other comprehensive income for the year, net of tax	–	–
Total comprehensive income for the year	(2,523,043)	(1,700,654)
Attributable to:		
Owners of the parent	(2,523,043)	(1,700,654)
Total comprehensive income for the year	(2,523,043)	(1,700,654)

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.

The notes on pages 27 to 49 are an integral part of these consolidated financial statements.

Consolidated statement of financial position

as at 31 March 2018

	Note	2018 £	2017 £
Assets			
Non-current assets			
Property, plant and equipment	13	132,544	131,456
Intangible assets	14	4,464,257	769,983
		4,596,801	901,439
Current assets			
Inventories	17	4,382	8,500
Trade and other receivables	18	1,467,434	633,101
Cash and cash equivalents	19	914,961	430,459
		2,386,777	1,072,060
Total assets		6,983,578	1,973,499
Equity			
Capital and reserves attributable to equity holders of the Company			
Share premium account	21	13,868,734	7,410,507
Translation reserve		(37,024)	(100,285)
Shares to be issued reserve		245,369	196,606
Retained earnings	22	(9,226,490)	(6,703,447)
Total equity		4,850,589	803,381
Liabilities			
Current liabilities			
Trade and other payables	23	1,374,981	727,762
Deferred income		748,479	432,827
Deferred tax liability	16	9,529	9,529
Total liabilities		2,132,989	1,170,118
Total equity and liabilities		6,983,578	1,973,499

The notes on pages 27 to 49 are an integral part of these consolidated financial statements.

The financial statements on pages 23 to 26 were authorised for issue by the Board of Directors on 13 August 2018 and were signed on its behalf by:



J R Blamire
Director



I R Selby
Director

Company number: 1730012 (British Virgin Islands)

Consolidated statement of changes in equity

for the year ended 31 March 2018

	Note	Share premium £	Retained earnings £	Translation reserve £	Share option reserve £	Total £
Balance at 1 April 2016		5,309,031	(5,002,793)	(42,162)	174,851	438,927
Loss for the year		—	(1,700,654)	—	—	(1,700,654)
Transactions with owners:						
Issue of share capital		2,175,021	—	—	—	2,175,021
Costs of issue of share capital		(73,545)	—	—	—	(73,545)
Translation of foreign subsidiaries		—	—	(58,123)	—	(58,123)
Share options issued		—	—	—	21,755	21,755
Balance at 31 March 2017		7,410,507	(6,703,447)	(100,285)	196,606	803,381
Loss for the year		—	(2,523,043)	—	—	(2,523,043)
Transactions with owners:						
Issue of share capital		6,783,438	—	—	—	6,783,438
Costs of issue of share capital		(325,211)	—	—	—	(325,211)
Translation of foreign subsidiaries		—	—	63,261	—	63,261
Share options issued	12	—	—	—	48,763	48,763
Balance as at 31 March 2018		13,868,734	(9,226,490)	(37,024)	245,369	4,850,589

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

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

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

The share option reserve represents the cumulative share option charge.

The notes on pages 27 to 49 are an integral part of these consolidated financial statements.

Consolidated cash flow statement

for the year ended 31 March 2018

	2018	2017
	£	£
Cash flows from operating activities		
Loss before tax	(2,541,841)	(1,688,238)
Adjustments for:		
Depreciation	65,430	43,874
Amortisation and impairment	232,708	312,943
Share based payment	81,263	56,755
Loss on disposal of property, plant and equipment	1,026	697
Net finance cost recognised in profit or loss	2,267	109,804
	(2,159,147)	(1,164,165)
Changes in working capital:		
Decrease in inventories	4,118	32,675
Increase in trade and other receivables	(741,701)	(11,388)
Increase / (decrease) in trade and other payables	755,156	(67,676)
Cash used in operations	(2,141,574)	(1,210,554)
Interest paid	(2,900)	(55,000)
Net cash used in operating activities	(2,144,474)	(1,265,554)
Cash flows from investing activities		
Interest received	633	196
Acquisition of property, plant and equipment	(67,694)	(109,365)
Disposal of property, plant and equipment	150	—
Expenditure on development cost	(499,179)	(152,967)
Acquisition of subsidiaries net of cash acquired	(3,160,483)	(140,315)
Net cash used in investing activities	(3,726,573)	(402,451)
Cash flows from financing activities		
Net proceeds from loan notes	—	495,000
Repayment of loan notes	—	(550,000)
Net proceeds from issue of shares	6,292,288	1,781,455
Net cash generated from financing activities	6,292,288	1,726,455
Net increase in cash equivalents	421,241	58,450
Cash and cash equivalents at beginning of year	430,459	430,132
Foreign exchange gains / (losses) on cash and cash equivalents	63,261	(58,123)
Cash and cash equivalents at end of year	914,961	430,459

Cash and cash equivalents are shown net of a bank facility of £290,000 over which a right of set-off exists, as detailed in note 19.

The notes on pages 27 to 49 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

for the year ended 31 March 2018

1. General information

Falanx (the "Company") 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.

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'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.

The Group made losses of £2.5m (2017: £1.7m) in the year of which £1.6m (2017: £1.2m) relates to the underlying operations of the business. At the end of March 2018 the Group acquired the trade and assets of First Base Technologies LLP which has given it a larger customer base and a profitable business which generated circa £0.6m of operating cash in the year to 31 March 2018. Falanx's organic business has improved its revenue performance since the start of the current financial year with the larger monitoring contracts signed since the start of the calendar year coming onstream and commencing to produce cash. The Group is increasing the proportion of revenues from either recurring or repeat customers and is therefore reducing the levels of new business to achieve cash neutral performance. Furthermore the cost base has been streamlined over the last few months. Since the start of the calendar year First Base Technologies customer billings are up by 25% year on year and demand is growing across our Cyber offerings. In July 2018 the Group was profitable at an EBITDA level following strong deliveries in that month.

In assessing whether the going concern assumption is appropriate, the Directors take into account all relevant available information about the next twelve months following the signing of these financial statements. The Directors have prepared detailed profit and cash flow forecasts for the next 12 months which the Directors consider to be conservative. This scenario assumes lower growth in revenues than the core plan as well as reductions in parts of the cost base. Should these stress test scenario targets not be met and a shortfall in working capital identified, the Directors have a range of other options. These include further operating cost and platform investment reductions and facilities such as invoice discounting. The Group could seek, as in previous years, the support of investors and directors (debt or equity).

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 2018

The following IFRS and IFRIC Interpretations have been issued but have not been applied by the Group in preparing these financial statements as they are not as yet effective and in some cases had not yet been adopted by the EU.

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

- IFRS 9, 'Financial Instruments'
- IFRS 15, 'Revenue from Contracts with Customers'
- IFRS 16 'Leases'
- IFRS 10 and IAS 28 (amendments), 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture'
- Amendments to IFRS 2, 'Classification and Measurement of Share-based Payment Transactions'

Notes to the consolidated financial statements

for the year ended 31 March 2018

2.1.2 New and Revised Standards continued

- Amendments to IAS 7, 'Disclosure Initiative'
- Amendments to IAS 12, 'Recognition of Deferred Tax Assets for Unrealised Losses'

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 9 will impact both the measurement and disclosure of financial instruments and IFRS 15 may have an impact on revenue recognition and related disclosures. Beyond this, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 and IFRS 15 until a detailed review has been completed.

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 effect on the Group cannot be accurately quantified at this stage.

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

2.2 Consolidation

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 acquiree. Any costs directly attributable to the business combination are expensed as incurred. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (Revised), "Business Combinations" are recognised at fair values at the acquisition date.

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

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

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. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised on the following bases:

Notes to the consolidated financial statements

for the year ended 31 March 2018

2.4 Revenue recognition continued

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 rendering of service to customers
Vulnerability assessment	on rendering of service to customers
Supply of products	when effective title passes to the customer
Maintenance income	straight line basis over the life of the contract
Training courses	on delivery of training course

2.5 Taxation

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

2.6 Foreign Currency

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

(a) Functional and presentation currency

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

(b) Translation of foreign currencies

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

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

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

Notes to the consolidated financial statements

for the year ended 31 March 2018

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 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 reseources 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.

Customer relationships

Customer relationships are amortised over the period expected to benefit which is ten 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 work in progress 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.

Notes to the consolidated financial statements

for the year ended 31 March 2018

2.11 Financial assets

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

(a) Cash and cash equivalents

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

(b) Trade and other receivables

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

2.12 Share capital

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

2.13 Reserves

The consolidated financial statements include the following reserves: share premium account, 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 premium account.

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. 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 option pricing model taking into account the expected life of the awards, the expected volatility of the return on the underlying share price, 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.

Notes to the consolidated financial statements

for the year ended 31 March 2018

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.

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.

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 a judgement is made as to whether the deferred tax asset can be recognised. At 31 March 2018 a deferred tax asset has not been recognised (2017: £nil).

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 12.75%.

The customer relationships intangible asset, with a carrying value of £2,840,000 at 31 March 2018, detailed in note 14 is being amortised over a 10 year period. The directors consider this to be a realistic period given that First Base Technologies (London) Limited and its predecessor entity have been trading for over 20 years, and its recent customer churn is less than 10%.

Impairment of trade receivables

Impairments against trade receivables are recognised where a loss is probable. Neither division has suffered from high rates of bad debts and management have also based their assessment of the level of impairment on prior industry experience as well as the collection rates being experienced. The estimates and assumptions used to determine the level of provision are regularly reviewed and such a review could lead to changes in the assumptions, which may impact the income statement in future periods. The pre and post provision carrying values are detailed in note 18.

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 Chairman's statement. 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.

Notes to the consolidated financial statements

for the year ended 31 March 2018

4. Segmental reporting continued

Reportable segments

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

	Intelligence £	Cyber £	Other segment £	Total £
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)	(1,458,149)	(2,241,436)
Non-underlying costs (Note 5)	41,850	108,504	501,581	651,935
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)	(1,460,781)	(2,541,841)

The reportable segment results for the year ended 31 March 2017 are as follows:

	Intelligence £	Cyber £	Other segment £	Total £
Revenues from external customers	1,802,180	936,009	5,028	2,743,217
Gross margin	467,215	76,410	5,028	548,653
Segment Reported EBITDA	272,112	(627,942)	(865,787)	(1,221,617)
Non-underlying costs (Note 5)	5,494	7,338	(4,045)	8,787
Segment Adjusted EBITDA	277,606	(620,604)	(869,832)	(1,212,830)
Finance costs-net	77	—	(109,881)	(109,804)
Depreciation and amortisation	(11,267)	(344,649)	(901)	(356,817)
Segment profit/(loss) for the year	260,922	(972,591)	(976,569)	(1,688,238)

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.

Notes to the consolidated financial statements

for the year ended 31 March 2018

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 £
Total assets	864,513	5,111,623	1,007,442	6,983,578
Liabilities	641,852	912,533	578,604	2,132,989
Capital expenditure - Tangible	14,640	38,644	14,410	67,694
Capital expenditure - Intangible	—	3,926,982	—	3,926,982

Segment assets and liabilities as at 31 March 2017 and capital expenditure for the year then ended are as follows:

	Intelligence £	Cyber £	Other segment £	Total £
Total assets	565,931	1,353,954	53,614	1,973,499
Liabilities	542,814	362,341	264,963	1,170,118
Capital expenditure - Tangible	3,085	103,950	2,330	109,365
Capital expenditure - Intangible	—	587,155	—	587,155

Geographical information

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

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

Revenue	2018 £	2017 £
United Kingdom	2,265,734	1,873,078
Europe	273,130	371,775
Australasia	131,459	230,942
United States	272,203	189,236
Middle East	70,924	70,811
Other countries	7,495	7,375
	3,020,945	2,743,217

Non-current assets	2018 £	2017 £
United Kingdom	4,596,801	901,439
	4,596,801	901,439

Major customers

One customer contributed 10% or more to the Group's revenue in 2018 (2017: 2).

Notes to the consolidated financial statements

for the year ended 31 March 2018

5. Non-underlying 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 Non-underlying costs

		2018	2017
		£	£
Acquisition costs	a)	201,532	54,670
Board restructuring costs	b)	300,150	—
Share option expense	c)	48,763	21,755
Foreign exchange loss / (gain)	d)	74,609	(67,638)
Cloud business development	e)	26,881	—
		651,935	8,787

a) Acquisition costs

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

b) Board restructuring costs

Cost of restructuring the the Board including severance payment, recruitment fees for new Board members and advisory costs.

c) Share option expense

A Group share option scheme is in place and options are granted in the year as detailed in note 20. The share based payment charge has been shown separately as it is a non-cash expense.

d) Foreign exchange loss/ (gain)

Foreign exchange arising from the translation of intercompany balances of foreign subsidiaries to the Group's functional and presentation currency on consolidation. It is a non-cash expense subject to the volatility of the foreign exchange market and as such does not form part of the underlying operating costs of the Group.

e) Cloud business development

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

5.2 Adjusted EBITDA

	2018	2017
	£	£
Operating loss	(2,539,574)	(1,578,434)
Depreciation and amortisation	298,138	356,817
Non-underlying costs (note 5.1)	651,935	8,787
Adjusted EBITDA from underlying operations	(1,589,501)	(1,212,830)

6. Operating loss

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

	2018	2017
	£	£
Depreciation of owned property, plant and equipment	65,430	43,874
Amortisation and impairment of intangible fixed assets	232,708	312,943
Loss on disposal of property, plant and equipment	1,026	697
Operating lease rentals – Land & Buildings	130,444	111,001
Research expenditure	—	64,517
Share based payment expense	81,263	56,755
Foreign exchange loss / (gain)	84,735	(80,652)

Notes to the consolidated financial statements

for the year ended 31 March 2018

7. Auditors' remuneration

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

	2018	2017
	£	£
Remuneration receivable by the Company's auditors for the audit of consolidated and Company financial statements	23,000	17,500
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	28,000	22,500
– other services pursuant to legislation	16,000	7,650
– tax services	5,750	3,250
	72,750	50,900

8. Employee benefit expense

	2018	2017
	£	£
Wages and salaries, including termination benefits	2,987,800	1,821,307
Social security costs	346,270	199,573
Other pension costs	15,460	11,872
Share options granted to employees	48,763	21,755
	3,398,293	2,054,507

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

	2018	2017
Operations	28	20
Development team	2	–
Sales and marketing	8	3
Administration and management	13	12
	51	35

Directors' emoluments

	2018	2017
	£	£
Emoluments, including benefits in kind	536,991	304,259
Compensation for loss of office	105,000	–
Pension costs	1,484	310
	643,475	304,569

The emoluments of the highest paid Director were as follows:

	2018	2017
	£	£
Emoluments, including benefits in kind	106,808	108,413
Compensation for loss of office	105,000	–
Pension costs	1,011	155
	212,819	108,568

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

Notes to the consolidated financial statements

for the year ended 31 March 2018

9. Finance income and costs

	2018	2017
	£	£
Interest receivable	633	196
Interest payable - other	(2,900)	(110,000)
Net finance expense recognised in profit/(loss)	(2,267)	(109,804)

Interest payable in 2017 included the early redemption of the convertible loan note to Darwin Capital which was fully repaid before 31 March 2017.

10. Income tax expense

	2018	2017
	£	£
Current tax		
Current tax on loss for the year	—	—
Over provision in prior year	(18,798)	—
Total current tax	—	—
Deferred tax		
Deferred tax expense for the year	—	12,416
Total deferred tax	—	12,416
Income tax (credit) / expense	(18,798)	12,416

The tax charge for the year is different from the standard rate of corporation tax in the United Kingdom of 19% (2017: 20%). The difference can be reconciled as follows:

	2018	2017
	£	£
Loss before tax	(2,541,841)	(1,688,238)
Tax calculated at the applicable rate based on the loss for the year 19% (2017: 20%)	(482,950)	(337,648)
Tax effects of:		
Creation of tax losses	424,576	543,923
Expenses not deductible for tax purposes	39,369	(239,228)
Accelerated capital allowances	19,005	32,953
Current tax on loss for the year	—	—

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.

	2018	2017
Earnings attributable to equity holders of the Company (£)	(2,523,043)	(1,700,654)
Weighted average number of ordinary shares in issue	161,299,740	112,169,330
Basic and diluted loss per share (pence per share)	(1.56)	(1.52)

Notes to the consolidated financial statements

for the year ended 31 March 2018

11. Basic and diluted earnings per share continued

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 2018, 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.

12. Share based payment expense

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). 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.

	2018		2017	
	Average exercise price (pence)	Options	Average exercise price (pence)	Options
At 1 April	12.72	9,104,766	42.48	2,070,869
Granted	5.00	24,150,000	4.00	400,000
Granted	5.13	200,000	4.13	605,326
Granted	6.13	1,150,000	5.00	3,000,000
Granted	6.50	500,000	5.875	3,100,000
Granted	7.38	200,000	7.00	200,000
Forfeited	4.00	(100,000)	28.00	(71,429)
Forfeited	5.00	(2,000,000)	44.50	(200,000)
Forfeited	5.875	(1,166,666)	—	—
Forfeited	7.00	(200,000)	—	—
Exercised	—	—	—	—
Expired	—	—	—	—
At 31 March	7.25	31,838,100	12.72	9,104,766

Notes to the consolidated financial statements

for the year ended 31 March 2018

12. Share based payment expense continued

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

Expiry date	Exercise price (pence)	Shares	
		2018	2017
2018–2023	—	—	—
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	300,000	400,000
7 October 2026	5.00	1,000,000	3,000,000
24 January 2027	5.875	1,933,334	3,100,000
30 March 2027	7.00	—	200,000
17 July 2027	6.50	500,000	—
22 August 2027	6.13	1,000,000	—
4 September 2027	6.13	150,000	—
19 September 2027	7.38	200,000	—
20 November 2027	5.13	200,000	—
14 March 2028	5.00	24,150,000	—
		31,838,100	9,104,766

The weighted average fair value of the 26,200,000 (2017: 7,305,326) options granted during the year was determined using the Black-Scholes option pricing model and was 3.41 pence per option (2017: 1.22p). 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 50% (2017: 50%) and a risk-free rate of return estimated between 0.35% (2017: 0.10%) and of 1.16% (2017: 0.18%). The volatility is based on analysis of the volatility of the company's historical share price.

The total share-based payment expense recognised in the income statement in respect of share options granted to directors and employees is £48,763 (2017: £21,755).

13. Property, plant and equipment

	Fixtures and fittings £	Computer equipment £	Total £
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
At 31 March 2017	36,715	94,741	131,456

Notes to the consolidated financial statements

for the year ended 31 March 2018

14. Intangible assets

	Goodwill £	Software and brand licences £	Development costs £	Customer relationships £	Total £
Cost					
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
At 31 March 2017	434,188	175,328	152,967	7,500	769,983

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.

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 and the trade and assets of First Base Technologies LLP. The recoverable amount of goodwill is determined based on a value in use calculation which uses future cash flow projections over the estimated useful life.

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 five year forecast period. The discount rate applied is 12.75% (2017: 13.20%). The Directors have prepared sensitivity analysis which shows that:

- an increase in the discount rate from 20% to 87%
- a decrease in the revenue growth rate in the second year from 400% to 100% and from 100% to 53.5% in the third year would result in the value in use falling below the carrying value.

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

The Directors have separately undertaken an impairment review of the goodwill arising on the acquisition of Auditsec Services Limited of £53,438. The Directors consider the goodwill at 31 March 2018 to be fully impaired on the basis that the Company has no future revenue stream.

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 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 attrition rate depending on the length of the relationship. Associated cash outflows have been based on historically achieved margins. The net cash flows are discounted at a rate which the Directors consider is commensurate with the risks associated with capturing returns from customer relationships.

Notes to the consolidated financial statements

for the year ended 31 March 2018

14.2 Customer relationships continued

The customer relationships acquired relate to the purchase of Assynt Associates by Falanx Assynt Limited (formerly Stirling Assynt (Europe) Limited) in April 2008 and the acquisition of the trade and assets of First Base Technologies LLP on 23 March 2018. The goodwill on the former was fully amortised at 31 March 2018.

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. Amortisation has not been charged in the period 24 March 2018 to 31 March 2018 on grounds of immateriality.

15. Subsidiaries

Principal subsidiaries

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

Name	Country of incorporation	Nature of business	Proportion of ordinary shares held by parent
Falanx Cyber Defence Limited	England and Wales	Cyber defence solution	100%
Falanx Cyber Holdings Limited (formerly Falanx Assuria Limited)	England and Wales	Cyber defence solution	100%
First Base Technologies (London) Limited	England and Wales	Cyber defence solution	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 (formerly Stirling Assynt (Europe) 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

	2018	2017
	£	£
Group		
Balance at 1 April	(9,529)	2,887
Expense to the income statement	—	(12,416)
Balance at 31 March	(9,529)	(9,529)

The deferred tax liability represents:

	2018	2017
	£	£
Accelerated capital allowances	(9,529)	(9,529)
	(9,529)	(9,529)

Notes to the consolidated financial statements

for the year ended 31 March 2018

16. Deferred taxation continued

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% (2017: 19%), being the rate which is expected to apply in the future when the liability is settled. The Group has significant losses, 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.

17. Inventories

	2018	2017
	£	£
Work in progress	—	8,500
Finished goods	4,382	—
	4,382	8,500

18. Trade and other receivables

	2018	2017
	£	£
Trade receivables	881,639	440,969
Less: provision for doubtful receivables	(8,000)	—
	873,639	440,969
Other receivables	336,179	33,348
Prepayments and accrued income	257,616	158,784
	1,467,434	633,101

Trade and other receivables are stated at fair value.

19. Cash and cash equivalents

	2018	2017
	£	£
Cash and cash equivalents in statement of cash flows	914,961	430,459

Cash and cash equivalents are shown net of a bank facility of £290,000 over which a right of set-off exists. Funds held at Lloyds Bank at the year end relate to the operation of the Transition Account following the acquisition of the trade and assets of First Base Technologies LLP. The need for the Transition Account was eliminated in July 2018 on integration completion.

20. Share capital

	2018		2017	
	Number of shares	Nil par value	Number of shares	Nil par value
Allotted, called up and fully paid at 1 April	125,780,904	—	71,255,368	—
New shares issued	133,898,060	—	54,525,536	—
Allotted, called up and fully paid at 31 March	259,678,964	—	125,780,904	—

On 4 May 2017 the Company announced the issue of 29,090,909 new ordinary shares of nil par value at a price of 6.875 pence each raising net proceeds of £1.954m after deducting commission and transaction related costs.

On 4 May 2017 the Company announced the issue of 545,455 new ordinary shares of nil par value at a price of 6.875 pence each to Turner Pope Investments (TPI) Limited in satisfaction of placing agent fees. The shares are subject to 6 month 'lock-in' period from date of issue.

Notes to the consolidated financial statements

for the year ended 31 March 2018

20. Share capital continued

On 5 July 2017 the Company announced the issue of 1,122,807 new ordinary shares of nil par value at a price of 7.125 pence each to the vendors of Cloudified Limited in partial satisfaction of the acquisition consideration for Cloudified Limited.

On 11 September 2017 the Company announced the issue of 750,000 new ordinary shares of nil par value at a price of 7.125 pence to the vendors of Auditsec Services Limited in satisfaction of the acquisition consideration for Auditsec Services Limited.

On 15 January 2018 the Company announced the issue of 166,667 new ordinary shares of nil par value at a price of 7.5 pence each to Beaufort Securities Limited in satisfaction of corporate broking fees.

On 6 March 2018 the Company announced the issue of 102,222,222 new ordinary shares of nil par value at a price of 4.5 pence raising net proceeds of £4.357m after deducting commission and transaction related costs. The proceeds of the placing shares was to fund the acquisition of the trade and assets of First Base Technologies LLP and the balance for working capital, integration and development expenditure.

At 31 March 2018 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

Expiry	Exercise price (pence)	Warrants	
		2018	2017
17 April 2017	30.0	—	4,555,558
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	—
15 January 2021	15.0	250,000	—
15 January 2021	20.0	250,000	—
6 March 2021	4.50	2,646,667	—
23 March 2021	4.50	800,000	—
5 May 2021	6.0	4,583,334	4,583,334
		35,061,251	35,420,142
M D Read**	4.0	6,000,000	6,000,000
		41,061,251	41,420,142

* 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.

Notes to the consolidated financial statements

for the year ended 31 March 2018

21. Share Premium

	2018	2017
	£	£
At 1 April	7,410,507	5,309,031
Premium on issue of shares	6,783,438	2,175,021
Costs of share issues	(325,211)	(73,545)
At 31 March	13,868,734	7,410,507

22. Retained earnings

	2018	2017
	£	£
At 1 April	(6,703,447)	(5,002,793)
Loss for the year	(2,523,043)	(1,700,654)
At 31 March	(9,226,490)	(6,703,447)

23. Trade and other payables

	2018	2017
	£	£
Trade payables	460,009	385,608
Other payables	24,280	16,646
Taxation and social security	421,006	119,058
Accruals	469,686	206,450
	1,374,981	727,762

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 Company against the potential adverse effects of these financial risks.

Market risk

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

Loans and receivables	2018	2017
	£	£
Trade and other receivables	1,209,818	474,317
Cash and cash equivalents	914,961	430,459
	2,124,779	904,776

Trade and other payables	2018	2017
	£	£
Trade and other payables	484,289	402,254
	484,289	402,254

Notes to the consolidated financial statements

for the year ended 31 March 2018

24. Financial instruments continued

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.

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

	2018	2017
	£	£
Trade and other payables due in:		
Less than one month	288,906	209,517
Six months to one year	195,383	192,737
Total	484,289	402,254

Credit risk

Credit risk is the risk that a counter-party will cause a financial loss to the Group by failing to discharge its obligation to the Group. The Group manages its exposure to this risk by applying Board approved limits to the amount of credit exposure to anyone counter-party and employs strict minimum credit worthiness criteria as to the choice of counter-party thereby ensuring that there are no significant concentrations of credit risk.

The carrying amount of financial assets represents the maximum credit exposure; therefore, the maximum exposure to credit risk at the statement of financial position date was £2,124,779 (2017: £904,776). 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 £881,639 (2017: £440,969). 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.

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:

Foreign currency risk

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

Financial assets	Sterling	US Dollar	Euro	Hong Kong Dollar	Emirati Dirham	Total
	£	£	£	£	£	£
At 31 March 2018						
Cash and cash equivalents	817,350	66,524	27,536	296	3,255	914,961
Trade receivables	811,283	49,713	12,643	—	—	873,639
Other receivables	334,042	—	57	1,886	194	336,179
	1,962,675	116,237	40,236	2,182	3,449	2,124,779

Notes to the consolidated financial statements

for the year ended 31 March 2018

24. Financial instruments continued

Financial liabilities	Sterling	US Dollar	Euro	Hong Kong Dollar	Emirati Dirham	Total
	£	£	£	£	£	£
At 31 March 2018						
Trade payables	408,104	39,553	11,674	678	—	460,009
Other payables	24,280	—	—	—	—	24,280
	432,384	39,553	11,674	678	—	484,289

Foreign exchange sensitivity analysis

A 10% strengthening of sterling against the above currencies would increase the loss by £11,020 (2017: £21,769) in the coming financial year.

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

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 so as to ensure that it continues to operate as a going concern, whilst providing an adequate return to its shareholders.

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

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

Other risks management

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

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 £15,460 (2017: £11,872).

27. Financial commitments

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

	2018	2017
	£	£
Due within one year	101,502	55,901
Between two and five years	59,360	19,907
	160,862	75,808

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 and King Business Centre in Hassocks (acquired as part of the acquisition of the trade and assets of First Base Technologies LLP) respectively.

Notes to the consolidated financial statements

for the year ended 31 March 2018

28. Business combinations

First Base Technologies LLP

The trade and assets of First Base Technologies LLP, a business operating in the cyber security sector since 1989, were acquired and 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.

On 23 March 2018 the Group completed the acquisition of the trade and assets of First Base Technologies LLP for a total consideration of £3,200,000. Prior to acquisition (in the twelve month period to 31 March 2018), First Base Technologies LLP had revenue of circa £1.9m and EBITDA of circa £0.6m. The business contributed £3,122 net profit and £33,490 revenue to the Group for the period from 24 March 2018 to 31 March 2018.

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 assets – customer relationships	—	2,840,000	2,840,000
Cash and cash equivalents	139,567	—	139,567
Trade and other receivables	86,947	—	86,947
Trade and other payables	(226,514)	—	(226,514)
	—	2,840,000	2,840,000

The consideration for the acquisition and goodwill arising on acquisition are as follows:

	£
Purchase consideration:	
Fair value of assets acquired	2,840,000
Cash paid	3,200,000
Goodwill arising on acquisition	360,000

Acquisition related costs of £195,100 have been charged to administrative expenses in the consolidated income statement for the year ended 31 March 2018.

The vendors of the trade 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.

Cloudified Limited

Cloudified Limited, a business operating in the technology sector, was acquired to increase the research and development capability of the cyber security division.

On 3 July 2017 the Group acquired 100% of the issued share capital for a total consideration of £180,000. The business contributed £12,089 net profit and £15,694 revenue to the Group for the period from 4 July 2017 to 31 March 2018.

Notes to the consolidated financial statements

for the year ended 31 March 2018

28. Business combinations continued

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

	Book value	Fair value adjustment	Fair value
	£	£	£
Trade and other receivables	5,684	—	5,684
Trade and other payables	(50)	—	(50)
	5,634	—	5,634

The consideration for the acquisition and goodwill arising on acquisition are as follows:

	£
Purchase consideration:	
Cash paid	100,000
Fair value of shares	80,000
	180,000
Goodwill arising on acquisition	174,366

Acquisition related costs of £6,432 have been charged to administrative expenses in the consolidated income statement for the year ended 31 March 2018.

The fair value of the 1,122,807 ordinary shares issued as part of the consideration paid for Cloudified Limited was based on the share placing price of 7.125 pence per share for the fundraising completed on 3 July 2017.

Auditsec Services Limited

Auditsec Services Limited, a business operating in the technology sector, was acquired to increase the research and development capability of the cyber security division. On 11 September 2017 the Group acquired 100% of the issued share capital for a total consideration of £53,438.

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

	Book value	Fair value adjustment	Fair value
	£	£	£
Cash and cash equivalents	—	—	—
Trade and other receivables	—	—	—
Trade and other payables	—	—	—
	—	—	—

The consideration for the acquisition and goodwill arising on acquisition are as follows:

	£
Purchase consideration:	
Fair value of shares	53,438
Goodwill arising on acquisition	53,438

The fair value of the 750,000 ordinary shares issued in fulfilment of the consideration paid for Auditsec Services Limited was based on the share placing price of 7.125 pence per share.

Notes to the consolidated financial statements

for the year ended 31 March 2018

29. Control

No ultimate party controls Falanx Group Limited.

30. Related party transactions

There were no transactions with related parties during the year.

31. Events after the reporting period

Acquisition of 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.

For the year ended 30 June 2017, Securestorm had revenues of approximately £700,000, operating profits of £30,000 and net assets were approximately £20,000. 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.

Grant of Options

On 17 July 2018 the Company made a grant of 4,250,000 options under its EMI scheme as follows:

- 2,000,000 options with a strike price of 5 pence each (0.76% issued share capital) to T Richards, the founder of Securestorm,
- 2,250,000 options with a strike price of 5 pence each to certain staff, including those previously at First Base Technologies LLP

All of the above options 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 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.

Business Performance

In the month of July 2018, following strong delivery of services, the Group's unaudited management accounts reported a profit at an EBITDA level.



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