Falanx Group Limited

Report and financial statements
year ended 31 March 2020

Company number 1730012 (British Virgin Islands)

Falanx Group Limited

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

The Group has two business divisions:

• **Falanx Cyber:** Comprehensive offensive and defensive cyber security services encompassing both Managed Services (e.g. MDR, Managed EDR, Triarii) and Professional Services (e.g. Penetration Testing, Ransomware protection, Red Teaming) operating as Falanx Cyber

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

Falanx Cyber

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

Falanx Intelligence

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

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Business Overview

Financial highlights

Results for the year to 31 March 2020 as per trading update 28 September 2020

- Revenues increased 12% to £5.85m (2019: £5.21m)
- Contribution from monthly recurring revenues consistent with 2019 at 56% of total revenues, with an overall increase of circa £0.3m in recognitions, attributable to strong growth and long-term recurring contracts
- The monthly recurring revenue run rate at 31 March 2020 was £0.26m (2019: £0.24m)
- Large scale rollout of Assynt recurring revenue contracts fuelled its revenue growth of 30% to 2.14m (2019: £1.64m)
- H2 gross margins increased to 43% from 32% following operational restructuring in the Cyber division. Overall gross margins were 38% (2019: 44%)
- New operational structure in the second half of the year greatly benefited the Cyber division improving divisional gross margins from 30% to 45%
- Majority of infrastructure investment programme completed in the first half of the year resulting in greatly reduced spend in the second half
- Adjusted EBITDA* loss £1.56m (2019: £1.25m) following investment in sales and marketing program in the first 6 months
- Overall loss £2.88m (2019: £1.83m)
- Loss per share 0.72p (2019: 0.58p)
- Shareholders' funds £4.97m (2019: £7.63m)

Operational highlights

- Furnace platform spun out December 2019 reducing cash spend by c£40,000 per month
- In March 2020 the Company moved to a 'virtual structure' fully able to support clients in a COVID-19 environment. All staff safe and protected

Post period highlights

- Monthly Cyber services customer orders now back to pre COVID-19 levels
- Sales pipeline is now stronger and opportunities starting to progress including uptake of new cyber service offerings
- The move to an online world with remote working post COVID-19 will increase cyber risk and a resultant increase in the demand for protective cyber security services
- New Cyber Security monitoring service (Triarii) launched August 2020, major new reseller into UK government sector appointed, contracts won and generating revenue
- Cyber Security monitoring service expanded to include endpoint detection, creating a strong margin and volume growth opportunity into smaller SMEs
- Joined SolarWinds TAP programme, Falanx now well positioned with Triarii to address their global base of over 22,000 MSPs
- Assynt division profitable with strong pipeline of new recurring revenue opportunities with some of the world's largest companies
- Total spend** in the six months to 30 September 2020 circa 30% lower than the same period in 2019, two offices closed with physical presence now at the Reading Security Operations Centre ("SOC")
- Balance sheet strengthened following £1.25m equity fundraising completed 29 September 2020 and remains debt free
- Stifel appointed sole broker
- Cash of £1.33m at 1 October 2020, following receipt of initial tranche of net proceeds from fundraising, sufficient cash for organic operations, normal working capital profile

* Adjusted EBITDA is a non-IFRS headline measure used by management to measure the Group's performance and is based on operating profit before the impact of financing costs, IFRS16, share based payment charges, depreciation, amortisation, impairment charges and highlighted items.

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

Business Overview

Mike Read, Chief Executive, said:

"In the second half of the year under review the streamlined business was growing well, and we were on target to achieve profitability. Clearly the impact of COVID-19 has created some delays, but we have seen a strong resurgence in orders in the Cyber division since August as organisations need to deal with an increasing cyber security risk, and orders are now very close to pre pandemic levels. Our new cyber security monitoring service Triarii is getting positive customer uptake in the UK and US, and it is now part of the SolarWinds global TAP program with its access to over 22,000 Managed Service Providers ("MSPs") globally. The Assynt division is profitable and has a solid basis of contracts as well as new prospects with the world's largest companies. We continue to tightly control our costs as we push to profitability and we are optimistic about the future"

Chairman's Statement

During the period under review and, indeed, subsequent to the financial year end in March 2020 your company has had to develop and adapt to the unprecedented times we are living in today. The past 12 months have seen the Cyber Security and Intelligence market evolve rapidly with the need for our cyber audit and monitoring services being paramount in the protection of data and potential security breaches. Ironically, the more distributed working environment engendered by COVID-19 working practices has increased the threat of cyber vulnerability at a time when many companies have been forced to cut back their operating expense budgets in order to ensure they are well resourced to ride out the uncertain business environment. We have been working hard to educate the SME business community that the need for cyber testing and protection is increasing rather than diminishing and I believe that message is beginning to gain traction.

The almost daily announcements by companies, both big and small, that they have fallen victim to some form of cyber-crime, whether by data theft or system ransom, bears testimony to the gulf in understanding between those whose fiduciary duty it is to protect their corporate assets and those who are out to steal them. At the moment, we believe the threat actors have the upper hand due, in part, to the embedded complacency of directors about the extent of the cyber risk and vulnerability that exists within their organisations.

We are pleased to report that in the past financial year overall revenues have organically increased by 12% to £5.85m (2019: £5.12m), this was largely attributable to the increased performance shown in H2. Both divisions were making steady progress before the Coronavirus outbreak, demonstrating the Company was heading in the right direction and reconfirming the strategy adopted by the Board.

The structure of Falanx has been adjusted to streamline the operations of the Company. As announced in December 2019, the sale of the technology platform known as Furnace was completed. This reduced our cash expenditure requirements freeing us to progress our core Cyber Services and Business Intelligence businesses and provide a solid foundation for the Group to progress. Falanx Assynt, the Group's strategic intelligence division, has seen consistent progression due to its strong recurring revenue contracts with global companies. This has allowed the division to develop rapidly and move towards an even greater more recurring revenue model.

Group Strategy

After a positive end to the financial year, we were faced with the potential consequences of COVID-19. With the escalation of the pandemic, the Board responded quickly by implementing certain measures allowing operations to continue servicing our clients.
One measure introduced was all employees being encouraged to work remotely. This was possible due to the technical infrastructure and our processes and protocols which have resulted in negligible interruption to service provision. As announced on 31 March 2020, the Group had also implemented certain measures designed to strengthen the Company's balance sheet and expected cash performance. One of these measures included voluntary salary sacrifices by the directors, certain senior managers and staff.

Last month we announced that we secured an important contract for the provision of cyber security services to one of the major suppliers of services to the UK public sector. Whilst client confidentiality restricts the naming of this customer, we are delighted that such a significant customer has chosen to adopt our services and we hope to conclude similar sized deals in the future. The contract to supply our new integrated cyber technology platform, Triarii, to several UK public sector organisations has been progressing well and is gaining traction within that market.

We are pleased that the SolarWinds partnership announced in September 2018 has rapidly regained momentum in recent months. They have actively supported sales of our new cyber monitoring platform Triarii into the US and we have just been appointed to their TAP program which gives us access to their 22,000 MSP clients globally.

Corporate Governance

The Board sets out to deliver the highest standards of corporate governance and has remained abreast of developing governance standards. We have continued to prioritise a safe working environment for our staff across all locations and have improved the quality of safety across the business. During COVID-19 we have been focussing on our employees mental as well as physical health.

Outlook

This past year has witnessed the significant commercial impact of a global pandemic which has affected all businesses worldwide. Falanx has not been immune from this. However, whilst order levels for certain of our professional services were much reduced in the first few months of the pandemic, they have now recovered and are running at approximately double their levels in the first quarter. The need for organisations to spend on Cyber protection is rising in line with the apparent uncertainty in the world and the ever-increasing technical capabilities and resources of the cyber threat agents. At the same time the need for timely information on geopolitical risk has increased the need for Falanx's business intelligence products which allow organisations operating in overseas markets to be kept up-to-date and informed. The increase in the spread of the COVID-19, will continue to push the working environment away form centralised offices and out into the home environment thereby putting businesses at higher risk from cyber-attacks providing a consequent requirement for enhanced and vigilant protection. Our new platform Triarii and our continuing strategic relationship with SolarWinds significantly underpins our capability in this growing market.

Falanx's size and capabilities mean we are well positioned to adapt to changes in the industry and is highlighted by our healthy and debt-free balance sheet following the raising of £1.25m in September 2020. This should allow us to weather any ongoing macro-economic disruption as a result of COVID-19. Our order book is strengthening, cyber order levels are close to pre COVID-19 levels and our sale pipelines are building in terms of quantum and quality. The Company will continue to work towards improving efficiencies and maintaining tight cash control as well as strengthening our client relationships in order to deliver a successful end to the current financial year.

Chairman's Statement

Finally, I would like to take this opportunity to thank our shareholders and everyone at Falanx for their contribution during a volatile year and for their continued hard work in the face of the uncertain business environment.

Approved by the Board on 30 October 2020 and signed on its behalf by

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A Hambro
Chairman

Chief Executive Officer's Report

Falanx Group Limited is a provider of Cyber Security and Strategic Intelligence services to over 440 customers. Customer range from governments and some of the world's largest companies to SME. These operate as separate divisions and are supported by common corporate services.

Falanx Cyber

Financial Performance

Our core division recorded increased revenues year on year despite the impact of COVID-19 disruption from mid-February 2020. Revenues for the year were £3.71m (2019: £3.57m) representing growth of 4%. Revenues in the second half grew by 17% to £2.0m and this was driven by increased contract momentum from a realigned sales force and also by much improved professional services utilisation from September 2019 onwards as revised operational management structures were put in place. Average monthly divisional revenues were £0.33m in the second half of the year. We were pleased to see the commencement of cross selling of our MDR services into the customer bases acquired with First Base LLP (March 2018) and Securestorm (July 2018).

Following operational management changes in August 2019 professional services utilsiation increased significantly and consequently gross margins improved to 45% in the second half of the year from 30% in the first half. Overall gross margins were 38% (2019: 49%) with the change being due to service mix, and the weak utilisation in the first half of the year referenced above.

Investment was made in expanding sales and marketing capacity in the year as well as upgrading infrastructure in anticipation of the large-scale rollout of the SolarWinds opportunity which had been expected in the year under review. Consequently, the division generated an adjusted EBITDA loss of £0.41m (2019: profit £0.05m). Improving revenues, a lower operating cost base, and improved gross margins enabled the division to become profitable on a more consistent basis in the second half of the year prior to the onset of COVID-19 in February.

Upgraded Manage Detect Respond ("MDR") Offering

The division has evolved it's MDR offering into a new service offering, Triarii which is built upon world-class leading technology solutions. This combined with our highly skilled Security Operations Centre ("SOC") monitoring team, creates a market-leading offering to compete with all-comers whilst leveraging the development resources of key technology providers. Triarii has also been accepted by SolarWinds as an alternate offering to its own Threat Monitor platform. We have successfully joined the SolarWinds Technology Alliance Partner ("TAP") Program and can sell Triarii to their entire MSP channel of over 22,000 MSPs globally – as well as a new Managed Service offering supporting those MSPs with deployments of SentinelOne through the SolarWinds channel. We anticipate this now being a low touch and high-volume channel and hope to see the benefit of that over the coming months

As part of the release of Triarii MDR we have also now introduced our own new service for monitoring endpoints such as laptops and desktops. This capability, known as Managed Endpoint Detection and Response ("M-EDR") can be sold separately, opening up an entire new market for Falanx Cyber, or as an integral part of our Triarii MDR service. Our own M-EDR service is a leading market contender in its own right and further illustrates the strength of our full MDR service.

During the year the division relocated its SOC from Birmingham to Reading to support the expected rollout of SolarWinds opportunities and the expected increase in volumes as the Cyber security market accelerates. This move has enabled a wider talent pool of skilled staff to be reached.

Professional Services

Falanx Cyber now offers an extended portfolio of professional cyber security services, along with our upgraded Triarii MDR (Managed Detection and Response) service. We offer a wide range of ethical offensive services designed to simulate real-word cyber criminals and, in doing so, enable us to identify weaknesses in clients' defences and advise them as to how they can better protect themselves and their assets. These services range from specific penetration testing services through to social engineering techniques (such as phishing and red teaming inter alia) which can then be integrated into tailored security awareness training. We continue to serve customers in a diverse range of sectors including Government, Finance, Legal, Insurance, Retail, IT and Telecoms.

Route to Market

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

The combination of strong and growing demand for the Falanx Cyber portfolio of services, market pull of the MSP 'Channel' model, the opportunity still offered by SolarWinds and the transformed service offerings for MDR and M-EDR indicate strong growth potential. In anticipation to that we have launched a completely refreshed website and integrated digital marketing model to better inform visitors of all backgrounds about what we do and how we can help them. Overall the cyber sector is experiencing strong macro-economic

drivers and is forecast to grow significantly over the next few years (Forbes: 2020 Roundup of Cybersecurity Forecasts and Market Estimates). To keep pace with this continuing high growth, the division has further invested in people, processes, services and infrastructure to expand capacity and maximise the revenue growth opportunities of the current year and beyond.

COVID-19 impact

Clearly the current financial year has been impacted by the COVID-19 crisis. As referenced previously this began to affect customer buying and project cycles from February 2020 onwards as they moved into precautionary modes. The Cyber division moved to a fully remote model in March 2020 and we have been able to provide the bulk of our services without interruption, although where client site visits are needed these have been disrupted and delayed. All of our staff are safe, we have some very limited use of furlough programmes and we have kept a skilled workforce in place ahead of recovery. We have also been able to return limited numbers of staff to the Reading office in a COVID-safe manner, offering staff a choice between home working and an office environment. We have maintained investment in sales and marketing and of course service innovation in support of Triarii and its new service offerings, and we are pleased that this is now gaining customer and partner adoption. We reviewed our physical infrastructure and have closed a leasehold premise (at very small cost) in Sussex so we can maintain flexibility as the wider office environment remains fluid and now only have the Reading SOC premises on an operating lease.

Cyber trading performance for the six months to 30 September 2020

The move to remote working opens up inevitable cyber security risks for organisations and we have positioned our offerings to address this growing market opportunity, and whilst orders and revenues were lower at the start of the year than those pre COVID-19 as clients were in disaster recovery mode, orders have since recovered strongly from July onwards and this began to flow through to revenues and margins shortly in September. The Cyber security market is expected to grow strongly with the shift to a more digital economy and we expect this to benefit Falanx.

We have just joined the SolarWinds TAP program and this will help us address their 22,000 MSPs globally. This partnership has already delivered revenues and in September, and we have won our first US cyber deal through them. We expect value from this partnership to grow significantly and are actively working on multiple prospects through this relationship for both the provision of Triarii monitoring services (including endpoint detection) as well as for professional services such as penetration testing.

In August we announced a significant sale of Triarii to UK public sector clients achieved through a partner who is a major supplier to the UK government. This partnership is active and is expected to deliver further sales of existing services as well as working with us to address a much larger market opportunity.

We will migrate some of our existing user base onto Triarii over the coming months. This will not only improve our client delivery but to also make our delivery more cost effective with significantly lower overall external licencing fees which will enhance our margins.

In the six months to 30 September 2020 the division recorded revenues of circa £1.4m (2019: £1.7m). Orders for penetration testing which had been most affected by COVID-19 delays recovered strongly from the start of August onwards and since then have been running at approximately £0.2m per month compared to c£0.1m per month at the start of the current financial year. The initial uplift in order volumes has already resulted in a much improved financial performance of the division in September and this trend is expected to continue. This is broadly similar to order levels pre COVID-19. Despite reduced revenues arising from COVID-19 delays effective cost management has reduced the adjusted EBITDA loss to c£0.3m (2019: £0.4m).

Falanx Assynt

Our strategic Intelligence business unit, Falanx Assynt, provides market-leading geopolitical reporting and analysis focused on key major emerging markets and overarching global themes. Its client base includes some of the largest and most recognised global corporate names. Assynt's two principal business lines are the subscription-based Assynt Report service and the Embedded Analyst business. These are supplemented by an Intelligence Consulting practice which provides tailored reports to address specific client requirements.

Annual revenue of £2.14m (2019: £1.64m) was generated, an uplift of 30% on the back of larger recurring revenue contracts rolled out in the second half of the year. Approximately 94% (2019: 85%) of total revenues were from monthly recurring contracts for Assynt report subscriptions and embedded analyst services. The balance of revenues was comprised of specific business intelligence reports. Gross margins consequently improved to 38% (2019: 33%).

Investments in sales and marketing were made in the first half of the year, and this resulted in a positive trading result in the second half of the year. Overall the division reported an EBITDA profit of £0.01m (2019: loss £0.05m), the second half was profitable, and this trend has carried on into the current financial year as set out below.

Over the year we continued to consolidate and build on the significant investment we had put into upgrading our flagship product, the Assynt Report, the previous year, including introducing an App based distribution system. Feedback from customers remains overwhelmingly positive.

Chief Executive Officer's Report

For our Assynt Report subscriber base of global corporates (many of which are headquartered outside of the UK), we have produced over 1,300 reports analysing key geopolitical events in 40 countries, including specialist analysis of international jihadist trends. Over the course of the year we have expanded our country coverage to include further counties in sub-Saharan Africa as well as regular reports addressing significant global themes such as the geopolitics of environmental issues, global trade and great power politics. We continue to look for new reporting areas of significant client interest, including COVID-19 related analysis, which we introduced just before the end of the financial year.

The reputation of and demand for the Embedded Analyst service, aimed firmly at the FTSE-100 and NASDAQ-100 market, continued to grow strongly, with two existing clients seeking additional capacity in addition to positions with new clients. As a result, the total number of embedded analysts increased by 25% over the course of the financial year.

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

COVID-19 Impact

So far, the Assynt business has successfully weathered the COVID-19 pandemic. To ensure the safety of our staff we have closed the London office and exited the lease in the new financial year. We have instituted home working with no impact on productivity or output. We have encountered very little customer churn, and all of our major clients have maintained or increased their spend. We have also rigorously controlled costs to ensure profitability and cashflow, and to ensure we have headroom should the economic impact of the pandemic be more sustained or severe than envisaged. Providing clients with analysis of the geopolitical effects of COVID-19 has been a potential opportunity for the Assynt business, and we have capitalised on this with a series of new reports focusing on the impact of the pandemic on key emerging markets and the global political economy.

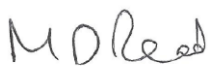
Assynt trading performance for the six months to 30 September 2020.

Revenues for the six months to 30 September 2020 were circa £1.1m (2019: £0.9m) and the division recorded adjusted EBITDA of circa £0.1m (2019: break even). Recurring revenues were circa 96% of total revenues.

Future Prospects

The Assynt business has a robust platform for growth over the next three years. The significant revenue growth on the previous year resulting from, the increased marketing spends, and the continuing product refinement all provide a strong underpinning for developing the business further as a stand-alone division of Falanx Group.

Approved by the Board on 30 October 2020 and signed on its behalf by



M D Read
Chief Executive Officer

Chief Financial Officer's Report

Revenue

Group revenues grew by 12% to £5.85m (2019: £5.21m). Revenues in the second half of the year were approximately £3.2m and this represented growth of 22% compared to the first six months. This was as a result of increased contract momentum in each division as well as much stronger professional services delivery and better utilisation of professional services resources in the Cyber division combined with the rollout of large recurring revenue client contracts in Assynt. The business was regularly experiencing monthly revenues in excess of £0.5m in the months before the onset of COVID-19 which impacted from late February onwards due to customer delays caused by crisis management.

The business has continued to benefit from a strong element generated from the recurring contracts in each division, and overall this was constant at 56%. At the end of the period monthly recurring revenues across the Group stood at approximately £0.26m per month (2019: £0.24m). Our future order book of work remained strong with an order book of c£2.7m (2019: £3.2m) as well as deferred incomes (contract liabilities) of £1.2m (2019: £1.1m). Orders had been growing well in the second half of the year, but there were inevitable delays as the COVID-19 pandemic commenced, but since August 2020 order momentum has been regained.

During the year we added over 40 new cyber accounts including several larger accounts as well as significantly expanding existing client spend on professional services. Our churn in acquired customer bases has been low and as an example, the churn for First Base (acquired March 2018) has been less than 1% although the overall business has grown by circa 15% per annum. The Assynt division has a different customer profile to the Cyber division with approximately 75% of its clients being international and approximately 90% of them paying in advance with an average advance period of seven months.

Overall our number of customers invoiced was 284 (2019: 340) with the reduction arising from a move to larger deals from some customers. Overall the company dealt with over 440 (2019: 400) customers.

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) as well as certain consultants for delivery of specific client assignments.

Gross margin

The Group's gross margin was 38% (2019: 44%). The reduction was mainly due to utilisation issues at the start of the year in the Cyber division, which were resolved in September 2019 by the streamlining of the operational management of that division. Overall gross margins in the second half were 44% compared with 32% in the first six months, with the Cyber division's gross margin improving from 30 to 45% in the second half.

Operational and cash-based costs

Administrative expenses excluding depreciation and amortisation and highlighted costs increased to £3.8m from £3.5m with most of the increase arising from expansion of sales and marketing costs in the Cyber division. Average headcount in the year was 81 (2019: 72) with a significant proportion of the increase being from additional analysts to support Assynt customer contracts.

Highlighted costs

Highlighted costs were £0.32m (2019: £0.18m) mainly represented certain restructuring and investment in infrastructure which was not capitalised fees. £0.24m related to investment in the cyber security platform Triarii and general corporate infrastructure around IT. Restructuring costs included post acquisition integration costs, legal entity restructure and rationalisation, management changes as well as certain corporate development professional fees around specific projects. Rental costs were normalised to exclude the impact of IFRS16, reducing the overall adjustment by £76,000 and a further credit adjustment of £67,000 was made in respect of the disposal of Furnace.

Share Option Charges

Share option charges increased to £0.23m (2019: £0.06m) with the increase due to the option grant in September 2019. The options were valued on a Monte Carlo basis.

EBITDA

Adjusted EBITDA loss for the year was £1.56m (2019: £1.25m) after adjusting for the items highlighted above. Headline reported EBITDA loss was £1.88m (2019: £1.48m).

Depreciation and amortisation

Depreciation of fixed assets was broadly flat with 2019 at £87,000, and a further IFRS 16 amortisation charge of £77,000 was recorded in respect of the right of use asset related to the Reading lease acquired in July 2019. The remainder of the amortisation charge arose from the amortisation of acquired customer base intangible assets from First Base (ten-year amortisation period, straight line basis, acquired March 2018) and Secure Storm Limited (three-year amortisation period, straight line basis, acquired July 2018). £0.26m of investment in Furnace was impaired (2019: nil).

Financing costs

Net financing costs were £24,000 (2019: £4,000) and mainly arose from the implementation of IFRS 16 and arrangement fees for the invoice discounting facility which were unused in the year and remain unused as at the date of this report.

Result for the year

Due to the investment made in the year, higher non cash charges such as amortisation, impairment and share option charges the loss increased from £1.83m to £2.88m and loss per share increased to 0.72p from 0.58p.

Non-current assets

Investment in Furnace

In December 2019 the group spun out its investment in the Furnace technology platform into a separate entity under the control of John Blamire who left the board at the same time. Falanx has 20% of the equity carried at £0.6m and a loan note of £1.1m for an aggregate investment of £1.7m (compared to an original cost of £1.63m). Consequently, previous development costs were no longer carried. Furnace has won its first sales and is now is actively seeking external investment and is in dialogue with a number of parties and its directors have prepared a three-year business plan. Falanx's forward business plans do not have any dependency of Furnace's financial performance and Falanx has no obligation to provide further financial support. A small impairment charge of £0.26m was recorded against this asset.

Goodwill and Customer Intangibles

Goodwill was £1.85m and arose from the acquisitions of First Base in March 2018 and Secure Storm in July 2018. The reduction compared to the previous year arose from £175,000 of goodwill arising from previous acquisitions to Furnace in December 2019 and is now included as part of the investment in Furnace referenced above. Customer relationships from First Base and Secure Storm were carried at a total of £1.97m (2019: £2.26m) with the reduction arising from straight line amortisation referred to above.

The Group's noncurrent assets include the future value of the lease of the Reading premises of £0.47m (2019: nil) which commenced in July 2019. A creditor of £0.44m is carried to reflect future liabilities (£89,000 of which are current liabilities).

Working capital

Amounts due from customers (including contract assets), net of bad debt provision increased to £1.6m (2019: £1.4m) due to greater business volumes and the timing of certain billings. Collections since the year end have been normal and no incidence of bad debt has been recorded since the previous annual report. Overall debtor days increased from 47 to 66, mainly attributable to large contract billing in March 2020 thereby increasing the debtor position at year end. Prepayments have decreased due to revised billing arrangements for certain expenses. Accrued incomes fell during the year with certain items being billed earlier and are therefore included in the increased amounts due from customers. The Group continued to have a very low incidence of delayed and/or non-payment of debts by customers and our average losses over the last three years were only 0.06% of revenue and no bad debts were experienced in the year under review.

Contract liabilities (deferred income) increased to £1.2m (2019: £1.1m) on greater volume of advanced billings. Trade creditors increased due to the timing of certain supplier invoices. Taxes payable increased due to initial measures to manage cash at the outset of COVID-19 in March 2020. Since the year end creditors including HMRC are within agreed terms and this is detailed in below.

Capital structure

The Company did not issue any shares in the year (2019: 138,500,000 ordinary shares) with there being 400,401,185 shares at the start and end of the year. 26,281,250 warrants lapsed during the year which had an average price of 6p. 30 million options over ordinary shares were issued under the EMI (and unapproved but similar to EMI schemes) in September 2019 with a price of 1.92p per share. 5,468,367 options were forfeited during the year primarily as a result of staff changes.

The Group has been rationalising its legal entity structure to best align it with the current opportunity as well as to reduce costs and streamline tax management. The Groups incorporation status as a BVI entity is a legacy of its pre 2013 IPO business plan and the Board will review moving it to a UK status at an appropriate moment, clearly taking into account the significant professional fees which would be associated with such a change. The Group's memorandum and articles of association were revised in March 2019 to more closely align with UK incorporated entities. The Group is fully resident and registered in the UK from a tax perspective.

At the year-end shareholders' funds stood at £4.97m (2019: £7.63m).

Chief Financial Officer's Report

Statement of Cash Flows

The Company did not issue any shares in the year and consumed £1.6m of cash in operations (2019: £1.9m). This was supported by a net working capital inflow arising from short term timing differences of £0.3m (2019: outflow £0.4m). Operational cash flow remained closely aligned with EBITDA performance with operating cash outflow being 80% of EBITDA loss (2019: 123%). Over on average over the last four years there is a near 100% correlation between these metrics. The business invested £0.44m in its technology platform (Furnace, which was spun out December 2019) and a further £0.26m in upgrading its infrastructure and the new SOC in Reading.

No shares were issued in the year (2019: £4.15m). Closing cash balances at 31 March 2020 were £0.08m (2019: £2.44m).

Post balance sheet events

As part of its COVID-19 response plans the company undertook the following actions;

- On 21 April 2020 approximately 31 million new share options and warrants were issued to staff and directors in exchange for salary reductions for the six months to 30 September 2020. These options were priced at 1p each and have a life of 10 years from the date of grant. Staff and directors waived approximately 25.7m options and a further 9m lapsed in June 2020. Where options were not at the point of grant qualifying for EMI benefits, they may be cancelled and reissued in the future under similar terms to optimise the overall tax position.

- In July 2020 the premises in Sussex and London were closed following the non-renewal of expired leases. The business moved to remote and home working in March 2020 and the expense of keeping such leases as well as the ongoing office costs were not justified in the new remote working model.

- A deferred payment plan was agreed with HMRC to reschedule up to £0.64m of payroll taxes outstanding at 30 June 2020 over 2 years as well as taking advantage of published time to pay plans on VAT. The group is fully in compliance with these plans.

- On 29 September 2020 Falanx announced the completion of a fundraising exercise for £1.25m by issuance of 125,000,000 new ordinary shares of nil nominal value. Of these £1,125,000 (gross) has been received by the date of the accounts with the remaining £75,000 (7,500,000 shares) intended to be subscribed by the directors and senior managers post the release of these results and them being allowed to participate under the MAR framework. A significant proportion of this fundraising is through long-term EIS & VCT investment and overall it included new and existing institutional investors.

Post Balance Sheet Trading

In the six months ended 30 September 2020 the Group recorded revenues of approximately £2.5m (2019: £2.6m) and a much-reduced adjusted EBITDA loss of £0.6m (2019: £0.9m). Revenues in the cyber division were impacted by reduced professional services demand in the Cyber division in the first few months with the onset of COVID-19, but since the start of August monthly orders for these have increased significantly and are now running at circa £0.2m per month compared to £0.1m per month in the first quarter during the peak of COVID-19. The sales pipeline has strengthened with the launch in August 2020 of the cyber security monitoring platform Triarii and it is winning important sales orders. The current order run rate of orders for these services is very similar to that in the second half of the previous financial year to 31 March 2020 and they are broadly back to the pre COVID-19 run rate. September's revenues were much stronger following acceleration of client deliveries and the order momentum has continued into October. These levels are ahead of where the Group had conducted its stress testing. Closing cash at 30 September 2020 was £0.2m (2019: £0.7m) but this excluded the proceeds of the fundraising announced on 25 September 2020 which were received alongside the admission of the new shares on 1 October 2020. On that day cash balances stood at circa £1.33m. The Group's customers are paying normally, and no bad debt has been experienced, furthermore creditors including HMRC are in agreed terms.

I R Selby
Chief Financial Officer

Directors

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

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

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

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.

Directors' report

The Directors present their report and the audited financial statements for the year ended 31 March 2020.

Business Review

The Group's results for the year are set out in the consolidated statement of comprehensive income on page 33 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*	**2020**	*2019*	*Comment*
Group revenue - £'m	Changes in total revenue compared to prior year	Revenue growth gives a quantified indication of the rate at which the Group's business activity is expanding over time	**£5.9**	*£5.2*	Growth in both divisions
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	**38%**	*44%*	Lower margin in the first half in the cyber division H1, rectified H2. H2 Gross margin 44%
EBITDA - £'m	A measure of profits excluding non-cash items such as share option charges, depreciation and amortisation	Offers a clearer reflection of the ability to generate cash	**£ (2.0)**	*£ (1.5)*	Increased loss as a result of planned investment in expansion against SolarWinds opportunity in the Cyber division as well as increased non capitalised investment cost on Cyber platform and group infrastructure
Adjusted EBITDA - £'m	A measure of profits adjusted for non-underlying items such as restructuring, and acquisition related	Underlying performance of business operations	**£ (1.5)**	*£ (1.2)*	Increased loss as a result of planned investment in expansion against SolarWinds opportunity in the Cyber division
Cash conversion	Operational cash flow / EBITDA	Measures the ability of the business to convert profit into cash	**80%**	*132%*	Average over 4 years circa 101%, changes caused by short term working capital movements
Recurring revenue %	Recurring revenue lines / total revenue	Shows visibility of recurring revenue growth rate	**56%**	*56%*	Growth in the Assynt division embed contract service
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	**£0.26**	*£0.24*	Growth of circa £0.4m mainly in the Assynt division
Number of Invoiced customers	Number of customers invoiced over the preceding 12 months	Measure of customer concentration (includes acquired customer base)	**284**	*340*	Move towards larger contracts and invoices in each division. Circa 440 (2019: 400) customers transacted with
Headcount	Average headcount during the year	Shows average number of employees in the year	**82**	*72*	Growth in billable consultants mainly in the Assynt division

Contract liabilities (deferred income) - £'m	Contracted and invoiced revenue yet to be recognised (deferred income)	Shows visibility into invoiced amounts to be recognised in future periods	**£1.2**	*£1.1*	Growth in contract volumes and values

Dividends

The consolidated statement of comprehensive income for the year is set out on page 33 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 35 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 (resigned 19 December 2019)
M D Read
I R Selby

Non-Executive Directors

E Shaw
A Hambro

Directors' interests

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

	2020		2019	
	Number of shares	**% Held**	Number of shares	% Held
M D Read^	**11,453,940**	**2.86%**	10,403,940	2.60%
J R Blamire*	—	—	7,900,000	1.97%
E Shaw	**866,667**	**0.22%**	866,667	0.22%
I R Selby	**1,069,348**	**0.27%**	1,069,348	0.27%
A Hambro	**1,250,000**	**0.31%**	250,000	0.06%

^ M D Read has 6,0500,000 warrants, vesting and exercisable as detailed in note 22.

* J R Blamire resigned 19 December 2019

Group's policy on payment of creditors

It is the Group's policy to pay suppliers in accordance with the terms and conditions agreed between the Group and its suppliers, provided that the goods and services have been supplied in accordance with the agreed terms and conditions. At the end of the financial year ended 31 March 2020, creditors' days were 69 days (2019: 62 days). At present the vast majority of the Group's creditors, including taxation are within agreed terms.

Political and charitable donations

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

Financial Instruments

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

Financial instruments are disclosed and discussed in note 29 to the financial statements.

Falanx People

Falanx Group employs around 74 employees in the UK and 7 internationally. Our employees are at the very heart of the organisation and are our most valuable asset. We recognise that, to ensure that we have a competitive advantage, our employees should have the best opportunity to thrive and succeed. We therefore engage with our team to support motivation, retention and performance.

Directors' report

As an organisation, we have used our technology infrastructure where we heavily invested in the last year, to enable successful and secure remote working and effective collaboration across our international workforce, including UK, Dubai, Hong Kong, Italy and the US. Many of our employees work remotely with the ability to be based in our new and vibrant office space in Reading, UK a hub for technology. In Reading, we have created a modern and collaborative environment for our employees.

Our remote working model has enabled Falanx to secure the highest calibre of technology talent at more senior levels within the organisation that require experience and technical skills.

We are proud to provide Internship opportunities into our Security Operations Centre in Reading. We work in partnership with leading Universities in the UK and employ 3 university students each year on a year industrial placement. We have retained some of these students following graduation who have progressed onto successful careers in Cyber Security.

Retaining our talent is key and we are keen to ensure that we have a competitive advantage as an employer of choice. We provide our employees with a benefits package to include Private Medical Insurance, a health cash plan, life insurances, a pension scheme, an employee benefits platform which includes a Bike to Work scheme.

In April 2020 we are extremely proud to have launched an employee share option where cash remuneration was reduced in exchange for share options, thus aligning staff with shareholder interests during the peak of the COVID-19 crisis. We are helping our staff keep well, both physically and mentally during the COVID-19 pandemic.

To ensure that the Company is positioned for projected growth plans; Falanx provides a Management Development Programme to talented managers to enhance their skills to lead growing teams and take on increased accountability. We have been delighted with our teams' progress; it has helped them to make intelligent decisions with confidence, making better use of resources, managing performance at a team level and working towards business goals through strategic translation. In addition, it has built trust and stronger working relationships within our leadership team.

We encourage our people to continue to develop their skills and keep up to date with new technology, standards, processes and regional risks and threats. Training needs are identified through the regular development meetings team members have with their line managers. The Company are fully supportive of providing training that supports personal development plans, helps retention and has clear business benefits.

Business Ethics and ways of working

Falanx is committed to ensuring that the business operates in a responsible and ethical manner and we ensure that our employees are committed to the Falanx ways of working through our robust policies, processes and procedures. Falanx ensures the following policies are followed and adhered to in respect of business ethics:

Anti-Bribery and Anti-Corruption Policy

Falanx Group is committed to conducting business in an ethical and honest manner and is committed to implementing and enforcing systems that ensure bribery is prevented. Falanx has zero-tolerance for bribery and corrupt activities. We are committed to acting professionally, fairly, and with integrity in all business dealings and relationships, wherever in the country we operate.

Falanx will constantly uphold all laws relating to anti-bribery and corruption in all the jurisdictions in which we operate. We are bound by the laws of the UK Bribery Act 2010 and the FCPA 1977 (amended 1998), in regard to our conduct both at home and abroad.

Dignity at Work Policy

All employees of Falanx have an important part to play in the overall success of the business and everyone is respected and valued for their contribution at every level. At Falanx, we foster and promote a healthy, collaborative and supportive environment and encourage all our colleagues to work together in harmony in a way that encourages self-development, team success and knowledge sharing.

Falanx is committed to protecting the dignity and wellbeing of everyone and encourages practices that take into account the rights of all individuals and seeks to eliminate all forms of unacceptable behaviour. It is in our best interests to promote a safe, healthy and fair environment where people are given every opportunity to excel and thrive in their workplace.

Equality and Diversity Policy

Falanx is committed to promoting a culture that actively values difference and recognises that people from different backgrounds and experiences can bring valuable insights to the workplace and enhance the way we work.

Falanx aims to be an inclusive organisation, committed to providing equal opportunities throughout employment including in the recruitment, training and development of employees, and to pro-actively tackling and eliminating discrimination.

Whistleblowing Policy

Falanx is committed to ensuring that practices and procedures in respect of all employees, partners and customers are of the highest quality. All employees are expected to maintain the highest standards of integrity and good faith.

The Public Interest Disclosure Act 1998 protects workers who blow the whistle about wrongdoing. The Policy is intended to provide guidance as to the circumstances under which such protection is available and the steps to be taken should an employee feel that a matter of public interest is at stake.

Health and safety

Falanx ensures the Health and Safety of its employees by taking all necessary steps in providing a Healthy and safe working environment. Relevant assessments are carried out and appropriate training is provided to all employees.

Section 172 Statement

Whilst as a BVI incorporated company Falanx Group Limited is outside the scope of s172 of the UK Companies Act 2006 the board believes that it is highly relevant to Falanx and is therefore reporting under it.

Directors of a company must act in a way that they consider, in good faith, would most likely promote the success of the company for the benefit of its members as a whole, taking into account the non-exhaustive list of factors set out in Section 172 of the Companies Act 2006.

Section 172 also requires directors to take into consideration the interests of other stakeholders set out in Section 172(1) in their decision making.

Engagement with our members and wider stakeholder groups plays an essential role throughout our business. We are cognisant of fostering an effective and mutually beneficial relationship with each stakeholder group. Our understanding of stakeholder needs and concerns is factored into boardroom discussions regarding the potential long-term impacts of our strategic decisions on each group. Post the reporting year end, the Board have continued to have regard to the interests of the Companies stakeholders, including the potential impact of its future activities on the community, the environment and the company's reputation when making decisions. The Board also continue to take all necessary measures to ensure the Company is acting in good faith and fairly between members and is promoting the success of the company for its members in the long term.

The table below acts as our Section 172 statement by setting out the key stakeholder groups and how the board has engaged with them over the reporting year.

Stakeholder	Why we engage	How we engage
Our investors	We maintain and value regular dialogue with our investors and place great importance on our relationship with them. We know that our investors expect a comprehensive insight into the financial performance of the company, and awareness of long-term strategy and direction. As such, we aim to provide high levels of transparency and clarity about our results and long-term strategy to build trust in our future plans.	• Regular reports and analysis on investors and shareholders, opinion sought from corporate advisors and direct engagement where possible. • Annual Report and interim results • Company website • AGM held 3 December 2019 • Stock exchange announcements and press releases. • Analyst research at the appropriate moment including research for wider distribution
Our employees	Our people are at the heart of our business. Effective employee engagement leads to a happier, healthier workforce who are invested in the success of the company and who are all pulling in the same direction. Our engagement seeks to address any employee concerns regarding working conditions, health and safety, training and development, as well as workforce diversity.	• Open and regular informal dialogue • Formal annual reviews • Competitive employee benefit packages including healthcare, discount vouchers and death in service insurances • Opportunity to participate in share-based incentives • Encouraging ongoing employee training and development • Employment of a professional HR manager to help manage and development our human capital • Board level communication and interaction with roadshows and 'town hall meetings' • During COVID-19 regular reviews of staff welfare, mental health, office safety, comprehensive Health and Safety assessments using external advisors ahead of office changes • Weekly/daily contact with all team members to check on welfare during lockdown • Monitoring of local safety issues for certain employees in overseas locations

Regulatory bodies	The Group's operations are subject to a wide range of laws, regulations, and listing requirements including data protection, tax, employment, environmental and health and safety legislation, along with contractual terms.	• Company website • Stock exchange announcements • Annual Report • Direct contact with regulators • Compliance updates at Board meetings • Risk reviews • Internal and external audits of key business processes around cyber security
Our customers	We aim to listen to and engage with our customers on a regular basis to ensure that we understand their needs. We ensure that information is easily accessible and customer concerns are dealt with in a timely and professional manner.	• Ongoing review of customer feedback • Face-to-face meetings with customers to further develop relationships • Ongoing promotional and advertising activity • Development of long-term recurring contracts and deep customer relationships
Our suppliers	We have a number of key partners and suppliers with whom we have built strong relationships with and strongly value. We establish effective engagement channels to ensure our relationships remain collaborative and forward focused, and to foster relationships of mutual trust and loyalty.	• Open two-way dialogue and regular face to face meetings where possible. • Ongoing performance review and feedback • Formal checks for data security compliance • Due diligence where appropriate, is carried out before a new supplier is engaged • Revised commercial terms being implemented during COVID-19
The environment	We are a low carbon footprint business and are predominantly office based (either company, home or client).	• Use of video conferencing where possible to mitigate the need for travel

Key Decision	Actions Taken	Stakeholder considerations
Protection of business and stakeholders during COVID-19	• Move to remote deployment and homeworking for staff in March 2020 to comply with government advice • Upgrading of infrastructure to ensure continuity of operations • Adoption of cost and cash husbanding strategies to protect business such as salary sacrifice, spend reductions, furlough and HMRC time to pay • Full maintenance of cyber protection capabilities to support customer and internal operations	• Employee welfare by reducing the need to travel to premises and exposure to increased COVID-19 risk. Regularly checking on them during remote working. Company medical benefits include access to counselling and support services • Customer interest by ensuring that their key cyber protections were in place and fully operational at a time of increased risk • Investor interest by optimising cash position whilst ensuring that liabilities could be met in agreed timescales. Salary sacrifice trading cash remuneration for directors and staff for share options to reduce short term cash outflow whilst engaging staff further with the company through equity participation
Premises realignment	Relocation of SOC from Birmingham to Reading, exit from leases in London and Sussex. Use of serviced offices where relevant	• Ability to better service internal and external customers by moving SOC to Reading to increase pool of key skills and also to reduce team members community to Birmingham. Lease has a 5-year term with a 3-year break which allows for continuity of operations whilst retaining flexibility • Offices in London and Sussex were closed during the Summer of 2020 as leases had expired therefore reducing ongoing cost and liabilities for shareholders • Lack of need to commute improving work life balance for staff whilst still being able to deliver against customers

		• Reduction in commuting reducing carbon impact from either public of private transport and therefore supporting the environment
Realignment of Cyber technology infrastructure	Spin out of Furnace in December 2019 to allow it to develop against its greatest market opportunity outside of Falanx's cyber security model. Development of Triarii platform based on 3rd party components to deliver against customer requirements	• Improvement of client delivery to help them protect against cyber threats. This included engagement with key partners and customers to best align with the market opportunity, therefore growing long term shareholder value with increasing revenue opportunity • Shareholder value protected by removing development spend of circa £40,000 per month whilst protecting possible upside by equity share in the spin out venture

The above statement should be read in conjunction with the Corporate Governance Statement on pages 26 to 29.

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

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

The Group mitigates this by a combination of people, processes and technologies. A dedicated DPO is in situ to provide independent (of operations) oversight of data security and Falanx as a cyber security company embeds it into every aspect of its operations and makes the relevant investment in infrastructure. Regular training is given to all staff including online courses run by dedicated providers and this includes refresher training. The DPO is running seminars and briefings around the organisation to advise on appropriate practices. The business continues to invest in its infrastructure and resources to ensure that its internal systems are configured to ensure good security. The Group continually reviews its technology infrastructure for delivery of customer services to align them with market requirements and this includes the use of supported 3rd party and proprietary systems.

Reliance on Key Contracts and Business Relationships
The Group is reducing its customer concentration risk by acquisition of further customers through organic development as well as M&A. In the 12 months to 31 March 2020, no customer on an annual contract represents more than 10% of revenue. Many customers, particularly in the Cyber division's consulting revenues do not have long term agreements but have repeatedly transacted with the Group for many years. Where the Group uses external licences for its operations it seeks protections such as multiple suppliers and escrow arrangements for source code.

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

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

Management of future growth
The Group's plans for growth will challenge the Group's management team, customer support, marketing, administrative and technological resources. If the Group is unable to manage its growth effectively its business, operations or financial condition may deteriorate. The Group will consider future acquisition opportunities. If the Group is unable successfully to integrate an acquired company or business, the acquisition could lead to disruptions to the business. If the operations or assimilation of an acquired

business does not accord with the Group's expectations, the Group may have to decrease the value afforded to the acquired business or realign the Group's structure.

Going Concern

The Directors have prepared cash flow forecasts to the period to the end of December 2021 which indicate that, taking account of reasonably possible downsides and the anticipated impact of COVID-19 on the operations and its financial resources, the Group and Company will have sufficient funds to meet its liabilities as they fall due for that period. Cash flow projections have been taken into account to reflect the equity raise of £1.25m gross on 29 September 2020. The Group is primarily financed through equity and has an unused invoice discounting facility of up to £0.5m for use in its Cyber division and this remains a source of additional headroom should it be needed. The Group has no bank borrowings and is debt free. The Groups operational cash flow usage profile has for the last four financial years averaged at close to 100% of EBTIDA and the incidence of bad debts is trivial and recurring revenues reflect approximately 56% of current revenue run rate with the remainder being mainly from repeat revenues. At the date of these accounts the Group has a broadly normalised working capital position and HMRC are in agreed payment terms with a significant majority of their debts being paid by equal instalments over 2 years to July 2022.

The Group's markets in Cyber Security and Strategic Intelligence are showing resilience to the ongoing COVID-19 economic fallout, particularly with increased Cyber security risks for enterprises as they move to remote operations and online business models, but clearly, they cannot be immune from wider macro-economic conditions. COVID-19 began to impact operations in February 2020 onwards and reduced certain professional services revenues in the Cyber division (primarily around assessment and penetration testing) by approximately £100,000 per month compared to where they were between September 2019 and February 2020. At the start of the COVID-19 crisis sales orders for penetration business fell as a result of delays and deferrals from circa £0.2m per month in the second half of the year to 31 March 2020 to c£0.1m per month but that has since recovered to c£0.2m per month since the start of August 2020 and this further supports the groups view that financial performance should start to improve. Furthermore, the Group has begun to win new orders for its new cyber monitoring platform (Triarii) which was launched in August 2020 and has recently joined the SolarWinds TAP program which significantly expands Falanx's customer reach. The general move to remote working is increasing cyber security risks for organisations, and this is expected to increase demand for Falanx's services.

However given the ongoing macro-economic uncertainty around COVID-19 and UK recessionary impacts, alternative stress test scenarios have been examined around an extended downturn in consulting revenues across the full financial years to 31 March 2021 and 31 March 2022 with no recovery in the economic environment, and in context this represents a c20% fall in revenues compared to the annual run rate achieved in second half of the year to 31 March 2020 which mostly represented the period pre COVID-19 commencement in March 2020. This sensitivity analysis has been conducted at a revenue level only. Even after applying these stringent sensitivities (which for example ignore the stronger historic revenue performance in the second half of the year) the Group stays within its existing resources for at least 12 months from the date of signing the annual report.

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

Further details of our COVID-19 response and impact are set out in the s172 report on pages 17 to 18.

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.

Directors' report

Substantial shareholdings
On 18 October 2020 the following were holders of 3% or more of the Group's issued share capital:

Registered holder	Number of Ordinary Shares	Percentage of Issued Capital
Amati AIM VCT plc	85,000,000	16.41%
Octopus Investments Nominees Limited	50,000,000	9.65%
Unicorn VCT	33,333,333	6.44%
Miton Group PLC	32,554,339	6.29%
Walker Crips Investment Management	28,135,944	5.43%

Auditors
The auditors BDO 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 of the Company.

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

Statement of Directors' Responsibilities
The Statement of Directors' Responsibilities can be found on page 25 of these financial statements. The Statement of Directors' Responsibilities forms part of the Directors' report.

On behalf of the Board

I R Selby
Director

30 October 2020

Remuneration & Nomination Committee report

The Remuneration and Nomination Committee (previously two separate committees) comprises Emma Shaw (Chairman), Alex Hambro and meets as and when necessary but normally at least twice per year. 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 in conjunction with external advisors 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 and in conjunction with the CEO are 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.

The CEO may attend upon invitation, particularly around executive remuneration and the CFO may be asked to attend to discuss technical matters. The Terms of Reference are reviewed by the Board annually and amended where appropriate.

As a Company whose shares are admitted to trading on AIM, the preparation of a Remuneration & Nomination Committee report is not an obligation. The Group has, however, sought to provide information that is appropriate to its size and organisation and is will put the approval of this report to shareholders for an advisory approval at the next AGM. This committee met twice during the year. The committee, in conjunction with other executives where relevant considers nomination and succession matters.

Executive Directors' Remuneration Policy

The Remuneration Committee is responsible for establishing a formal and transparent procedure for developing policy on executive remuneration and to set the remuneration packages of individual Directors. This includes agreeing with the Board the framework for remuneration of the Chief Executive, all other Executive Directors and such other members of the senior executive management of the Company as it is designated to consider. It is furthermore responsible for determining the total individual remuneration packages of each Director, including, where appropriate, bonuses, incentive payments and share options.

The Committee's policy is to provide a remuneration package which will attract and retain Directors and management with the ability and experience required to manage the Group and to provide superior long-term performance. It is the aim of the Committee to reward Directors competitively and on the broad principle that their remuneration should be in line with the remuneration paid to senior management of comparable companies. There are four main elements of the remuneration package for Executive Directors: base salary, share options, benefits and annual bonus. Notice periods for Executive Directors are between 6 and 12 months.

Base salary is reviewed annually and in setting salary levels the Remuneration Committee considers the experience and responsibilities of the Executive Directors and their personal performance during the previous period. The Committee also takes account of external market data, as well as the rates of increases for other employees within the Group.

Share options are granted having regard to an individual's seniority within the business and are designed to give Directors and staff an interest in the increase in the value of the Group and to align them with all shareholders. It is the Group's policy to use EMI approved schemes wherever possible, and should an individual not be eligible at a certain point where unapproved options are granted, then if they subsequently become eligible for EMI criteria then their existing options will be cancelled and reissued on identical terms under EMI, reducing potential tax charges on the individual and Company.

Benefits primarily comprise the provision of, pension payments, group wide health insurance (or cash equivalent), any wider staff benefits and participation in the Group life assurance scheme.

All Executive Directors and executive management participate in the Group's annual bonus scheme, which is based upon the assessment of individual performance, taking into account the overall groups performance and financial position.

Non-Executive Directors' remuneration

Non-Executive Directors' remuneration is determined by the Board as a whole and is in conjunction with external advisors, with each refraining from determining their own remuneration. The fees paid to Non-Executive Directors are set at a level intended to attract individuals with the necessary experience and ability to make a significant contribution to the Group.

It is anticipated that Non-Executive Directors will spend an average of 2 days a month undertaking their Role and Duties. This will include attendance at board meetings, the AGM, and an annual planning day. They also attend periodic Remuneration, Risk and Audit Committee meetings. They are required to spend time fully considering all relevant papers prior to each meeting. Non-executive directors have 3-month notice periods in their letters of appointment. Non-executive directors are paid through company payroll systems.

In addition to the above they may be required to devote additional time to the Company when it is undergoing a period of particularly increased activity and may be required to support the Company by attending meetings with clients and advisors etc

Directors' remuneration

	Salary and fees	Benefits in kind	Pension contribution	**2020 Total**	2019 Total
	£	£	£	**£**	£
Executive Directors:					
M D Read	108,667	—	—	**108,667**	173,333
J R Blamire*	83,333	539	1,170	**85,042**	150,806
I R Selby	125,747	135	1,754	**127,636**	150,806
Non-executive Directors:					
E Shaw**	23,500	—	—	**23,500**	35,000
A Hambro	25,288	—	—	**25,288**	—
	366,535	674	2,924	**370,133**	509,945

Total board remuneration fell by 28% in the year to £0.37m (2019: £0.51m).

Mike Read did not take any additional remuneration above his Chairman fees of £25,000 per annum in the year ended 31 March 2018 despite taking over duties as full time Chief Executive Officer in November 2017 in order to support the Company's financial position and help it husband resources at that point. This additional effort was been recognised by a contingent £100,000 bonus payable under certain circumstances (such as departure (good leaver), death, redundancy, retirement, change of control) provided that the Company has achieved certain valuation metrics at that point. This by definition, remains unpaid as at the date of this report.

* J R Blamire resigned 19 December 2019 as part of the Furnace MBO. He entered into a compromise agreement which allowed him to retain his share options for a further six months but was not eligible to receive any further payment, save for usual reimbursement of accrued expenses incurred under the Group's policy.

** E Shaw provided additional services in the previous year relating to Group restructuring and the fee of £15,000 (included in her remuneration for the prior year).

Directors Interests in Share Options

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

1.925 pence options	**2020 Number**	2019 Number
M D Read	**5,000,000**	—
I R Selby	**5,000,000**	—

These Share Options were granted at a price 1.925p. All options are exercisable between 1 April 2020 and 31 March 2030. They vest in three tranches: the first tranche immediately exercisable, the second tranche when the share price reaches 2.89p (50% above exercise price for 1 month) and the third tranche when the share price reaches 3.85p (100% above exercise price for 1 month), save for the event of a change of control in the Company, in which case they will vest in full. They were granted under the rules of the EMI scheme, and where an individual grant does not fall within HMRC EMI rules they are granted as an unapproved option which will typically be subject to PAYE and NI. It is planned that these will be cancelled in March 2021 and reissued under EMI on identical terms at that point.

3.50 pence options	**2020 Number**	2019 Number
M D Read **	**1,500,000**	1,500,000
J R Blamire*	—	1,500,000
I R Selby **	**1,500,000**	1,500,000
E Shaw **	**250,000**	250,000

* J R Blamire resigned 19 December 2019 and these options lapsed on 19 June 2020

** options surrendered 21 April 2020

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

5.00 pence options	**2020**	2019
	Number	Number
M D Read **	**5,000,000**	5,000,000
J R Blamire*	—	4,500,000
I R Selby **	**5,000,000**	5,000,000
E Shaw **	**500,000**	500,000

* J R Blamire resigned 19 December 2019 and these options lapsed on 19 June 2020
** options surrendered 21 April 2020

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

5.875 pence options	**2020**	2019
	Number	Number
J R Blamire*	—	500,000
E Shaw **	**750,000**	750,000

* J R Blamire resigned 19 December 2019
** options surrendered 21 April 2020

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

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

Salary Sacrifice Scheme

In April 2020 in response to the COVID-19 situation the company implemented a voluntary salary sacrifice scheme whereby cash renumeration was swapped for share options for staff and executives and warrants for non-executives. Emma Shaw Mike Read and Ian Selby (as well as other executives and staff) waived certain of their previously granted options (& warrants) as detailed above to allow for headroom for the new issue. These all have an exercise price of 1p each and a duration of 10 years. Warrants have similar economic characteristics to the options. The closing price on the night before this scheme was first announced on 31 March 2020

was c0.55p and the exercise price represented an uplift of 75%. Both the options and warrants have customary good leaver and bad leaver provisions and acceleration of vesting criteria in certain specified circumstances.

Director	Number of options granted
M D Read	6,600,000
I R Selby	2,520,000

The table below sets out details on the issue of the warrants in respect of non-executive directors

Non-Executive Director	Number of options granted
A Hambro	1,200,000
E Shaw	399,600

In total 31,400,000 options and 1,599,600 warrants were issued to directors, senior managers and staff. In order to reduce the overall number of options outstanding to mitigate against future dilution approximately 25.7m options were waived and these include the items marked ** above and on previous pages in this report. The overall scheme saved approximately £0.2m of cash remuneration costs during the period it operated between 1 April 2020 and 30 September 2020.

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 save for the following transaction the terms of which are set out below.

In December 2019 the Group disposed of part of its interest in the Furnace IP development to Furnace Technologies Limited, a company founded by John Blamire, a former director of the Group. Mr Blamire stepped down from the board at that point.

The Board viewed that whilst there was a strong potential market opportunity for Furnace, but determined that Furnace, which was and still is pre-revenue and loss making, is non-core to Falanx's cyber services market. Furnace had consumed approximately £0.4m of cash resources in the financial year up to its disposal in December 2019.

Falanx sold the business and assets of Furnace for a sale price of £1.1m, to be funded by way of an unsecured loan note, plus the issue and allotment to Falanx of 20% of the shares in Furnace Technologies Limited. The loan note has a five-year term and carries a 5% coupon. Furthermore, in the event that Furnace is sold during the five years following the initial sale by Falanx, Falanx will receive an additional 20% of the proceeds of a sale in the first 12 months, amortising down to zero over the remaining four years. Falanx also benefits from certain accelerated loan repayment arrangements in the event of a sale or change of control in Furnace. This resulted in a reclassification of Falanx's current R&D and other intangibles to investments.

Mr Blamire did not participate in board meetings concerning this and was kept offside. The sale of Furnace to Furnace Technologies Limited, a company in which John Blamire is a substantial shareholder and director, was a related party transaction pursuant to rule 13 of the AIM Rules for Companies. Accordingly, the Directors of Falanx (excluding John Blamire) having consulted with the Company's nominated adviser, Stifel, and considered that the terms of the transaction are fair and reasonable insofar as the Company's shareholders are concerned. Mr Blamire waived his contract of employment at that point and entered into a compromise agreement under which further no monies were payable (save for accrued routine expenses) and he and the other purchaser were allowed to keep their share options until 19 June 2020.

PP

E Shaw
Chairman

30 October 2020

Statement of Directors' Responsibilities

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

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

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

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

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

Corporate Governance Report

Statement by the Chairman on Corporate Governance

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

This report describes how the Group has complied with the Code and explains any departures from the ten principles within the Code.

A description of the Board and its committees, together with the Group's systems of internal financial control is set out below.

1. **Generation of Long-Term Growth and Shareholder Value**

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

2. **The Board**

The Board comprises a non-executive Chairman, the Chief Executive Officer, the Chief Financial Officer, and one independent non-executive director. It is intended that Board will evolve as the Group grows to include at least one more independent non-executive director including a qualified accountant or similar as audit committee chair with a planned start in 2021.

The Board meets at least 11 times a year. The Chief Executive and the Chief Financial Officer are engaged full-time and the Chairman and independent non-executive Director are required to spend two days per month considering Company matters and attending the monthly Board meeting. Executive directors along with senior management meet on at least monthly basis and they are in regular close communication as a matter of routine. During the COVID-19 pandemic executives formally speak once per week and the board has biweekly update calls. Senior management regularly attend board meetings and have full right of access to speak with non executive directors.

In the year ended 31 March 2020 there were 12 board meetings and were attended by all directors save Ian Selby who attended 11. The audit committee and the remuneration committee each met twice during the year and were attended by Alex Hambro and Emma Shaw. John Blamire attended 9 out of the 9 meetings he was eligible to attended before he resigned on 19 December 2019.

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

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

3. **Board matters**

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

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

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

4. **Corporate culture**

The Board is responsible for ensuring a high standard of corporate conduct. The Board achieves this by ensuring that appropriate policies on behaviour and ethics are in place and signed up to by all employees. Performance is appraised taking into account not just the achievement of objectives, but the behaviour's demonstrated to do so. All managers and the Board lead by example in their behaviour and ethical values demonstrated. The relevant senior management present to the Board at least quarterly (and mostly monthly) on their area's performance The Company has a dedicated and professionally qualified HR manager who works to support the high standards expected and further details of our people policies are referred to on pages 15 and 16. The Company has a dedicated Data Protection Officer who manages the specific risks around the Group's operations. The Group continually invests in its IT and cyber security infrastructure. The Company seeks to minimise its environmental impact where possible, an example being the use of video conferencing to reduce travel costs and this is increased since the onset of COVID-19 in March 2020. The group makes use of electronic as opposed to physical media in its communications and in 2016 changed its articles as allowed under BVI law, to allow the use of solely electronic media for distribution of annual reports, notices of meetings and other shareholder communications.

5. **Board Performance and Delivering Growth**

The performance of the Board is primarily measured by the achievement of certain KPI's in the business which are aligned with the growth strategy. These include measures against budgeted gross margins, EBITDA, recurring revenues, forward contract book, customer satisfaction, debtor performance, cash usage and generation, project deliveries and return on invested capital. The Directors consider that the Company and Board are not yet of a sufficient size for a full Board evaluation to make commercial and practical sense. All executive directors have annual performance reviews. In the frequent Board meetings/calls, the Directors can discuss any areas where they feel a change would benefit the Company and the directors can consult with the Company's advisors. As the Company grows, it expects to expand the Board and with the Board expansion, to re-consider the need for Board evaluation.

6. **Succession Planning**

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

7. **Company Secretary**

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

The CFO currently acts as the Group's company secretary as it is appropriate for this stage in Falanx's evolution. The board does not see any conflict at this stage but may in the future engage additional resources if appropriate.

8. **Board Committees**

The Board has a remuneration committee and an audit committee.

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

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

9. **Engagement with Shareholders**

On 27 March 2019 the company announced a variation of its memorandum and articles of association to reduce directors' powers to issue shares and to bring it more into line with typical UK structures. These changes were voluntarily done by the company and were not required under BVI law.

The Board values the views of its shareholders. The company will hold Annual General Meetings which are used to communicate with all investors (where possible under COVID-19 guidance), and they are encouraged to participate. The directors are available to answer questions. Separate resolutions are proposed on each issue so that they can be given proper consideration and there is a formal resolution to approve the Annual Report. Shareholders can also contact the Company Secretary or the Chairman via the Company's website.

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

10. **Internal control**

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

- **Management structure**

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

- **Quality and integrity of personnel**

The integrity and competence of personnel are ensured through high recruitment standards including vetting of staff under relevant security standards, and subsequent training courses. High quality personnel are an essential part of the control environment.

- **Identification of business risks**

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

- **Budgetary process**

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

- **Authorisation procedures**

Capital and revenue expenditure are regulated by a budgetary process and authority limits for approval of expenditure are in place. For expenditure beyond specified levels, detailed written proposals are submitted to and approved by the Board. Once authorised,

such expenditure is reviewed and monitored by the Board. Where the capital expenditure is against the development of software products or services it is reviewed against expected returns from future sales and delivery against agreed milestones.

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

11. **Advisors**

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

Statement of Compliance

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

Board of Directors

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

Committees

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

Audit Committee

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

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

Remuneration and Nomination Committee

The Remuneration and Nomination Committee (previously two separate committees) comprises Emma Shaw (Chairman) and Alex Hambro and meets as and when necessary. Other directors may attend its meetings by invitation from time to time. 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.

Internal Control

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

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

Shareholder Communication

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

Corporate Responsibility

Falanx Group Limited operates responsibly with regards to its shareholders, employees, other stakeholders, the environment and the wider community. The Group is committed to the well-being of all employees and ensures that their health, safety and general welfare is paramount at all times. We also maintain open and fair relationships with all clients and suppliers while ensuring that all transactions are operated on an arm's length, commercial basis.

The Directors are responsible for preparing the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial period. The Directors have elected to prepare these financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and applicable by law.

Approved by the Board on 30 October 2020 and signed on its behalf by

I R Selby
Director

Independent auditors' report

to the members of Falanx Group Limited

Opinion

We have audited the financial statements of Falanx Group Limited (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 March 2020 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 March 2020 and of the Group's loss for the year then ended; and
- have been properly prepared in accordance with IFRS as adopted by the European Union.

Basis for opinion

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

Conclusions relating to going concern

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

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

Key audit matters

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

Key audit matter	How we addressed the key audit matter in the audit
Carrying value of intangibles – customer relationships Intangible assets, specifically Goodwill and Customer Relationships, represent a significant part, £3.8m of the assets of the Group and there are significant judgements and estimates that need to be made in carrying out the valuation of these assets, which is therefore considered to be a significant risk. These judgements are made in respect of the underlying assumptions, which include revenue growth rates, revenue multiples, attrition rate, return on workforce, useful life and the discount factor applied to present value of the balances. Management is required to consider whether there are any indications of impairment but in this case determined to conduct an impairment review in order to assess carrying values at the end of the twelve month re-measurement period. The valuation was carried out using a value in use model prepared by an independent third party valuer last year and this was updated for the current year to reflect actual results achieved. The accounting policies are disclosed in Notes 2 and 3 and details of the intangibles assets and Goodwill including inputs to the valuation model are disclosed in Note 15.	In this area our audit work included the following: • The inputs and assumptions used in the valuation model were checked to supporting documentation and industry benchmarks. • We considered the significant assumptions, judgements and key estimates used in the financial model prepared covering a period of ten years and these were assessed in relation to the accuracy of historical results achieved, including results to date. • We held a discussion with management and external valuer to challenge the key assumptions, gain a better understanding of their independence and quality control procedures and their approach for the basis of the valuation. • The instructions provided to the valuer were reviewed for completeness and to check that there was no evidence of management bias Key observation: Based on the outcome of the above procedures, we did not identify any indication that an impairment was required for either Goodwill or Customer Relationship intangible asset.

Our application of materiality

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

We determined the materiality for the Group financial statements as a whole to be £144,000 (2019: £87,000), calculated with reference to a benchmark of the Group's losses before tax, of which it represents 5%. This benchmark was selected as the group is AIM listed and this figure is likely to be of the most importance to the users of the accounts.

Whilst materiality for the financial statements as a whole was £144,000, each component of the Group was audited to a much lower level of materiality. Significant component materiality ranged from £800 to £134,000 (2019: £6,000 to £48,000).

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. The Group's performance materiality was determined as a percentage of materiality for the financial statement as a whole of 70% (2019: range between 45% to 65%) depending on our assessment of risk.

We reported to the Audit Committee all potential adjustments in excess of £6,900 (2019: £4,300). We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

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

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

There are 8 significant components in the Group, which are all registered and operate in the UK, each of which is subject to a full scope audit by BDO LLP. The audit was carried out for all significant components by the Group audit team. The remaining 5 subsidiaries are outside of the scope of a full audit as they have taken an audit exemption (Falanx Cyber Defence Spain S.L., Falanx Group US LLC, FG Consulting Services DMCC and Stirling Risk (Asia) Limited), or are dormant (Falanx Protection Limited). The 5 out of full scope entities were subject to an analytical review and desk top review by the Group audit team to provide assurance to the Group audit opinion on the consolidated financial statements.

Other information

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

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

We have nothing to report in this regard.

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Use of our report

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

PAUL FENNER, FCA
Senior Statutory Auditor
BDO LLP, Chartered Accountants
London, UK

30 October 2020

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

Consolidated statement of comprehensive income

for the year ended 31 March 2020

Continuing operations

	Note	**2020**	2019
		£	£
Revenue	4	**5,851,175**	5,212,136
Cost of sales		**(3,638,105)**	(2,924,210)
Gross profit		**2,213,070**	2,287,926
Administrative expenses		**(5,068,146)**	(4,144,508)
Operating loss	6	**(2,855,076)**	(1,856,582)

Analysis of operating loss			
Operating loss		**(2,855,076)**	(1,856,582)
Share option expense		**228,366**	60,715
Depreciation and amortisation		**482,675**	369,071
Impairment of Furnace investment		**260,000**	—
Highlighted costs	5.1	**320,173**	180,921
Adjusted EBITDA loss	5.2	**(1,563,862)**	(1,245,875)

Finance income	9	**2,100**	1,526
Finance costs	9	**(26,029)**	(4,257)
Finance costs – net		**(23,929)**	(2,731)
Loss before income tax		**(2,879,005)**	(1,859,313)
Income tax (credit) / expense	10	**(2,323)**	28,442
Loss for the year		**(2,881,328)**	(1,830,871)
Loss per share			
Basic loss per share	12	**(0.72) p**	(0.58) p
Diluted loss per share	12	**(0.72) p**	(0.58) p

Consolidated statement of comprehensive income

for the year ended 31 March 2020

	Note	**2020**	2019
		£	£
Loss for the year		**(2,881,328)**	(1,830,871)
Other comprehensive income:			
Re-translation of foreign subsidiaries		**(4,600)**	3,053
Other comprehensive income for the year, net of tax		**(4,600)**	3,053
Total comprehensive income for the year		**(2,885,928)**	(1,827,818)
Attributable to:			
Owners of the parent		**(2,885,928)**	(1,827,818)
Total comprehensive income for the year		**(2,885,928)**	(1,827,818)

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 38 to 66 are an integral part of these consolidated financial statements.

Consolidated statement of financial position

as at 31 March 2020

	Note	**2020** £	2019 £
Assets			
Non-current assets			
Property, plant and equipment	14	**195,423**	111,852
Intangible assets	15	**3,893,809**	5,386,573
Right of use asset	16	**472,253**	—
Investments with fair value through Profit and Loss	17	**340,000**	—
Loan Receivable	18	**1,100,000**	—
		6,001,485	5,498,425
Current assets			
Inventories	19	**—**	3,828
Trade and other receivables	20	**2,169,635**	2,112,097
Cash and cash equivalents	21	**79,282**	2,443,686
		2,248,917	4,559,611
Total assets		**8,250,402**	10,058,036
Equity			
Capital and reserves attributable to equity holders of the Company			
Share capital	22 / 23	**17,903,427**	17,903,427
Translation reserve		**(113,180)**	(108,580)
Shares option and warrant reserve	13	**587,325**	358,959
Retained earnings	24	**(13,408,080)**	(10,526,752)
Total equity		**4,969,492**	7,627,054
Liabilities			
Non-current liabilities			
Deferred tax liability	25	**9,529**	7,593
Lease liability	27	**348,872**	—
		358,401	7,593
Current liabilities			
Trade and other payables	26	**1,595,850**	1,313,558
Contract liabilities	4	**1,237,347**	1,109,831
Lease liability	27	**89,312**	—
		2,922,509	2,423,389
Total liabilities		**3,280,910**	2,430,982
Total equity and liabilities		**8,250,402**	10,058,036

The notes on pages 38 to 66 are an integral part of these consolidated financial statements.

The financial statements on pages 33 to 37 were authorised for issue by the Board of Directors on 30 October 2020 and were signed on its behalf by:

M D Read
Director

I R Selby
Director

Company number: 1730012 (British Virgin Islands)

Consolidated statement of changes in equity

for the year ended 31 March 2020

	Note	Share capital	Retained earnings	Translation reserve	Share option and warrant reserve	Total
		£	£	£	£	£
Balance at 1 April 2018		13,868,734	(8,695,881)	(111,633)	255,483	5,316,703
Loss for the year		—	(1,830,871)	—	—	(1,830,871)
Re-translation of foreign subsidiaries		—	—	3,053	—	3,053
Transactions with owners:						
Issue of share capital		4,255,000	—	—	—	4,255,000
Costs of issue of share capital		(220,307)	—	—	—	(220,307)
Share based payment charge	13	—	—	—	103,476	103,476
Balance at 31 March 2019		**17,903,427**	**(10,526,752)**	**(108,580)**	**358,959**	**7,627,054**
Loss for the year		—	(2,881,328)	—	—	(2,881,328)
Re-translation of foreign subsidiaries		—	—	(4,600)	—	(4,600)
Transactions with owners:						
Issue of share capital		—	—	—	—	—
Costs of issue of share capital		—	—	—	—	—
Share based payment charge	13	—	—	—	228,366	228,366
Balance as at 31 March 2020		**17,903,427**	**(13,408,080)**	**(113,180)**	**587,325**	**4,969,492**

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

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

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

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

The notes on pages 38 to 66 are an integral part of these consolidated financial statements.

Consolidated cash flow statement

for the year ended 31 March 2020

	Note	**2020**	2019
		£	£
Cash flows from operating activities			
Loss before tax		**(2,879,005)**	(1,859,313)
Adjustments for:			
Depreciation		**87,300**	75,526
Amortisation and impairment of intangibles		**318,180**	293,546
Amortisation of right of use assets	16	**77,195**	—
Impairment of investment in Furnace	17	**260,000**	—
Share based payment	6 / 13	**228,366**	60,715
Profit on disposal of Furnace IP	11	**(58,666)**	—
Net finance cost recognised in profit or loss		**23,929**	2,731
		(1,942,701)	(1,426,795)
Changes in working capital:			
Decrease in inventories		**3,828**	554
Increase in trade and other receivables		**(57,539)**	(588,755)
Increase in trade, contract liabilities and other payables		**332,023**	98,006
Cash used in operations		**(1,664,389)**	(1,916,990)
Interest paid		**(1,754)**	(4,257)
Tax paid		**(387)**	—
Net cash used in continued operating activities		**(1,666,530)**	(1,921,247)
Cash flows from investing activities			
Interest received		**2,100**	1,526
Acquisition of property, plant and equipment		**(255,070)**	(51,251)
Expenditure on development cost		**(378,484)**	(461,008)
Acquisition of investment		**(61,820)**	—
Acquisition of subsidiaries net of cash acquired		—	(19,803)
Net cash used in investing activities		**(693,274)**	(530,536)
Cash flows from financing activities			
Repayment of lease liabilities		**—**	—
Interest on lease interest		**—**	—
Proceeds from issue of shares		**—**	4,155,000
Costs of share issuance		**—**	(177,545)
Net cash (used in) / generated from financing activities		**—**	3,977,455
Net increase in cash equivalents		**(2,359,804)**	1,525,672
Cash and cash equivalents at beginning of year		**2,443,686**	914,961
Foreign exchange gains on cash and cash equivalents		**(4,600)**	3,053
Cash and cash equivalents at end of year		**79,282**	2,443,686

The notes on pages 38 to 66 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

for the year ended 31 March 2020

1. General information

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

The Company is a public limited company which is listed on the AIM Market of the London Stock Exchange and is incorporated and domiciled in the British Virgin Islands. The address of its registered office is PO Box 173, Kingston Chambers, Road Town, Tortola, British Virgin Islands. The UK registered office The Blade, Abbey Square, Reading, RG1 3BE.

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 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 activities, together with the factors likely to affect its future development, performance and position, are set out in the business review. Our financial position, cash and borrowing facilities are described within the Financial Review.

The Directors have acknowledged the COVID-19 Thematic Review published by the Financial Reporting Council in July 2020.

The Financial Statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

The Directors have prepared cash flow forecasts to the period to the end of December 2021 which indicate that, taking account of reasonably possible downsides and the anticipated impact of COVID-19 on the operations and its financial resources, the Group and Company will have sufficient funds to meet its liabilities as they fall due for that period. Cash flow projections have been taken into account to reflect the equity raise of £1.25m gross on 29 September 2020. The Group is primarily financed through equity and has an unused invoice discounting facility of up to £0.5m for use in its Cyber division and this remains a source of additional headroom should it be needed. The Group has no bank borrowings and is debt free. The Groups operational cash flow usage profile has for the last four financial years averaged at close to 100% of EBTIDA and the incidence of bad debts is trivial and recurring revenues reflect approximately 56% of current revenue run rate with the remainder being mainly from repeat revenues. At the date of these accounts the Group has a broadly normalised working capital position and HMRC are in agreed payment terms with a significant majority of their debts being paid by equal instalments over 2 years to July 2022.

The Group’s markets in Cyber Security and Strategic Intelligence are showing resilience to the ongoing COVID-19 economic fallout, particularly with increased Cyber security risks for enterprises as they move to remote operations and online business models, but clearly, they cannot be immune from wider macro-economic conditions. COVID-19 began to impact operations in February 2020 onwards and reduced certain professional services revenues in the Cyber division (primarily around assessment and penetration testing) by approximately £100,000 per month compared to where they were between September 2019 and February 2020. At the start of the COVID-19 crisis sales orders for penetration business fell as a result of delays and deferrals from circa £0.2m per month in the second half of the year to 31 March 2020 to c£0.1m per month but that has since recovered to c£0.2m per month since the start of August 2020 and this further supports the groups view that financial performance should start to improve. Furthermore, the Group has begun to win new orders for its new cyber monitoring platform (Triarii) which was launched in August 2020 and has recently joined the SolarWinds TAP program which significantly expands Falanx’s customer reach. The general move to remote working is increasing cyber security risks for organisations, and this is expected to increase demand for Falanx’s services.

However given the ongoing macro-economic uncertainty around COVID-19 and UK recessionary impacts, alternative stress test scenarios have been examined around an extended downturn in consulting revenues across the full financial years to 31 March 2021 and 31 March 2022 with no recovery in the economic environment, and in context this represents a c20% fall in revenues compared to the annual run rate achieved in second half of the year to 31 March 2020 which mostly represented the period pre COVID-19 commencement in March 2020. This sensitivity analysis has been conducted at a revenue level only. Even after applying these stringent sensitivities (which for example ignore the stronger historic revenue performance in the second half of the year) the Group stays within its existing resources for at least 12 months from the date of signing the annual report.

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

2.1.2 New and Revised Standards

Standards in effect in 2020

The following IFRS and IFRIC Interpretations have been issued and have been applied by the Group in preparing these financial statements for the year beginning 1 April 2019:

- IFRS 16, 'Leases'

IFRS 16 Leases has introduced a single, on-balance sheet accounting model for lessees, eliminating the distinction between operating and finance leases.

The Group has applied IFRS 16 using the modified retrospective approach; accordingly, the comparative information presented for 2019 has not been restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations.

The Group has applied the practical expedient permitted under the modified retrospective approach of IFRS 16 of not recognising right-of-use assets and liabilities for leases with less than 12 months of the lease term remaining, therefore the Birmingham lease which had four months remaining at 1 April 2019 has not been accounted for under IFRS 16.

As the only lease recognised under IFRS 16 started after 1 April 2019, the Group has not recognised any right-of-use assets or lease liabilities on the date of initial application (1 April 2019).

Further details presenting the impact on the Group of adopting IFRS 16 from 1 April 2019 are shown in note 15.

- IFRIC 23, 'Uncertainty over income tax treatments'

IFRIC 23 clarifies how to recognise and measure current and deferred income tax assets and liabilities when there is uncertainty over income tax treatments. The Directors have assessed that there is no material impact on the Group or the Company in applying IFRIC 23 and so it has not been discussed in detail in the notes to the financial statements.
The following standards/amendments to standards have been endorsed by the EU but are effective subsequent to the year end, in accounting periods beginning 1 January 2020:

- IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (Amendment – Definition of Material)
- IFRS 3 *Business Combinations* (Amendment – Definition of Business)
- Revised Conceptual Framework for Financial Reporting
  Interest Rate Benchmark Reform (IBOR) reform Phase 1 (Amendments to IFRS 9, IAS 39 and IFRS 7)

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the Group in future periods.

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.

2.1.3 Alternative performance measures (APM)

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

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

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

Purpose

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

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

Adjusted EBITDA: This is the headline measure used by management to measure the Group's performance and is based on operating profit before the impact of financing costs, IFRS16, share based payment charges, depreciation, amortisation, impairment charges and other highlighted items. Highlighted items (note 5.1) relate to certain costs that derive from events or transactions that fall within the normal activities of the Group but which, individually or, if of a similar type, in aggregate, are excluded by virtue of their size and nature in order to reflect management's view of the performance of the Group.

2.2 Consolidation

Subsidiaries

Subsidiary undertakings are entities that are controlled by the Company. The definition of control involves three elements: power over the investee; exposure or rights to variable returns and the ability to use the power over the investee to affect the amount of the investor's returns. The Group generally obtains power through voting rights. Subsidiaries are consolidated from the date at which the Group obtains the relevant level of control and are de-consolidated from the date at which control ceases.

The acquisition method of accounting is used for all business combinations. On acquisition, the cost is measured at the aggregate of their fair values at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquire. Any costs directly attributable to the business combination are expensed as incurred. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (Revised), "Business Combinations" are recognised at fair values at the acquisition date.

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

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

2.3 Segmental reporting

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

2.4 Revenue recognition

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

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

Revenue is recognised on the following bases:

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

Revenue is recognised as the client receives the benefit of the services provided under a commercial contract, in an amount that reflects the consideration to which the provider expects to be entitled for the transfer of the goods or services.

Performance obligations and timing of revenue recognition

Revenue from the provision of professional services such as penetration testing, consultancy and strategic intelligence assignments are recognised as services are rendered, based on the contracted daily billing rate and the number of days delivered during the period. Revenue from pre-paid contracts are deferred in the balance sheet and recognised on utilisation of service by the client.

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

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

Determining the transaction price

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

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

Contract Assets (accrued incomes) balance were £27,747 (2019: £197,230) and is included in prepayments and accrued income (note 20) and the change compared to the previous year was due to short term timing differences. Contract Liabilities (deferred incomes) balance of £1,237,347 (2019: £1,109,831). Included in the Contract Liabilities at the 31 March 2020 were approximately £40,926 (2019: £154,000) residual balance from prior year. All Contract Assets at the 2020 year end arose towards the end of the period. All contract assets have short cash conversion periods and all assets at the year end have since been monetised.

The Board considers that the information in note 4 adequately depicts how the nature, amount, timing and uncertainty of revenue and cash flow are affected by economic factors.

2.5 Taxation

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

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

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

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

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

2.6 Foreign Currency

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

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

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

In the case of foreign entities, the financial statements of the Group's overseas operations are translated as follows on consolidation: assets and liabilities, at exchange rates ruling on reporting date, income and expense items at the average rate of exchange for the period and equity at exchange rates ruling on the dates of the transactions. Exchange differences arising are classified as equity and transferred to a separate translation reserve. Such translation differences are recognised in profit or loss in the period in which the

operation is disposed of. Foreign exchange gains and losses arising from monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely within the foreseeable future, are considered to form part of net investment in a foreign operation and are recognised directly in equity.

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

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

2.7 Property, plant and equipment

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

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

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

2.8 Intangible assets

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

Goodwill

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

Software and brand licences

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

Research and development

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

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

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

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

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

Customer relationships

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

- First Base: 10 years
- Securestorm: 3 years

2.9 Impairment of non-financial assets

Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. A review for indicators of impairment is performed annually. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Any impairment charge is recognised in the income statement in the year in which it occurs. When an impairment loss, other than an impairment loss on goodwill, subsequently reverses due to a change in the original estimate, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, up

to the carrying amount that would have resulted, net of depreciation, had no impairment loss been recognised for the asset in prior years.

2.10 Inventories

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

2.11 Financial instruments

The Group applies a simplified method of the expected credit loss model when calculating impairment losses on its financial assets which are measured at amortised cost such as trade receivables, other debtors and prepayments. This resulted in greater judgement due to the need to factor in forward-looking information when estimating the appropriate amount to provisions. This is not applied to the loan to Furnace Technologies which is reviewed on an individual basis.

(a) Financial Assets

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

- ***Initial Recognition and Measurement*:** Financial Assets are classified as amortised cost and initially measured at fair value.
- ***Subsequent Measurement*:** Financial assets are subsequently measured at amortised cost, using the effective interest method, less impairment. Interest is recognised by applying the effective interest method, except for short-term receivables when the recognition of interest would be immaterial. The company only offers short periods of credit to its customers and recorded average debtor days of 66 at 31 March 2020 (2019: 47)
- ***Derecognition of Financial Assets:*** The Company derecognises a Financial Asset only when the contractual rights to the cash flows from the asset expire, or it transfers the Financial Asset and substantially all the risks and rewards of ownership of the asset to another entity.

(b) Financial Liabilities and Equity Instruments

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

(c) Investments

Investments not in subsidiary undertakings are carried at fair value through profit and loss.

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

2.12 Share capital

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

2.13 Reserves

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

2.14 Trade payables

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

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

2.15 Leases

Lease accounting under IFRS 16 (applicable after 1 April 2019)

When entering into a contract the Group assesses whether or not a lease exists. A lease exists if a contract conveys a right to control the use of an identified asset under a period of time in exchange for consideration. Leases of low value items and short-term leases (leases of less than 12 months at the commencement date) are charged to the profit or loss on a straight-line basis over the lease term in administrative expenses.

The Group recognises right-of-use assets at cost and lease liabilities on the statement of financial position at the lease commencement date based on the present value of future lease payments. The right-of-use assets are amortised on a straight-line basis over the length of the lease term. The lease liabilities are recognised at amortised cost using the effective interest rate method. Discount rates used reflect the incremental borrowing rate specific to the lease.

Lease accounting under IAS 17 (applicable before 1 April 2019)

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases and are accounted for on a straight-line basis over the term of the lease.

2.16 Pensions

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

2.17 Share-based payments

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

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

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

2.18 Provisions

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

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

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.

Judgements:

Investment in Furnace Technologies Limited

The investment agreement in Furnace Technologies Limited has allocated Falanx Group Limited 20% of its equity. It is considered a financial as opposed to an operational investment as Falanx does not have the right to appoint a board member and plays no part in its operations or policymaking. There is no interchange of management personnel and any transactions between the companies are small and are on an arms length basis. Consequently, it has not been treated as an associated company.

Estimates:

Management do not consider there to be significant accounting estimates in respect of the year ended 31 March 2020.

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 (refer to note 15.2).

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.

4. Segmental reporting

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

Reportable segments

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

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

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

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

4. Segmental reporting continued

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, financial assets held at fair value through profit or loss and derivatives. Segment liabilities comprise operating liabilities; liabilities such as deferred taxation, borrowings and derivatives are not allocated to individual business segments.

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

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

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

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

Geographical information

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

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

Revenue by geographical location	**2020**	2019
	£	£
United Kingdom	**4,650,608**	4,301,738
Europe	**508,170**	448,169
The Americas	**329,390**	289,195
Australasia	**191,249**	78,948
Middle East and Africa	**171,758**	94,086
	5,851,175	5,212,136

Non-current assets	**2020**	2019
	£	£
United Kingdom	**6,001,485**	5,014,425
	6,001,485	5,014,425

Major customers

No customer contributed 10% or more to the Group's revenue in 2020 (2019: nil). The highest individual customer contributed c6% of revenues.

4. Segmental reporting continued

Contract Assets (accrued incomes) balances were £27,747 (2019: £197,230). Included in the Contract Liabilities (deferred incomes) at the 31 March 2020 were approximately £40,926 (2019: £154,000) residual balance from prior year. All Contract Assets at the 2020 year end arose towards the end of the period and were billed and collected in the normal course of business in the next financial year.

	Contract Assets 2020 £	Contract Assets 2019 £	**Contract Liabilities 2020 £**	Contract Liabilities 2019 £
At 1 April	**197,230**	59,887	**(1,109,831)**	(748,479)
Transfers in the year from contract assets to trade receivables	**(197,230)**	(59,887)	—	—
Transfers from contract liabilities to revenue in the year	—	—	**1,022,437**	663,643
Amount recognised as revenue in the year not yet invoiced	**27,747**	197,230	—	—
Amount invoiced in advance not recognised as revenue in the year	—	—	**(1,149,953)**	(1,024,995)
At 31 March	**27,747**	197,230	**(1,237,347)**	(1,109,831)

5. Highlighted 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 Highlighted costs

		2020 £	2019 £
Acquisition costs	a)	**—**	16,024
Restructuring costs	b)	**227,535**	164,897
Infrastructure upgrade	c)	**235,705**	—
Rent	d)	**(75,993)**	—
Gain on furnace operations	e)	**(67,074)**	—
		320,173	180,921

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

b) Restructuring costs
Cost of corporate development and professional services associated with the restructuring. Prior year cost related to cost of restructuring the key management including severance payment and transition costs for integration of acquired subsidiary (First Base). This did not include any impact of COVID-19.

c) Infrastructure upgrade
Cost of technology, infrastructure and upgrade of applications for internal use and customer delivery.

d) Rent
Re-instatement of accounting charge in respect of rental payments on the Reading lease not reflected under IFRS 16. There were no leases in 2019 which IFRS16 was applicable to and hence no adjustment was reflected.

e) Gain on furnace operations
Gain on the spin out of furnace IP disposed of in the year (refer to note 11).

5. Highlighted costs and Adjusted EBITDA continued

5.2 Adjusted EBITDA

	2020	2019
	£	£
Operating loss	**(2,855,076)**	(1,856,582)
Depreciation and amortisation	**482,675**	369,071
Impairment of Furnace investment	**260,000**	—
EBITDA	**(2,112,401)**	(1,487,511)
Share option expense	**228,366**	60,715
Highlighted costs (note 5.1)	**320,173**	180,921
Adjusted EBITDA	**(1,563,862)**	(1,245,875)

6. Operating loss

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

	2020	2019
	£	£
Depreciation of owned property, plant and equipment	**83,654**	75,526
Amortisation of right of use asset	**77,195**	—
Amortisation and impairment of intangible fixed assets	**318,181**	293,546
Impairment of investment in Furnace	**260,000**	—
Operating lease rentals – Land & Buildings	**124,461**	180,193
Share based payment expense	**228,366**	60,715
Foreign exchange loss	**14,118**	4,587
R&D tax credit	**(74,516)**	(96,000)

7. Auditors' remuneration

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

	2020	2019
	£	£
Remuneration receivable by the Company's auditors for the audit of consolidated and Company financial statements	**17,500**	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	**38,500**	30,500
– tax services	**6,000**	6,000
	62,000	54,000

8. Employee benefit expense

	2020	2019
	£	£
Wages and salaries, including termination benefits	**4,047,628**	3,951,007
Social security costs	**425,516**	435,292
Other pension costs	**95,612**	57,773
Share options granted to employees	**231,325**	60,715
	4,800,081	4,504,787

8. Employee benefit expense continued

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

	2020	2019
Operations	**50**	42
Development team	**2**	4
Sales and marketing	**12**	10
Administration and management	**17**	16
	81	72

Directors' emoluments

	2020	2019
	£	£
Emoluments, including benefits in kind	**367,209**	508,333
Pension costs	**2,924**	1,612
	370,133	509,945

The emoluments of the highest paid Director were as follows:

	2020	2019
	£	£
Emoluments, including benefits in kind	**125,882**	173,333
Pension costs	**1,754**	—
	127,636	173,333

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

9. Finance income and costs

	2020	2019
	£	£
Interest receivable	**2,100**	1,526
Interest payable – IFRS 16	**(24,275)**	—
Interest payable – other	**(1,754)**	(4,257)
Net finance expense recognised in profit/(loss)	**(23,929)**	(2,731)

10. Income tax expense

	2020	2019
	£	£
Current tax		
Current tax on loss for the year	**—**	—
Over provision in prior year	**2,323**	1,494
Total current tax	**2,323**	1,494
Deferred tax		
Deferred tax credit for the year	**—**	(29,936)
Total deferred tax	**—**	(29,936)
Income tax expense / (credit)	**2,323**	(28,442)

10. Income expense continued

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

Potential deferred tax asset

The extent to which deferred tax assets can be recognised is based on an assessment of the probability of the Group's future taxable income against which the deferred tax assets can be utilised. This is based on projected forecasts and budgets which are reviewed by the Directors and judgement is made as to whether the deferred tax asset can be recognised. At 31 March 2020, a deferred tax asset has not been recognised (2019: £nil). Accumulated tax losses (subject to HMRC) agreement stood at approximately £12.9m (2019: £10.9m). No asset in respect of these losses has been recognised.

The tax charge for the year is different from the standard rate of corporation tax in the United Kingdom of 19% (2019: 19%). The difference can be reconciled as follows:

	2020	2019
	£	£
Loss before tax	**(2,879,005)**	(1,859,313)
Tax calculated at the applicable rate based on the loss for the year 19% (2019: 19%)	**(547,011)**	(353,269)
Tax effects of:		
Creation of tax losses	**414,304**	278,064
Expenses not deductible for tax purposes	**102,584**	21,535
Non taxable income	**(21,975)**	—
Deferred tax not recognised	**52,098**	53,670
Current tax on loss for the year	**—**	—

11. Disposal of IP

During the year, the Board took the decision to dispose of the business assets of Furnace, a pre-revenue component of the Group. The component was sold on 19 December 2019.

Details of the sale of Furnace

		2020
Consideration received or receivable:	Note	**£**
Loan receivable	18	**1,100,000**
20% share capital in Furnace Technologies Limited ("Furnace Technologies")	17	**600,000**
Total disposal consideration		**1,700,000**
Carrying amount of net assets sold		**(1,641,334)**
Gain on sale before income tax		**58,666**
Income tax expense on gain		—
Gain on sale after income tax		**58,666**

In the event that Furnace is sold on during the five years following the initial sale, the Group will receive an additional variable amount of consideration not exceeding 20% of the proceeds of a sale in the first 12 months, amortising down to zero over the remaining four years.

The Group have assessed the likelihood of Furnace being sold on in the next 5 years, alongside the projected cashflows and estimated fair value of the company and have concluded that the likelihood of a sale occurring in which a profit is realised and inflow of economic resources occurs is not probable. The Group have therefore not disclosed a contingent consideration asset.

11. Disposal of IP continued

The carrying amounts of assets and liabilities as at the date of the sale (19 December 2019) were:

	19 December 2019
	£
Goodwill	174,366
Research and Development	1,378,702
Working capital	80,000
NBV of tangible fixed assets	8,266
Carrying amount of net assets sold	**1,641,334**

12. Basic and diluted earnings per share

Basic loss per share is calculated by dividing the 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.

	2020	2019
Loss from continuing operations attributable to equity holders of the Company	**(2,881,328)**	(1,830,371)
Total basic and diluted loss per share (pence per share)	**(0.72)**	(0.58)

Weighted average number of shares used as the denominator

	2020	2019
Weighted average number of ordinary shares used as the denominator in the calculating basic earnings per share	**400,401,185**	313,614,123

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 2020, 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. If the placing and subscription announced on 29 September 2020 had taken place on 1 April 2019, loss per share would have been reduced to 0.55p.

13. Share based payment

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

	2020		2019	
	Average exercise price (pence)	**Options**	Average exercise price (pence)	Options
At 1 April	**6.13**	**48,954,766**	7.25	31,838,100
Granted	**1.925**	**30,000,000**	3.50	13,550,000
Granted	—	—	5.00	4,249,999
Granted	—	—	7.125	2,000,000
Forfeited	**7.38**	**(50,000)**	6.13	(150,000)
Forfeited	**5.00**	**(2,918,367)**	5.00	(2,500,000)
Forfeited	**3.50**	**(2,500,000)**	4.00	(33,333)
At 31 March	**4.55**	**73,486,399**	6.13	48,954,766

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

		Shares	
Expiry date	Exercise price (pence)	**2020**	2019
28 July 2024	44.5	**1,699,440**	1,699,440
2 June 2025	14.5	**100,000**	100,000
16 May 2026	4.13	**605,326**	605,326
30 September 2026	4.00	**266,667**	266,667
7 October 2026	5.00	**1,000,000**	1,000,000
24 January 2027	5.875	**1,933,334**	1,933,334
3 July 2027	7.125	**2,000,000**	2,000,000
17 July 2027	6.50	**500,000**	500,000
22 August 2027	6.13	**1,000,000**	1,000,000
19 September 2027	7.38	**150,000**	200,000
20 November 2027	5.13	**200,000**	200,000
14 March 2028	5.00	**21,650,000**	21,650,000
17 July 2028	5.0	**1,331,632**	4,249,999
7 January 2029	3.50	**11,050,000**	13,550,000
24 September 2029	1.925	**28,500,000**	—
1 November 2029	1.925	**1,500,000**	—
		73,486,399	48,954,766

At the balance sheet date, the average life outstanding on options was 7.57 years (2019: 8.93 years). All options had a 10-year life from date of grant. All options outstanding at the relevant period ends had price-based vesting criteria which had not been achieved and were therefore unvested.

During the year 30,000,000 share options were granted. They were granted under the rules of the EMI scheme, and where an individual grant does not fall within HMRC EMI rules they are granted as an unapproved option which will typically be subject to PAYE and NI.

30,000,000 share options were granted at 1.925p. All options are exercisable between 1 April 2020 and 1 November 2029. They vest in three tranches: the first tranche immediately exercisable, the second tranche when the share price reaches 2.89p (50% above exercise price for 1 month) and the third tranche when the share price reaches 3.85p (100% above exercise price for 1 month), save for the event of a change of control in the Company, in which case they will vest in full.

13. Share based payment continued

The weighted average fair value of the 30,000,00 (2019: 17,799,999) options granted during the year was determined using the Monte Carlo option pricing model. This resulted in a cost of 1.75 pence per option and £1.70 pence per options for the options granted in September 2019 and November 2019 respectively (2019: 0.84p). The significant inputs to the model were exercise price as shown above, an expected option life between 2.25 years and 3.08 years, expected volatility of 63% (2019: 70%) and a risk-free rate of return estimated between 0.68% (2019: 1.02%) and 0.86% (2019: 0.92%). The volatility is based on analysis of the volatility of the company's historical share price. At 31 March 2020 10,000,000 of the 1.925p options were vested but not were exercisable.

The total share-based payment expense recognised in the income statement in respect of employee share options granted to Directors and employees is £228,366 (2019: £103,476).

14. Property, plant and equipment

	Leasehold Improvements	Fixtures and fittings	Computer equipment	Total
	£	£	£	£
Cost				
At 1 April 2019	—	66,401	257,158	323,559
Additions	143,823	9,631	25,683	179,137
Disposals	—	(43,917)	(161,597)	(205,514)
At 31 March 2020	**143,823**	**32,115**	**121,244**	**297,182**
Depreciation				
At 1 April 2019	—	45,199	166,508	211,707
Charge for the year	16,779	12,929	57,592	87,300
Released on disposal	—	(43,917)	(153,331)	(197,248)
At 31 March 2020	**16,779**	**14,211**	**70,769**	**101,759**
Net book value				
At 31 March 2020	**127,044**	**17,904**	**50,475**	**195,423**
Cost				
At 1 April 2018	—	62,948	203,928	266,876
Additions through business combinations	—	—	5,432	5,432
Additions	—	3,453	47,798	51,251
At 31 March 2019	—	66,401	257,158	323,559
Depreciation				
At 1 April 2018	—	32,293	102,039	134,332
B/fwd through business combinations	—	—	1,849	1,849
Charge for the year	—	12,906	62,620	75,526
At 31 March 2019	—	45,199	166,508	211,707
Net book value				
At 31 March 2019	—	21,202	90,650	111,852

15. Intangible assets

	Goodwill	Software and brand licences	Website costs	Development costs	Customer relationships	Total
	£	£	£	£	£	£
Cost						
At 1 April 2019	2,078,538	916,301	83,599	1,029,554	2,613,308	6,721,300
Additions	—	—	29,336	349,148	—	378,484
Disposals	(174,366)	—	—	(1,378,702)	—	(1,553,068)
At 31 March 2020	**1,904,172**	**916,301**	**112,935**	**—**	**2,613,308**	**5,546,716**
Amortisation and impairment						
At 1 April 2019	53,438	916,301	9,382	—	355,606	1,334,727
Amortisation charge for year	—	—	27,391	—	290,789	318,180
Impairment in the year	—	—	—	—	—	—
At 31 March 2020	**53,438**	**916,301**	**36,773**	**—**	**646,395**	**1,652,907**
Net book value						
At 31 March 2020	**1,850,734**	**—**	**76,162**	**—**	**1,966,913**	**3,893,809**
At 1 April 2018	1,021,992	916,301	—	652,145	2,915,000	5,505,438
IFRS 3 re-measurement	926,199				(460,085)	466,114
Additions	130,347	—	83,599	377,409	158,393	749,748
At 31 March 2019	2,078,538	916,301	83,599	1,029,554	2,613,308	6,721,300
Amortisation and impairment						
At 1 April 2018	53,438	912,743	—	—	75,000	1,041,181
Amortisation charge for year	—	3,558	9,382	—	280,606	293,546
At 31 March 2019	53,438	916,301	9,382	—	355,606	1,334,727
Net book value at 31 March 2019	2,025,100	—	74,217	1,029,554	2,257,702	5,386,573

15.1 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.

In the previous year ended 31 March 2019, and as required under IFRS 3, the allocation of the fair value of the purchase consideration across the tangible and intangible assets acquired on 23 March 2018 was reassessed within 12 months of purchase. The main changes were around the discount rate used which was increased from 12.75% to 15.00% and also adjustments made to reflect the value of an assembled workforce and full tax charges (ignoring the Group's £10.9m of tax losses). This resulted in a reduction in the potential value of the acquired customer base from £2.84m as originally recorded to £2.37m. This is shown as an adjustment on opening balances in the tabular note above

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

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

The purchase of Cloudified Limited led to the development of the Group's technology platform Project Furnace which was disposed of in December 2019 and further detailed in note 11.

15. Intangible assets continued

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

	2020	2019
	£	£
Project Furnace	—	1,203,920
Professional cyber security services	**1,850,734**	1,850,734
Total	**1,875,734**	3,054,654

a) Recoverability of development costs – Project Furnace

The intangible asset created from the R&D investment in Project Furnace was disposed of on 19 December 2019, see note 11 Disposal of IP above. Other development costs relate to items which were not yet ready for market at the balance sheet date.

b) Other elements of Cyber Segment

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

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

Discount rate	**15%**	15%
Average forecast EBITDA growth next 5 years	**7%**	7%
Growth rate 5-10 years	**10%**	10%
Perpetuity thereafter	**10%**	10%

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

Goodwill of First Base has been evaluated by reviewing similar inputs save for growth scenario reflecting current growth rates of 10% over the 10-year horizon to reflect overall growth in the asset from new customers, and then comparing the excess of the NPV of future cash flows to the overall intangible including the customer relationships asset. This testing indicates that NPV will be less than carrying value if a discount rate in excess of 24% is used.

The estimated recoverable amount of the CGU exceeded its carrying amount (including developments costs and customer relationship intangibles) by £2.4m (2019: £0.4m) The Directors have prepared a sensitivity analysis which shows that scenarios including:

- an increase in the discount rate from 15% to 26%
- a reversal of a growth rate of +10% to a net shrinkage of -1%. Recent Cyber security industry statistics indicated growth rates of 10-15% CAGR being expected
- a fall in expected net EBTIDA contribution from 35% of revenues to 24% of revenues

would result in the value in use falling below the carrying value but do not consider these likely so no adjustment is reflected.

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

15.2 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. These customer assets are valued on a value in use basis. The value placed on the contractual customer relationships, as per the third-party valuation carried out, is based on the expected cash revenue inflows over the estimated remaining life of each existing contract. The value placed on the non-contractual customer relationships is based on past revenue performance by virtue of the customer relationships; but using the 0.82% average annual attrition rate since acquisition in March 2018. Associated cash outflows have been based on historically achieved margins. The net cash flows are discounted at a rate of 15% which the Directors consider is commensurate with the risks associated with capturing returns from customer relationships and reflects the group's WACC. This is further described in note 3 to these accounts.

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

15. Intangible assets continued

Whilst certain sales orders received by the business fell in the first few months of the financial year ended 31 March 2021 this is due to the ongoing COVID-19 situation. Orders fell in March, April and May but have been since recovering well and further growth is expected from new and old clients. This growth has been reflected in the overall assessment of the intangibles (both goodwill and customer list) and more than supports their carrying values against a range of sensitivity tests carried out around expected growth rates and discount rates. The following other sensitivities have been applied to the determination of the value of the customer base. This was carried out by a multi period excess earnings model and was based on a 10-year horizon. A stress test has been carried out on the same basis as the overall going concern testing which assumes that there is no recovery in cyber consulting revenues until 1 April 2022 and this shows that there is still sufficient headroom. This assumes that post the COVID-19 scenario Cyber revenues return to their previous growth rate of c15%.

Growth rate (long term economic average)	1.5% (achieved growth rate c15%)
EBITDA Margin	24.0 - 35.0%
Return on Workforce	1.81%
Tax Rate	17-19%

A similar analysis has been carried out on the intangibles arising from the purchase of Securestorm Limited in July 2018. This has generated a customer intangible of £0.16m and a goodwill balance of £0.1m. The customer base will be amortised on a straight-line basis over a period of 3 years due to high customer concentration (although the main customer is under a multi-year contract which has recently renewed in July 2020) and relatively short existence (founded 2014).

Similar tests to those performed on the First Base intangibles have been applied to the intangibles arising from this transaction and no impairment of goodwill has been identified. An analysis has been conducted which shows that the NPV of the customer bases commences to fall below the carrying value when a discount rate of 24% is used.

16. Right of use assets

	2020	2019
	£	£
Cost		
At 1 April 2019	—	—
Additions	549,448	—
At 31 March 2020	**549,448**	—
Amortisation and impairment		
At 1 April 2019	—	—
Amortisation charge for year	77,195	—
At 31 March 2020	**77,195**	
Net book value		
At 31 March 2020	**472,253**	—

This asset relates to the Reading office lease, refer to note 27.

17. Investments with fair value through profit and loss

	2020	2019
	£	£
Opening balance	—	—
Additions	600,000	—
Impairment	(260,000)	—
Closing balance at 31 March 2020	**340,000**	—

On 19 December 2019, the Group disposed of the business and assets of Furnace. The total consideration received was £1,700,000, which included the issue and allotment of 20% of the share capital in Furnace Technologies, the buyer's company. The equity value at completion was £600,000. In April 2020 Furnace Technologies received an external equity investment of £30,000 at the same valuation.

The Group are satisfied that it does not have a significant influence over Furnace Technologies and have recognised the shareholding as a financial asset. At the reporting date, the Group continued to hold 20% in Furnace Technologies. The Group consider the carrying value of the asset satisfactory at 31 March 2020 and no fair value adjustment is required.

18. Loan Receivable

	2020	2019
	£	£
Loan receivable from Furnace Technologies Ltd	**1,100,000**	—
	1,100,000	—

On 19 December 2019, the Board disposed of the business and assets of Furnace. The total consideration received was £1,700,000, partly funded by the way of an unsecured loan note for £1,100,000 to Furnace Technologies Ltd, the buyer. The loan note has a five-year term and carries a 5% coupon.

The Group are satisfised that the loan has been recognised at fair value in line with the requirements of IFRS 9 and are satisfied that the loan interest of 5% represents a market rate.

The Loan together with all accrued interest is repayable on the earlier of the following circumstances:

- if the Borrower reaches an enterprise value (as determined by subsequent financing rounds of the Borrower) of £16 million and the Seller may request a valuation of the Borrower (at the Borrower's expense) to determine the enterprise value at any time after the third anniversary of the date of this Agreement;
- an Event of Default occurs; or
- a Change of Control of the Borrower occurs (and for these purposes "Control" means the beneficial ownership of more than 50% of the issued share capital of the Borrower or the legal power to direct or cause the direction of the general management of the Borrower, and the expression "Change of Control" shall be construed accordingly)
- the 19th December 2024

Furnace is currently undergoing an investment round and it is possible that within 12 months of the balance sheet date that it could achieve an enterprise value of £16m or greater.

Therefore, Group is satisfised that the loan has been recognised at fair value in line with the requirements of IFRS 9 and is satisfied that the loan interest of 5% represents a market rate and therefore it is valued at an amortised cost.

The Directors have completed high-level analysis, which considers both qualitative and quantitative information, including reviewing shareholder quarterly reports received from Furnace management, to determine if the loan receivable is low credit risk. The Directors have concluded that there has not been an increase in credit risk since the loan was initially granted. Estimations regarding the credit risk of Furnace Technologies Ltd and the underlying probability of a default were deemed low as Furnace management have prepared a 3-year business plan. It has therefore been concluded that no ECL is necessary at 30 March 2020.

19. Inventories

	2020	2019
	£	£
Finished goods	—	3,828
	—	3,828

20. Trade and other receivables

	2020	2019
	£	£
Trade receivables - gross	**1,536,775**	1,181,433
Allowance for credit losses	**(2,800)**	(2,800)
Trade receivables	**1,533,975**	1,178,633
Contract assets	**27,747**	197,230
Other receivables	**331,897**	261,957
Prepayments	**276,016**	474,277
	2,169,635	2,112,097

Trade and other receivables are stated at amortised cost.

21. Cash and cash equivalents

	2020	2019
	£	£
Cash and cash equivalents in statement of cash flows	**79,282**	2,443,686

22. Share capital

	2020		2019	
	Number of shares	**Nil par value**	Number of shares	Nil par value
Allotted, called up and fully paid at 1 April	**400,401,185**	—	259,678,964	—
New shares issued	—	—	140,722,221	—
Allotted, called up and fully paid at 31 March	**400,401,185**	—	400,401,185	—

22. Share capital (continued)

At 31 March 2020 a total of 14,780,001 warrants issued to various shareholders remained outstanding. No residual value has been allocated to the warrants as the issue price of the subscribed shares equated to their fair values. Of the total amount, 4,196,667 warrants had a 3 year time to expiry condition at the time of issue, 4,583,334 warrants had a 5 year time to expiry condition at the time of issue and the remaining 4,500,000 had an exercise period ending 36 months after each vesting period at the time of issue.

		Warrants	
Expiry	Exercise price (pence)	**2020**	2019
4 May 2019	6.0	—	24,156,250
10 May 2019*	6.0	—	2,125,000
15 January 2021	10.0	**250,000**	250,000
15 January 2021	15.0	**250,000**	250,000
15 January 2021	20.0	**250,000**	250,000
6 March 2021	4.50	**2,646,667**	2,646,667
23 March 2021	4.50	**800,000**	800,000
5 May 2021	6.0	**4,583,334**	4,583,334
		8,780,001	35,061,251
M D Read**		**6,000,000**	6,000,000
		14,780,001	41,061,251

* Of the total warrants expired in 2019 with an exercise price of 6 pence, 1,250,000 were 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

23. Reconciliation of share capital

	2020	2019
	£	£
At 1 April	**17,903,427**	13,868,734
Premium on issue of nil par value ordinary shares	—	4,255,000
Costs of share issues	—	(220,307)
At 31 March	**17,903,427**	17,903,427

24. Retained earnings

	2020	2019
	£	£
At 1 April	**(10,526,752)**	(8,695,881)
Loss for the year	**(2,881,328)**	(1,830,871)
At 31 March	**(13,408,080)**	(10,526,752)

25. Deferred taxation

	2020	2019
	£	£
Group		
Balance at 1 April	**(7,593)**	(9,529)
(Expense)/Credit to income statement	**(1,936)**	1,936
Deferred tax liability recognised through business combinations	—	(28,000)
Utilisation of tax losses	—	28,000
Balance at 31 March	**(9,529)**	(7,593)

The deferred tax liability represents:

	2020	2019
	£	£
Accelerated capital allowances	**(9,529)**	(7,593)

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% (2019: 19%), being the rate, which is expected to apply in the future when the liability is settled. The Group has losses of c£12.9m (subject to HMRC agreement), available to offset against future taxable profits. A deferred tax asset has not been recognised on these losses due to the uncertainty of sufficient future taxable profits against which the losses can be utilised.

26. Trade and other payables

	2020	2019
	£	£
Trade payables	**781,168**	680,441
Other payables	**53,500**	30,484
Taxation and social security	**499,246**	411,706
Accruals	**261,936**	190,927
	1,595,850	1,313,558

27. Lease liability

Nature of leasing activities

In July 2019 the Company entered into a lease for premises in Reading primarily for the SOC of Falanx Cyber. This was done after an extensive review of the optimal position to locate the Cyber Security Operations Centre (SOC) from an access to relevant skills perspective and to help the overall expansion of the business. This premises will be operationally leveraged for maximum utilisation. This has been recognised under IFRS 16. Leases exempt from IFRS 16 include rentals payable by the Group and its subsidiaries for the office premises at Five Kings House in London (expired 8 March 2020), Fazeley Studios in Birmingham (expired 31 August 2019), King Business Centre in Hassocks (expired 24 March 2020) and a serviced office at the Leeming Building in Leeds (lapsed 31 January 2020) respectively.

The Group at the date of this report only has one property lease and this is for the Reading office which is now the Group's registered office.

Lease terms are negotiated on an individual basis and contains separate terms and conditions.

	2020	2019
Number of active leases	**1**	4

Lease liability at year end

	2020 **£**	2019 **£**
Non-current		
Lease liability	**348,872**	—
	348,872	—
Current		
Lease liability	**89,312**	—
	89,312	—
Total Lease liability	**438,184**	—
Analysis of lease liability		
At 1 April 2019	—	—
Additions	**438,516**	—
Interest expense	**24,275**	—
Lease payments	**(24,607)**	—
At 31 March 2020	**438,184**	—

Analysis of gross value of lease liabilities

Maturity of the lease liabilities is analysed as follows:	**2020**	2019
Within 1 year	**89,937**	122,239
Later than 1 year and less than 5 years	**348,872**	625
At 31 March 2020	**438,809**	123,864

28. Subsidiaries

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

Name	Country of incorporation	Nature of business	Proportion of shares Shares held by parent
Falanx Cyber Defence Limited	England and Wales	Cyber defence solution	100%
Falanx Cyber Holdings Limited	England and Wales	Cyber defence solution, becoming dormant with all assets liabilities and trade being transferred to Falanx Cyber Defence Limited	100%
First Base Technologies (London) Limited	England and Wales	Cyber defence solution, becoming dormant with all assets and liabilities and trade being transferred to Falanx Cyber Defence Limited	100%
Securestorm Limited	England and Wales	Cyber security consultancy, becoming dormant with all assets liabilities and trade being transferred to Falanx Cyber Defence Limited	100%
Falanx Cyber Technologies Limited	England and Wales	Research and development	100%
Falanx Cyber Defence Spain S.L.	Spain	In process of liquidation as no longer needed	100%
Cloudified Limited	England and Wales	Software development in telecommunications, security and data analytics, becoming dormant	100%
Falanx Assynt Limited	England and Wales	Business intelligence consultancy	100%
Falanx Group US LLC	United States of America	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%
Penetration Testing Ltd	England and Wales	Dormant	100%

29. Financial instruments

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

Market risk

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

Financial assets

	2020	2019
	£	£
Loan Receivabale	**1,100,000**	—
Trade and other receivables	**1,865,872**	1,440,590
Cash and cash equivalents	**79,282**	2,443,686
	3,045,154	3,884,276

29. Financial instruments continued

Financial liabilities

	2020	2019
	£	£
Trade and other payables	**834,668**	710,925
Lease liability	**438,184**	—
Accruals	**261,936**	190,927
	1,534,788	901,852

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

	2020	2019
	£	£
Trade and other payables due in:		
Less than one month	**612,305**	510,113
One month to six months	**101,577**	—
Six months to one year	**210,098**	200,812
Greater than one year	**348,872**	—
Total	**1,272,852**	710,925

The Company has sufficient working capital to meet these liabilities as they fall due.

Credit risk

Credit risk is the risk that a counterparty 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 counterparty and employs strict minimum credit worthiness criteria as to the choice of counter-party thereby ensuring that there are no significant concentrations of credit risk. The average credit period is 30 days from date of invoice, but non-standard terms may be agreed with certain larger or strategic customers. The bulk of the Group’s cash assets were held with HSBC and the Board has considered the associated risk as minimal. On average 50% of the Cyber business is billed in advance of the service and circa 70% of the Assynt business is billed in advance. This significantly reduces our 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 £3,045,154 (2019: £3,884,276). The amount represents the total of the carrying amount of current assets.

The maximum amount exposure to credit risk for trade receivables at the statement of financial position date was £1,536,775 (2019: £1,181,433). As at the date of signing these financial statements, the Group does not expect to incur material credit losses of its financial assets or other financial instruments and therefore credit exposure is considered minimal.

As at 31 March 2020, trade receivables past due for the Group totalled £345,800 (2019: £288,805) of which £2,800 (2019: £2,800) have been impaired. As at 31 March 2020, trade receivables past due but not impaired are as follows:

	2020	2019
	£	£
Up to 3 months	**330,300**	285,424
3 months to 6 months	**12,700**	581
Expected credit loss provision at 31 March	**343,000**	286,005

Notes to the consolidated financial statements

for the year ended 31 March 2020

29. Financial instruments continued

The provision of £2,800 is against a specific item and no incidence of bad debt has been recorded between the balance sheet date and the date of this report and the overdue receivables have been collected in the usual course of business.

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

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

There is no indication of non repayment of the Furnace loan of £1.1m at the date of this report. This will be kept under regular review for its ability to be repaid and evidence of any credit risk.

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

	2020	2019
	£	£
Provision for bad and doubtful debts at 1 April	**2,800**	8,000
Amount released	—	(8,000)
Amount provided	—	2,800
Expected credit loss provision at 31 March	**2,800**	2,800

Foreign currency risk

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

A ten percent weakening of sterling against the relevant currencies for example, would decrease the loss by £2,215 (2019: increase by £8,847) in the coming year and would decrease equity by £15,902 (2019: increase by £11,980).

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.

30. Capital risk management

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

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

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

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

Other risks management

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

31. 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 £95,612 (2019: £57,773).

32. Capital and Financial commitments

The Group had no capital or financial commitments in any of the periods presented.

33. Control

No ultimate party controls Falanx Group Limited.

34. Related party transactions

- In December 2019 the Group disposed of part of its interest in the Furnace IP development to Furnace Technologies Limited, a company founded by John Blamire, a former director of the Group. Mr Blamire stepped down from the board at that point. The Board viewed that whilst there was a strong potential market opportunity for Furnace, but determined that Furnace, which was and still is pre-revenue and loss making, is non-core to Falanx's cyber services market. Furnace had consumed approximately £0.4m of cash resources in the financial year up to its disposal in December 2019.

  Falanx sold the business and assets of Furnace for a sale price of £1.1m, to be funded by way of an unsecured loan note, plus the issue and allotment to Falanx of 20% of the shares in Furnace Technologies Limited. The loan note has a five-year term and carries a 5% coupon. Furthermore, in the event that Furnace is sold during the five years following the initial sale by Falanx, Falanx will receive an additional 20% of the proceeds of a sale in the first 12 months, amortising down to zero over the remaining four years. Falanx also benefits from certain accelerated loan repayment arrangements in the event of a sale or change of control in Furnace. This resulted in a reclassification of Falanx's current R&D and other intangibles to investments.

- Mr Blamire did not participate in board meetings concerning this and was kept offside. The sale of Furnace to Furnace Technologies Limited, a company in which John Blamire is a substantial shareholder and director, was a related party transaction pursuant to rule 13 of the AIM Rules for Companies. Accordingly, the Directors of Falanx (excluding John Blamire) having consulted with the Company's nominated adviser, Stifel, and considered that the terms of the transaction are fair and reasonable insofar as the Company's shareholders are concerned. Mr Blamire waived his contract of employment at that point and entered into a compromise agreement under which further no monies were payable (save for routine expenses) and he was allowed to keep his share options until June 2020.

- Falanx Group Limited provided head office and management services to subsidiary companies and supported them with working capital during the year ended 31 March 2020 and in total advanced £0.6m to its subsidiaries, all of which are wholly owned.

35. Events after the reporting period

- On 21 April 2020 approximately 31 million new share options and warrants were issued to staff and directors in exchange for salary reductions for the 6 months to 30 September 2020. These options were priced at 1p each and have a life of 10 years from the date of grant. Staff and directors waived approximately 25.7m options and a further 9m lapsed in June 2020. Where options were not at the point of grant qualifying for EMI benefits, they may be cancelled and reissued in the future under similar terms to optimise the overall tax position.

- In July 2020 the premises in Sussex and London were closed following the non-renewal of expired leases. The business moved to remote and home working in March 2020 and the expense of keeping such leases as well as the ongoing office costs were not justified in the new remote working model.

- A deferred payment plan was agreed with HMRC to reschedule up to £0.64m of payroll taxes outstanding at 30 June 200 over 2 years as well as taking advantage of published time to pay plans on VAT. The group is fully in compliance with these plans.

- On 29 September 2020 Falanx announced the completion of a fundraising exercise for £1.25m by issuance of 125,000,000 new ordinary shares of nil nominal value. Of these £1,125,000 (gross) has been received by the date of the accounts with the remaining £75,000 (7,500,000 shares) due from the directors and senior managers post the release of these results and them being allowed to participate under the MAR framework. A significant proportion of this fundraising is through long-term EIS & VCT investment and overall it included new and existing institutional investors.

- In the six months ended 30 September 2020 the Group recorded revenues of approximately £2.46m (2019: £2.64m) and an adjusted EBITDA loss of £0.6m (2019; £0.93m). Revenues in the cyber division were impacted by reduced professionals services demand in the first few months with the onset of COVID-19, but since the start of August monthly orders for these have increased significantly and are now running at c£0.2m per month compared to £0.1m per month in the first quarter. September's revenues were much stronger, and the order momentum has continued into October. These levels are ahead of where the Group had conducted its stress testing. Closing cash at 30 September 2020 was £0.2m (2019: £0.71m) but this excluded the proceeds of the fundraising which were received on 1 October 2020. The Group's customers are paying normally, and no bad debt has been experienced, furthermore creditors are in agreed terms.

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