falanx

2016

Annual report and financial statements year ended 31 March 2016 falanx

CONTENTS

Cyber Defence and Intelligence Services provider working with blue chip and government clients

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

The Group has three business divisions:

- **Falanx Cyber Defence:** Comprehensive cloud-based Cyber Defence services, born from the amalgamation of the Advanced Security Consulting Limited (ASC) and Falanx Assuria businesses
- **Falanx Intelligence:** Political & Security Risk and Business Intelligence services operating as Stirling Assynt
- **Falanx Resilience:** Discontinued

Falanx Cyber Defence

Falanx Cyber Defence brings together **ASC** and **Falanx Assuria** to provides comprehensive Cyber Defence services to government and commercial organisations worldwide.

Falanx Intelligence

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

Falanx Resilience

Historic physical security consultancy has been discontinued.

CHAIRMAN'S STATEMENT

In March 2015, Falanx informed shareholders of its intention to shift strategic focus to enlarge and develop its cyber security capacity. This decision was taken in response to the increasing importance Governments and blue chip organisations are placing on this issue. The financial cost that can result from data theft and the damage to reputations caused by losing customer information can have a catastrophic impact. A number of high profile cyber-attacks toward the end of 2015 brought the need for rigorous security and risk management into sharp focus. As a result, many organisations have placed cyber security at the top of their priority list for 2016. This has in turn helped cement the market opportunity for Falanx, with Corporates and Government bodies assessing the precise nature of the threats they face and identify their vulnerabilities.

Falanx has completed the first phase of the reorganisation required to take advantage of this market opportunity. This reorganisation started with the launch of our Cyber Security Operations Centre (C-SOC) in Reading in March 2015, designed specifically to secure computer networks at the boundary and across the devices within. The C-SOC allows Falanx to manage and analyse data, whilst also providing helpdesk services to continuously protect both legacy and cloud computing systems from hostile attacks, unauthorised data access and theft. The Company achieved ISO 9001, /IEC 20000-1 and ISO/IEC 27001 accreditation, enabling Falanx to pursue major contracts with UK Government agencies, regulated industries and multi-nationals.

It is against this market landscape that Falanx's vision of a 'total managed service' driven by being the clients 'trusted advisor' is now proving to be highly effective.

Falanx Cyber

Falanx Cyber, historically operated under the Falanx Assuria brand, will now formally re-launch under its new 'Falanx Cyber Defence' brand, reflecting the combination of our monitoring services and the wider consulting services of Advanced Security Consulting Limited, acquired in May 2016.

Managed monitoring services provided the core mainstay of the business throughout FY2015/16. During a challenging period of change, the business continued to develop it's credentials in the Government market place, going on to establish a client base of 6 government organisations.

Although the growth of revenues in monitoring have been slow over the first year of the fully established service, we are now seeing a 'Return on Investment' due to the application of our new engagement model and the expansion of services around the core monitoring capability.

Re-structured engagement model:

- **Consult: Become the trusted advisor.** Working in partnership with our clients to help define and deliver the strategies and programs that will deliver the right results.
- **Assess: Help the client understand the issues.** A series of services and products focused on the identification of weaknesses and vulnerabilities within our clients. Backed by industry recognised accreditations to support the credibility of our staff and operations within the market. Penetration Testing, Vulnerability Assessment, Business and Cyber Intelligence.
- **Monitor: Protect the client.** Our C-SOC delivers world class monitoring at levels up to and including UK Government mandated GPG13 as a managed service. The platform is extending to access mass market, SME's and Enterprise clients.
- **Respond: Be there when needed most:** Leveraging the expertise of the assessment team and the C-SOC operatives to deliver an incident response service that gets the client back to "business as usual" in the fastest, safest and least public way possible.

As we continue to offer a truly 100% British developed, UK Government compliant, managed monitoring service, Government remains a significant revenue generator with our place in the G-Cloud framework firmly established. However, business focus has intensified on commercial organisations where we are seeing significantly larger and speedier growth.

Falanx Intelligence

Falanx Intelligence, operating under the **Stirling Assynt** brand, has been trading successfully for over eight years and has established itself as a credible and reliable provider of political and security risk assessments and business intelligence. Its international client base includes governments, international organisations, oil and gas companies, financial services, insurance, utilities, defence, airlines, FMCG and technology companies. Many of these are long-term clients who have remained loyal to the business over five years or more.

In a challenging year, the division has generated a robust profit margin and is now returning to growth.

Services include:

- **The Assynt Report** – a highly-regarded, fortnightly predictive political and security risk service covering 33 countries that goes out to an extensive client base of major companies, international organisations and governments around the world.
- **Embedded & Dedicated Analysts** – we offer various embedded and dedicated analyst arrangements providing a wide range of in-house intelligence functions, which together form a set of long-standing, strategic relationships. Such analysts enjoy full access to our central expertise and wider capabilities, offering a highly cost-effective service.
- **Strategic Intelligence** – by drawing on the combined capabilities of our experienced in-house analysts and trusted local associates we can provide bespoke political, security and business risk assessments across a wide range of jurisdictions, often in a pre-market entry context.
- **Business Intelligence** – Business intelligence reports provide due diligence for clients on suppliers, acquisition targets and partners internationally. This is a project-based business in which tasks often arise at short notice requiring rapid response. The business offers a highly competitive and well-regarded service and has a number of long-term clients.

Falanx Resilience

Falanx Resilience was historically a project-based consultancy business operating largely in the Middle East, offering training and physical security services. This line of business has been discontinued.

Financial summary

Falanx Group's turnover for the year ended 31 March 2016 was £1.81m (2015: £1.92m), with Falanx Intelligence and Falanx Cyber's turnover being £1.58m (2015: £1.76m) and £0.23m (2015: £nil) respectively. Falanx Group's loss before taxation for the year was £2.65m. Falanx Intelligence made a pre-tax profit of £0.18m in the reporting year. Falanx Cyber in its continued build-up phase made a loss of £1.87m in the reporting year. Following the £1m equity placing and issuance of a £0.55m convertible loan note in May 2016 the Company had cash balances of £1.28m at 30 June 2016.

In addition to organic development, Falanx is continuing to take advantage of focused, disciplined M&A activity (with the recent acquisition of ASC) to enhance and deepen our existing offerings, or to enter new markets that we feel fit well with our mission, our strategy, and our product portfolio.

Directors

In the last 6 months we have seen the retirement from the Board of Karl Barclay (Chairman) and Desmond Carr (NED). I would like to thank them both for their contribution, support and guidance.

Outlook

This has been a year of significant change in the Group's capabilities. All members of the Group have stood up extremely well to successfully manage the re-orientation of the business.

We have moved away from the traditional attributes of physical security consultancy, to a business model that deals with the growing demands of the 21st Century. Organisations want to be enabled and secured by technology and information, adapting to and developing to this opportunity is core to our ethos.

Falanx is committed to the organic development and acquisition of complementary technologies and businesses that build on our security and intelligence managed services.

Approved by the Board on 15 July 2016 and signed on its behalf by

M D Read

Non-Executive Chairman

DIRECTORS

Mike Read

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

Iain Manley

Iain Manley (Non-executive Director) is an experienced corporate financier and chartered accountant, with a successful 15 year career in capital raising in public and private markets. Iain previously worked at Coopers & Lybrand, Arthur Andersen Corporate Finance (specialising in public company M&A), Cobalt Corporate Finance, a TMT advisory firm, as well as acting as CFO of a number of private and public companies.

John Blamire

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

Emma Shaw

Emma Shaw (Non-executive Director) is the Managing Director of Esoteric Ltd, 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 2016.

Business Review

The Group's results for the year are set out in the consolidated statement of comprehensive income on page 13 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	2016	2015	Comment
Group revenue	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	£1,815,394	£1,922,049	A decrease of 5.55% resulting from reduced revenue in the Intelligence division
Gross margin	Percentage of total revenue retained by the group after direct costs deduction	Provides indication of sales profitability and proportion of revenue available to cover other running costs	(3.32)%	5.76%	Increase in variable costs mainly attributable to Cyber security operations in developmental phase
EBITDA	A measure of profits	Offers a clearer reflection of the value of operations	£(2,311,141)	£(2,055,802)	Increased overhead cost largely due to the costs incurred for Cyber security operations

Dividends

The consolidated statement of comprehensive income for the year is set out on page 13, 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 29 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
K P A Barclay resigned 2 February 2016

Non-Executive Directors

I A Manley
D P Carr resigned 20 June 2016
E Shaw
M D Read appointed 1 February 2016

Directors continued

Directors' interests

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

	2016		2015	
	Number of shares	% Held	Number of shares	% Held
J R Blamire	7,900,000	11.09%	7,900,000	15.14%
K P A Barclay*	3,583,000	5.03%	5,765,500	11.05%
I A Manley	200,000	0.28%	200,000	0.38%
D P Carr**	200,000	0.28%	200,000	0.38%
E Shaw	200,000	0.28%	–	–
M D Read	–	–	–	–

* Of which 666,666 (0.94%) are held by Andrea Barclay, partner of K P A Barclay, previously Executive Chairman. K P A Barclay resigned on 2 February 2016.

** D P Carr resigned on 20 June 2016.

Directors' interests in transactions

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

Directors' remuneration

	Salary £	Benefits in kind £	Pension contribution £	2016 Total £	2015 Total £
Executive Directors:					
J R Blamire	60,000	–	–	60,000	60,000
K P A Barclay	73,333	–	–	73,333	100,000
Non-executive Directors:					
I A Manley	32,500	–	–	32,500	43,500
E Shaw	50,110	–	–	50,110	12,000
D P Carr	12,000	–	–	12,000	12,000
M D Read	4,000	–	–	4,000	–
	231,943	38,110	–	231,943	227,500

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. In respect of the financial year ended 31 March 2016, creditors' days have been calculated at 96 days (2015: 92 days).

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 minimise debt and to ensure sufficient working capital for the Group's overheads and capital expenditure commitments.

Financial instruments are disclosed and discussed in note 23 to the financial statements.

Employees

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

Health and safety

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

Key Risks and Uncertainties

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

Reliance on Key Contracts and Business Relationships

Several of the Group's major customer contracts are in the form of single purchase order arrangements and the majority of the engagements that are more formally documented are terminable on one month's notice. There can be no guarantee that the Group's major customers will continue to engage its services. The Group anticipates having significantly higher volumes of small to medium contracts and an increase in recurring business that will represent a significant proportion of total revenue, reducing the risk of dependency on large customers.

Pipeline opportunities

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

The Company may need additional access to capital in the future

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

Management of future growth

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

Going Concern

On 5 May 2016 the Group announced that it had raised net proceeds of approximately £0.96m after deducting commission and transaction related expenses through the issue of the Placing and Subscription Shares at the placing price of 4 pence per ordinary share. The Directors have reviewed forecasts and budgets based on current expected levels of expenditure and have concluded that the Group has sufficient funds available to meet its commitments for at least the next twelve months from the date of the approval of financial statements. The Directors regularly review the funding position of the Group and its cash flow forecasts and have carried out a review of the current and future operating costs of the Group and are focussed on seeing the Group to cash flow break-even within the next twelve months. Key to achieving this will be the continued growth of the Cyber division to break-even within twelve months together with enhancing the existing profitability of the Intelligence division. The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least twelve months from the date of the approval of these financial statements. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Information to shareholders – Website

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

Substantial shareholdings

On 11 July 2016, the following were holders of 3% or more of the Group's issued share capital:

Registered holder	Ordinary shares	Percentage of issued share capital
W B Nominees Limited	12,122,060	11.68%
Ruffer LLP	10,367,857	9.82%
J R Blamire	7,900,000	7.48%
J D Abbott	7,125,536	6.75%
K C Investments	5,963,611	5.65%
JIM Nominees Limited	3,628,214	3.44%
K P A Barclay*	3,583,000	3.39%

* Of which 666,666 (0.94%) are held by Andrea Barclay.

Save as set out above, the Directors are not aware of any other persons with a holding of 3% or more of the Group's issued share capital.

Auditors

The auditors Kingston Smith LLP were re-appointed by the Audit Committee on 17 May 2016 and have indicated their willingness to continue in office.

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

On behalf of the Board

J R Blamire

Director

15 July 2016

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

Statement of Compliance

Save for the Companies Act, there is no mandatory corporate governance regime in the British Virgin Islands with which the Group must comply. However, the Directors recognise the importance of sound corporate governance and intend to comply with appropriate recognised corporate governance standards as far as practicable and to the extent appropriate given the Group's size, assets, liabilities and other relevant information. In practice this means that the Group will be complying with the QCA Guidelines for AIM Companies.

Board of Directors

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

Committees

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

Audit Committee

The Audit Committee comprises Iain Manley (Chairman), Emma Shaw and Mike Read and meets at least two times a year. 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 Directors and the Company's auditor to consider any matter they wish to bring to the attention of the Committee. The terms of reference and areas of delegated responsibility of the Audit Committee are in the consideration and approval of the following matters:

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

Remuneration Committee

The Remuneration Committee comprises Emma Shaw (Chairperson), Iain Manley and Mike Read and meets as and when necessary. 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 Remuneration Committee also makes recommendations to the Board concerning the allocation of share options to employees.

Nomination Committee

The Nomination Committee comprises Emma Shaw (Chairperson), Iain Manley and Mike Read and meets as and when necessary. It keeps under review the skill requirements of the Board and the skill, knowledge, experience, length of service and performance of the Directors. It also reviews their external interests with a view to identifying any actual, perceived or potential conflicts of interests, including the time available to commit to their duties to the Group.

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 Nomination 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.falanxgroup.com) is the primary source of information on the Group. This includes an overview of the activities of the Group, information on the Group's subsidiaries and details of all recent Group announcements.

Corporate Responsibility

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

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

Approved by the Board on 15 July 2016 and signed on its behalf by

J R Blamire
Director

INDEPENDENT AUDITORS' REPORT

to the members of Falanx Group Limited

We have audited the financial statements of Falanx Group Limited for the year ended 31 March 2016 which comprise the Group Statement of Comprehensive Income, the Group Statement of Financial Position, the Group Statement of Cash Flows, the Group Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 9 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's affairs as at 31 March 2016 and of the Group's loss for the year then ended; and
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union.

Matthew Meadows

Senior Statutory Auditor
for and on behalf of Kingston Smith LLP
Devonshire House
60 Goswell Road
London
EC1M 7AD

15 July 2016

CONSOLIDATED INCOME STATEMENT
for the year ended 31 March 2016

	Note	2016 £	2015 £
Continuing operations			
Revenue	4	1,815,394	1,922,049
Cost of sales		(1,875,689)	(1,811,324)
Gross loss		(60,295)	110,725
Administrative expenses		(2,582,988)	(2,223,897)
Exceptional item	30	–	(92,626)
Operating loss		(2,643,283)	(2,205,798)
Finance income	8	373	525
Finance costs	8	(8,149)	–
Finance income – net		(7,776)	525
Loss before income tax		(2,651,059)	(2,205,273)
Income tax credit / (expense)	9	16,880	(217,855)
Loss for the year from continuing operations		(2,634,179)	(2,423,128)
Loss for the year		(2,634,179)	(2,423,128)
Earnings per share			
Basic earnings per share – continuing and total operations	10	(3.79)p	(4.75)p
Diluted earnings per share – continuing and total operations	10	(3.79)p	(4.75)p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 March 2016

	2016 £	2015 £
Loss for the year	(2,634,179)	(2,423,128)
Other comprehensive income:	–	–
Other comprehensive income for the year, net of tax	–	–
Total comprehensive income for the year	(2,634,179)	(2,423,128)
Attributable to:		
Owners of the parent	(2,634,179)	(2,423,128)
Total comprehensive income for the year	(2,634,179)	(2,423,128)

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 9.

The notes on pages 17 to 34 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 March 2016

	Note	2016 £	2015 £
Assets			
Non-current assets			
Property, plant and equipment	12	59,441	69,964
Intangible assets	13	495,771	300,167
Deferred tax asset	15	2,887	–
		558,099	370,131
Current assets			
Inventories	16	41,175	56,977
Trade and other receivables	17	529,686	660,159
Cash and cash equivalents	18	430,132	428,084
		1,000,993	1,145,220
Total assets		1,559,092	1,515,351
Equity			
Capital and reserves attributable to equity holders of the Company			
Share premium account	20	5,309,031	2,841,797
Translation reserve		(42,162)	(29,224)
Shares to be issued reserve		174,851	91,875
Retained earnings	21	(5,002,793)	(2,368,614)
Total equity		438,927	535,834
Liabilities			
Current liabilities			
Trade and other payables	22	1,120,165	965,524
Deferred tax liability	15	–	13,993
Total liabilities		1,120,165	979,517
Total equity and liabilities		1,559,092	1,515,351

The notes on pages 17 to 34 are an integral part of these consolidated financial statements.

The financial statements on pages 13 to 16 were authorised for issue by the Board of Directors on 15 July 2016 and were signed on its behalf by:

J R Blamire
Director

Company number: 1730012 (British Virgin Islands)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2016

	Note	Share premium £	Retained earnings £	Translation reserve £	Shares to be Issued reserve £	Total £
Balance at 1 April 2014		540,964	54,514	–	–	595,478
Loss for the year		–	(2,423,128)	–	–	(2,423,128)
Transactions with owners:						
Issue of share capital		2,368,333	–	–	–	2,368,333
Costs of issue of share capital		(67,500)	–	–	–	(67,500)
Translation of foreign subsidiary		–	–	(29,224)	–	(29,224)
Share options issued		–	–	–	91,875	91,875
Balance at 31 March 2015		2,841,797	(2,368,614)	(29,224)	91,875	535,834
Balance as at 1 April 2015						
Loss for the year		–	(2,634,179)	–	–	(2,634,179)
Transactions with owners:						
Issue of share capital		2,662,259	–	–	–	2,662,259
Costs of issue of share capital		(195,025)	–	–	–	(195,025)
Translation of foreign subsidiary		–	–	(12,938)	–	(12,938)
Share options issued	11	–	–	–	82,976	82,976
Balance as at 31 March 2016		5,309,031	(5,002,793)	(42,162)	174,851	438,927

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

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

The notes on pages 17 to 34 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 March 2015

	Note	2016 £	2015 £
Cash flows from operating activities			
Loss before tax		(2,651,059)	(2,205,273)
Adjustments for:			
Depreciation		22,746	8,862
Amortisation of intangibles		309,396	141,134
Share based payment		82,976	91,875
(Profit) / loss on disposal of equipment/fixtures & fittings		(109)	183
Net finance cost / (income) recognised in profit or loss		7,776	(525)
		(2,228,274)	(1,963,744)
Changes in working capital:			
Decrease / (increase) in inventories		15,802	(23,902)
Decrease in trade and other receivables		130,473	600,148
Increase / (decrease) in trade and other payables		154,641	(185,692)
Cash used in operations		(1,927,358)	(1,573,190)
Interest paid		(8,149)	–
Net cash used in operating activities		(1,935,507)	(1,573,190)
Cash flows from investing activities			
Interest received		373	525
Acquisition of property, plant and equipment		(12,414)	(69,923)
Disposal of property, plant and equipment		300	–
Acquisition of intangibles		(505,000)	(411,301)
Net cash used in investing activities		(516,741)	(480,699)
Cash flows from financing activities			
Net proceeds from issue of shares		2,467,234	2,300,833
Net cash generated from financing activities		2,467,234	2,300,833
Net increase in cash equivalents		14,986	246,944
Cash and cash equivalents at beginning of year		428,084	210,414
Foreign exchange losses on cash and cash equivalents		(12,938)	(29,274)
Cash and cash equivalents at end of year		430,132	428,084

The notes on pages 17 to 34 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March 2015

1. General information

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

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

2. Summary of significant accounting policies

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

2.1 Basis of preparation

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

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

2.1.1 Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement and Directors' Report on pages 2-8. In addition, note 23 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk. The Directors regularly review the funding position of the Group and its cash flow forecasts.

On 5 May 2016 the Group announced that it had raised net proceeds of approximately £0.96m after deducting commission and transaction related expenses through the issue of the Placing and Subscription Shares at the placing price of 4 pence per ordinary share. The Company announced the issuance of loan notes to Darwin Capital raising net proceeds of £0.495m. The loan notes have a six month term with a redemption value of £0.55m. The loan notes carry a senior fixed and floating charge over the assets of the Company.

The Directors have reviewed forecasts and budgets based on current, expected and future operating costs of the Group and are focussed on seeing the Group to cash flow break-even in the next twelve months. Key to achieving this will be the growth of the Cyber division which up to recently has been in its development phase and required significant cash resources. Revenues in the Cyber division have started to increase and the forecasts anticipate that with continued growth this division will achieve break-even within twelve months. Achieving cash flow break-even at a Group level will also be supported by enhancing the existing profitability of the Intelligence division and careful control over Group overheads. The Directors have therefore concluded that the Group has sufficient funds available to meet its commitments for at least the next twelve months from the date of the approval of these financial statements. Thus the Directors continue to adopt the going concern basis of accounting in preparing the annual financial statements.

2. Summary of significant accounting policies continued

2.1.2 New and Revised Standards

Standards in effect in 2016

The following new and amended standards, and interpretations are mandatory for the first time for the financial year beginning 1 April 2016 but are not currently relevant to the group (although they may affect the accounting for future transactions and events):

- IFRS 11, 'Joint Arrangements', effective date 1 January 2016
- IAS 16 (Amended) 'Property, Plant and Equipment' effective date 1 January 2016
- IAS 27 (Amended) 'Separate Financial Statements' effective date 1 January 2016
- IAS 38 (Amended) 'Intangible Assets' effective date 1 January 2016

IFRS in issue but not applied in the current financial statements

The following IFRS and IFRIC Interpretations have been issued but have not been applied by the Group in preparing these financial statements as they are not as yet effective. The Group intends to adopt these Standards and Interpretations when they become effective, rather than adopt them early.

- IFRS 9, 'Financial Instruments', effective date 1 January 2018
- IFRS 15, 'Revenue from Contracts with Customers', effective date 1 January 2018
- IAS 12 (Amended) 'Income Taxes' effective date 1 January 2017

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

2.2 Consolidation

Subsidiaries

Subsidiary undertakings are all entities over which the Group has the power to govern the financial and operating policies of the subsidiary and, therefore, exercise control. The existence and effect of both current voting rights and potential voting rights that are currently exercisable or convertible are considered when assessing whether control of an entity is exercised. 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 changed where necessary to ensure consistency with the policies adopted by the group.

2.3 Segment reporting

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

2.4 Revenue recognition

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

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised, when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

Class of revenue	**Recognition criteria**
Subscription fee	straight line basis over the life of the contract
Consultancy	on rendering of service to customers
Supply of products	when effective title passes to the customer
Maintenance income	straight line basis over the life of the contract
Training courses	on delivery of training course

2.5 Taxation

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

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit 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. Summary of significant accounting policies continued

2.6 Foreign Currency

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

(a) Functional and presentation currency

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

(b) Translation of foreign currencies

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

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

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

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.

Software and brand licences

Acquired software and brand licences are shown at historical cost. Software and brand licences have a finite life 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.

Other intangibles

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. Other intangible assets are amortised over 10 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 Inventory

Inventory mainly comprises of licences held for resale. They 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 assets

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

(a) Cash and cash equivalents

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

(b) Trade and other receivables

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

2.12 Share capital

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

2.13 Reserves

The Group financial statements include the following reserves: share premium account, warrants reserve and retained earnings. Premiums paid on the issue of share capital, less any costs relating to these, are posted to the share premium account.

2.14 Trade payables

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

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

2.15 Leases

Leases where the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, are charged to the income statement on a straight line basis over the term of the lease.

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

2.16 Pensions

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

2.17 Share-based payments

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

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

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

2. Summary of significant accounting policies continued

2.18 Provisions

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

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

3. Critical accounting estimates and judgements

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

Deferred tax asset

The extent to which deferred tax assets can be recognised is based on an assessment of the probability of the Group's future taxable income against which the deferred tax assets can be utilised. This is based on projected forecasts and budgets which are reviewed by the Directors and a judgement is made as to the whether the tax asset can be recognised.

Impairment of intangible assets

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

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

Management have exercised judgement in selecting the appropriate discount rate for application to intangible assets when carrying out impairment calculations and have applied a pre-tax discount rate of 20.7%.

The other intangible asset detailed in note 13 is being written down over a 10 year period with a remaining useful life of 2 years.

The directors feel that this continues to be a realistic period given that the Stirling Assynt (Europe) Limited has been trading for 8 years.

Impairment of trade receivables

Impairments against trade receivables are recognised where a loss is probable. As the business has a short trading history there is little historical evidence available to assess the likely level of bad debts and management have therefore based their assessment of the level of impairment on prior industry experience as well as the collection rates being experienced. The estimates and assumptions used to determine the level of provision will be regularly reviewed and such a review could lead to changes in the assumptions, which may impact the income statement in future periods.

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 has changed from analysing per company to analysing per division to be in line with the views of the chief operating decision maker as highlighted in the Chairman's statement. The segmental analysis of the Group's business was derived from its principal activities as set out below. The information below also comprises the disclosures required by IFRS 8 in respect of products and services as the Directors consider that the products and services sold by the disclosed segments are essentially similar and, therefore, no additional disclosure in respect of products and services is required. The other segment below and overleaf consists of the parent company's administrative operation.

Reportable segments

The reportable segment results for the year ended 31 March 2016 are as follows:

	Intelligence £	Resilience £	Cyber £	Other segment £	Total £
Revenues from external customers	1,585,915	–	229,479	–	1,815,394
Total revenue	1,585,915	–	229,479	–	1,815,394
Operating expenses	(1,387,873)	(25)	(1,779,757)	(958,880)	(4,126,535)
Finance cost-net	39	–	–	(7,815)	(7,776)
Depreciation and amortisation	(12,110)	–	(319,972)	(60)	(332,142)
Segment profit/(loss) for the year	185,971	(25)	(1,870,250)	(966,755)	(2,651,059)

The reportable segment results for the year ended 31 March 2015 are as follows:

	Intelligence £	Resilience £	Cyber £	Other segment £	Total £
Revenues from external customers	1,765,933	156,116	–	–	1,922,049
Total revenue	1,765,933	156,116	–	–	1,922,049
Operating expenses	(1,528,834)	(386,970)	(1,002,585)	(1,059,332)	(3,977,721)
Finance income	394	–	–	131	525
Depreciation and amortisation	(12,654)	–	(137,472)	–	(150,126)
Segment profit/(loss) for the year	224,839	(230,854)	(1,140,057)	(1,059,201)	(2,205,273)

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

Segment assets and liabilities as at 31 March 2016 and capital expenditure for the year then ended are as follows:

	Intelligence £	Resilience £	Cyber £	Other segment £	Total £
Total assets	696,875	40	766,378	95,799	1,559,092
Liabilities	524,844	151,007	291,824	152,490	1,120,165
Capital expenditure	4,837	–	511,894	683	517,414

Segment assets and liabilities as at 31 March 2015 and capital expenditure for the year then ended are as follows:

	Intelligence £	Resilience £	Cyber £	Other segment £	Total £
Total assets	732,809	70	507,417	275,055	1,515,351
Liabilities	400,403	226,007	162,798	190,309	979,517
Capital expenditure	3,206	–	478,205	–	481,411

4. Segmental reporting continued

Geographical information

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

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

Revenue	2016 £	2015 £
United Kingdom	993,738	883,969
Europe	343,133	518,203
Australasia	204,317	154,865
United States	143,481	169,229
Middle East	108,624	138,525
Other countries	22,101	57,258
	1,815,394	1,922,049

Non-current assets	2016 £	2015 £
United Kingdom	558,099	370,131
	558,099	370,131

Major customers

No single customer contributed 10% or more to the Group's revenue in 2016 or 2015.

5. Operating loss

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

	2016 £	2015 £
Depreciation of owned property, plant and equipment	22,746	8,862
Amortisation of intangible fixed assets	309,396	141,134
Operating lease rentals – other	–	29,908

6. Auditors' remuneration

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

	2016 £	2015 £
Remuneration receivable by the Company's auditors for the audit of consolidated and Company financial statements	18,500	18,500
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	15,500	15,500
– other services pursuant to legislation	832	16,930
– tax services	6,246	4,500
	41,078	55,430

7. Employee benefit expense

	2016 £	2015 £
Wages and salaries, including termination benefits	1,776,492	1,386,954
Social security costs	184,560	139,863
Other pension costs	6,665	7,077
Share options granted to employees	82,976	91,875
	2,050,693	1,625,769

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

	2016	2015
Researchers & analysts	11	9
SOC operations & analysts	5	2
Sales	2	2
Administration and management	15	13
	33	26

Directors' emoluments

	2016 £	2015 £
Emoluments, including benefits in kind	231,943	227,500
Pension costs	–	–
	231,943	227,500

The emoluments of the highest paid Director were as follows:

	2016 £	2015 £
Emoluments, including benefits in kind	73,333	100,000
Pension costs	–	–
	73,333	100,000

8. Finance income and costs

	2016 £	2015 £
Interest receivable	373	525
Interest payable – other	(8,149)	–
Net finance (expense) / income recognised in profit/(loss)	(7,776)	525

9. Income tax expense

Group	2016 £	2015 £
Current tax		
Current tax on loss for the year	–	–
Total current tax	–	–
Deferred tax		
Deferred tax (credit) / expense for the year	(16,880)	217,855
Total deferred tax	(16,880)	217,855
Income tax (credit) / expense	(16,880)	217,855

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

	2016 £	2015 £
Loss before tax	(2,651,059)	(2,205,273)
Tax calculated at the applicable rate based on the loss for the year 20% (2014: 20%)	(530,212)	(441,054)
Tax effects of:		
Creation of tax losses	527,693	406,247
Expenses not deductible for tax purposes	10,058	34,807
Accelerated capital allowances	(7,539)	–
Current tax on loss for the year	–	–

10. Basic and diluted earnings per share

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

	2016	2015
Earnings attributable to equity holders of the Company (£)	(2,634,179)	(2,423,128)
Weighted average number of ordinary shares in issue	69,441,528	50,992,482
Basic and diluted loss per share (pence per share)	(3.79)	(4.75)

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. 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 the year ended 31 March 2016, 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.

11. Share based payment expense

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

	2016		2015	
	Average exercise price (pence)	Options	Average exercise price (pence)	Options
At 1 April	42.88	2,106,583	–	–
Granted	14.50	100,000	42.88	2,106,583
Forfeited	28.00	(135,714)	–	–
Exercised	–	–	–	–
Expired	–	–	–	–
At 31 March	42.48	2,070,869	42.88	2,106,583

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

Expiry date – 31 March	Exercise price (pence)	Shares 2016	Shares 2015
2017–2023	–	–	–
2024	44.5	1,899,440	1,899,440
2024	28.0	71,429	207,143
2025	14.5	100,000	–
		2,070,869	2,106,583

The weighted average fair value of the 100,000 (2015: 2,106,583) options granted during the year was determined using the Black-Scholes option pricing model and was 11.60 pence per option (2015: 10.70p). The significant inputs to the model were exercise price as shown above, an expected option life of three and a half years, expected volatility of 50% and a risk-free rate of return estimated between 1.2% and of 1.59%. The volatility is based on analysis of the volatility of the company's historical share price.

The total share-based payment expense recognised in the income statement in respect of share options granted to directors and employees is £82,976 (2015: £91,875).

12. Property, plant and equipment

	Fixtures and fittings £	Computer equipment £	Total £
Cost			
At 1 April 2015	46,402	40,559	86,961
Additions	1,780	10,634	12,414
Disposals	–	(1,061)	(1,061)
At 31 March 2016	48,182	50,132	98,314
Depreciation			
At 1 April 2015	2,272	14,725	16,997
Charge for the year	9,607	13,139	22,746
Released on disposal	–	(870)	(870)
At 31 March 2016	11,879	26,994	38,873
Net book value			
At 31 March 2016	36,303	23,138	59,441
At 31 March 2015	44,130	25,834	69,964

13. Intangible assets

	Software and brand licences £	Other intangibles £	Total £
Cost			
At 1 April 2015	411,301	75,000	486,301
Additions	505,000	–	505,000
At 31 March 2016	916,301	75,000	991,301
Amortisation and impairment			
At 1 April 2015	133,634	52,500	186,134
Amortisation charge for year	301,896	7,500	309,396
At 31 March 2016	435,530	60,000	495,530
Net book value			
At 31 March 2016	480,771	15,000	495,771
At 31 March 2015	277,667	22,500	300,167

The other intangible asset arose as a result of the purchase of Assynt Associates by Stirling Assynt (Europe) Limited in April 2008. The customer base acquired consisted of a number of companies that subscribed to the Stirling Assynt (Europe) Limited reporting service.

Impairment review

The Group has undertaken an impairment review of cash generating units (CGU's) and has identified CGU's subject to impairment testing, listed below.

Business	Subsidiary
Cyber security	Falanx Assuria Limited

Management performed impairment testing of software and brand licences at the balance sheet date. The recoverable amount of software and brand licences relating to this operation is determined based on a value in use calculation which uses future cash flow projections over the estimated useful life (see note 2.8).

Key assumptions

Cyber Security

In determining value in use, financial and business forecasts have been prepared by management and approved by the Board. These forecasts also indicate growth rates that increase by various rates throughout the forecasted period. Management used pre-tax discount rate of 20.7% in estimating the value in use.

The key assumption used in the value in use calculations is the level of future cash flows estimated by management over the budget period, which does not exceed 4 years. Management notes that a 4% increase in the discount rate or a 4% reduction in expected revenues would not give rise to impairment.

Following the impairment testing of the CGU the Directors do not believe that the carrying value of software and brand licences need to be impaired and, hence, no charge has been made. However, if the business model is not successfully implemented, the carrying value of the intangible assets may be impaired and may require writing down in the future.

14. Subsidiaries

Principal subsidiaries

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

Name	Country of incorporation	Nature of business	Proportion of ordinary shares held by parent
Stirling Assynt (Acquisition) Limited	British Virgin Islands	Holding of investments	100%
Stirling Assynt (Europe) Limited	England and Wales	International business intelligence consultancy	100%
Stirling Risk (Asia) Limited	Hong Kong	Provision of risk assessments and investigation services	100%
Falanx Assuria Limited	England and Wales	Cyber defence solution	100%
Falanx Protection Limited	British Virgin Islands	Blast protection and security consultancy	100%
FG Consulting Services DMCC	United Arab Emirates	Management consultancy	100%
Falanx UK Limited	England and Wales	Dormant	100%

Falanx UK Limited is in the process of being dissolved.

15. Deferred taxation

	2016 £	2015 £
Group		
Balance at 1 April	(13,993)	203,862
Credit / (expense) to the income statement	16,880	(217,855)
Balance at 31 March	2,887	(13,993)

The deferred tax asset / (liability) represents:

	2016 £	2015 £
Decelerated / (accelerated) capital allowances	2,887	(13,993)
	2,887	(13,993)

In the year ended 31 March 2014 a deferred tax asset in respect of Group trading losses was recognised on the expectation of related entities generating sufficient trading profit. In the year ended 31 March 2015 the deferred tax asset was de-recognised on the basis of the uncertainty of the timing of the trading profit. A deferred tax asset, in respect of Group trading losses of £5.48m (2015: £2.76m), has not been recognised on this basis.

In accordance with IFRS, 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 balance sheet date.

The above deferred tax liability was calculated based on the expected UK corporation tax rate of 19% (2015: 20%), being the rate which is expected to apply in the future when the liability is settled.

16. Inventories

	2016 £	2015 £
Work in progress	8,100	23,902
Finished goods	33,075	33,075
	41,175	56,977

17. Trade and other receivables

	2016 £	2015 £
Trade receivables	368,975	263,447
Less: provision for doubtful receivables	–	(6,225)
	368,975	257,222
Other receivables	51,227	158,067
Prepayments and accrued income	109,484	244,870
	529,686	660,159

Trade and other receivables are stated at fair value.

18. Cash and cash equivalents

	2016 £	2015 £
Cash at bank and in hand	430,132	428,084
Cash and cash equivalents in statement of cash flows	430,132	428,084

19. Share capital

	2016		2015	
	Number of shares	Nil par value	Number of shares	Nil par value
Allotted, called up and fully paid at 1 April	52,176,804	–	39,704,583	–
New shares issued	19,078,564	–	12,472,221	–
Allotted, called up and fully paid at 31 March	71,255,368	–	52,176,804	–

On 8 May 2015 the Company announced the issue of 18,878,564 new ordinary shares of no par value at a price of 14 pence each raising net proceeds of £2.49m after deducting commission and transaction related costs. £500,000 of the subscription proceeds was used to extend the global licence agreement with Assuria Limited with the remainder used for continued sales and marketing development of Falanx's cloud-based cyber managed services.

On 22 September 2015 the board resolved to issue 200,000 shares at a market price of 9.63 pence each to E Shaw (Non-Executive Director) in fulfilment of her 2013 appointment package.

At 31 March 2016 a total of 5,493,058 warrants issued to various shareholders remained outstanding. 937,500 were issued at an exercise of price of 18 pence per share expiring on 23 September 2016 and the remaining 4,555,558 were issued at an exercise price of 30 pence expiring on 17 April 2017.

20. Share Premium

	2016 £	2015 £
At 1 April	2,841,797	540,964
Premium on issue of shares	2,662,259	2,368,333
Costs of share issue	(195,025)	(67,500)
At 31 March	5,309,031	2,841,797

21. Retained earnings

	2016 £	2015 £
At 1 April	(2,368,614)	54,514
Loss for the year	(2,634,179)	(2,423,128)
At 31 March	(5,002,793)	(2,368,614)

22. Trade and other payables

	2016 £	2015 £
Trade payables	489,981	458,333
Other payables	11,454	11,619
Taxation and social security	93,286	45,478
Accruals and deferred income	525,444	450,094
	1,120,165	965,524

23. Financial instruments

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

Market risk

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

Loans and receivables

	2016 £	2015 £
Trade and other receivables	420,202	285,903
Cash and cash equivalents	430,132	428,084
	850,334	713,987

Trade and other payables

	2016 £	2015 £
Trade and other payables	501,435	469,952
	501,435	469,952

23. Financial instruments continued

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting these obligations associated with financial liabilities.

The responsibility for liquidity risks management rests with the Board of Directors, which has established an appropriate liquidity risk management framework for the management of the Group's short-term and long-term funding and liquidity requirements.

The Group manages liquidity risks by maintaining adequate reserves by continuously monitoring monthly expected forecasts and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

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

	2016 £	2015 £
Trade and other payables due in:		
Less than one month	147,836	460,785
Six months to one year	353,599	9,167
Total	501,435	469,952

Credit risk

Credit risk is the risk that a counter-party will cause a financial loss to the Group by failing to discharge its obligation to the Group.

The Group manages its exposure to this risk by applying Board approved limits to the amount of credit exposure to anyone counter-party and employs strict minimum credit worthiness criteria as to the choice of counter-party thereby ensuring that there are no significant concentrations of credit risk.

The carrying amount of financial assets represents the maximum credit exposure; therefore, the maximum exposure to credit risk at the statement of financial position date was £850,334 (2015: £843,373). The amount represents the total of the carrying amount of current assets.

The maximum amount exposure to credit risk for trade receivables at the balance sheet date was £368,975 (2015: £257,222). 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; therefore credit exposure is considered minimal.

Credit quality of financial assets

The Group's credit risk is mainly attributable to trade receivables. The Group's customers are spread across a wide range of industries and service sectors and consequently the Group is not exposed to material concentrations of credit risk on trade receivables with there being a preponderance of blue chip companies.

The credit quality of financial assets can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

		2016 £	2015 £
Cash at bank and short-term deposits			
Counterparties with external credit rating (Moody's)			
A2	Barclays Bank plc	109,388	10,263
Aa2	HSBC Bank	308,741	365,601
Baa2	Mashreq Bank	10,731	51,162
Total		428,860	427,026

Foreign currency risks

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

Financial assets

	Sterling £	US Dollar £	Euro £	Hong Kong Dollar £	Emirati Dirham £	Total £
At 31 March 2016						
Cash and cash equivalents	178,020	153,630	97,894	588	–	430,132
Trade receivables	247,728	99,217	22,030	–	–	368,975
Other receivables	49,176	–	–	1,862	189	51,227
	474,924	252,847	119,924	2,450	189	850,334

Financial liabilities

	Sterling £	US Dollar £	Euro £	Hong Kong Dollar £	Emirati Dirham £	Total £
At 31 March 2016						
Trade payables	473,544	–	16,256	181	–	489,981
Other payables	11,454	–	–	–	–	11,454
	484,998	–	16,256	181	–	501,435

Foreign exchange sensitivity analysis

A 10% strengthening of £ sterling against the above currencies would increase the loss by £35,897 (2015: £30,209) in the coming financial year.

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

24. Capital risk management

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

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

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

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

Other risks management

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

25. Pension

The Group does not operate a Group pension scheme. However, one of its subsidiaries, Stirling Assynt (Europe) Limited, contributes 8% of the gross salary of one of its employees to a pension scheme of employee's choice. The total contributions for the year were £6,665 (2015: £6,400).

26.Financial commitments

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

	2016 £	2015 £
Due within one year	77,096	70,115
Between two and five years	8,125	27,625
	85,221	97,740

Operating lease payments represent rentals payable by the Group's subsidiaries (Stirling Assynt (Europe) Limited and Falanx Assuria Limited) for its office premises at The Europoint Centre in London and Green Park in Reading respectively.

27. Control

No ultimate party controls Falanx Group Limited.

28. Related party transactions

The following transactions were carried out with related parties during the year:

Payment for services

Andrea Barclay, the partner of K P A Barclay, previously Executive Chairman was paid £12,100 (2015: £10,650) in respect of research and report writing for Stirling Assynt (Europe) Limited.

Fees and commissions

In 2015 the Company paid KC Investments Limited (a shareholder) £21,250 representing a 5% commission on funds raised from third parties in September 2013 and April 2014.

29. Events after the reporting period

Equity transactions

On 5 May 2016 the Company announced the issue of 25,106,250 new ordinary shares of no par value at a price of 4 pence each raising net proceeds of £968,205 after deducting commission and transaction related costs. The subscription proceeds to be used in funding the acquisition of Advanced Security Consulting Limited ('ASC') with the remainder to be used for continued sales and marketing development of Falanx's growth strategy. Share subscribers were granted a 1 for 1 warrant with an exercise price of 6 pence each and a three year time to expiry.

On 5 May 2016 the Company announced the issue of 7,125,536 new ordinary shares of no par value at a price of 4 pence each to J D Abbott in partial fulfilment of the consideration for the acquisition of ASC.

On 11 May 2016 the Company announced the issue of 2,125,000 new ordinary shares of no par value at a price of 4 pence each to M D Read and D P Carr (directors of the Company in the year). 1,250,000 shares were issued to M D Read on a cash subscription basis raising £50,000 proceeds. 875,000 shares were issued to D P Carr in lieu of accrued directors fees of £35,000. The Directors were granted 1 for 1 warrant with the same terms as the share placing participants of 5 May 2016.

Business Acquisition

On 5 May 2016 the Company announced the acquisition of ASC from J D Abbott. The purchase consideration was satisfied partly by shares and cash payment of £150,000 with a deferred payment for net assets on satisfactory review of completion accounts.

On 1 June 2016 the Company paid £48,739 in settlement of the deferred consideration to J D Abbott for the net assets transferred from ASC to the Group.

Loans

On 5 May 2016 the Company announced the issuance of loan notes to Darwin Capital Limited raising net proceeds of £495,000. The loan notes have a six month term with a redemption value of £550,000. The loan notes carry a senior fixed and floating charge over the assets of the Company.

New Business

On 11 May 2016 the Company announced a new Cyber Security contract win. Falanx Cyber has been contracted by The Health Foundation to provide protection for the core networks of the Foundation to ensure data privacy and network assurance. The contract was won through the consultancy process of ASC.

30. Exceptional item

In 2015, the Group settled a legal dispute with a consultant sub-contractor. The Group incurred £92,626 in legal fees and settlement costs.

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