Watchstone.

Watchstone Group plc

Annual Report and Financial Statements for the year ended 31 December 2016

In this year's Report

Key Summary

Financial:

- Underlying* business revenues increase to £60.7m (2015: £54.9m)
- Total revenues rise to £63.8m (2015: £58.8m)
- Underlying EBITDA** loss of £9.8m (2015: loss of £15.1m)
- Group operating loss of £20.9m (2015: £177.6m)
- Total loss after tax £69.1m (2015: profit of £274.9m) including £50.1m impairment of escrow receivable
- Group net assets (excluding contingent liabilities) of £68.5m (2015: £137.1m) representing approximately 147 pence per share. Group reported net assets no longer includes the escrow receivable following impairment
- Group cash including term deposits at 31 December 2016 of £81.2m (2015: £103.2m)

* Underlying includes Hubio, ingenie, Healthcare Services, BAS and Central

** EBITDA is Earnings Before Interest Tax Depreciation Amortisation and Impairments. A reconciliation of statutory measures to alternative measures can be found in note 5.

Operational:

- Group complexity reduced with disposal or closure of a number of loss making, cash consumptive businesses
- Growth and profitability delivered in our largest businesses, ptHealth and ingenie
- Reshaping of Hubio completed including substantial reduction of cash requirements and the launch of our new UBI proposition based on ingenie's leading IP
- Plan to prepare all remaining businesses for potential divestment and establish new way of working with the substantially reduced central team/Board by the end of 2017

Chairman's Report

2016 was another busy year for Watchstone as we continued to work through operational and organisational change while dealing with a multitude of legacy legal and taxation matters.

Although timing is beyond our control for most of our legacy matters, it is disappointing we have not yet definitively resolved a number of these issues facing the Group. We continue to seek to do this as soon as practical whilst always ensuring that we focus on the interests of our shareholders.

Throughout the year, we disposed of or closed a number of businesses which were loss making, consumed cash and presented no opportunity for additional shareholder value. The executive team was active across our businesses and we exited our property services interests, disposed of Quintica, closed and sold the assets of Road Angel Group and closed Maine Finance.

At the same time, revenues of our underlying businesses increased and losses were significantly cut.

It is pleasing to note that both ptHealth and ingenie are now profitable and growing well with strong opportunities for profit improvement from organic growth and margin enhancement. The challenge of shaping Hubio has been met and is explained in the Group Chief Executive's Update.

Under the leadership of Indro Mukerjee, who joined Watchstone as Group Chief Executive Officer in September 2015, we are now well placed to move to a much simpler and significantly reduced cost group structure by the end of 2017.

All remaining businesses will be prepared for divestment. In readiness for possible disposal, each business will have its own dedicated management team to enable them to operate without the levels of Group management involvement that have been required so far. Watchstone's companies will be shaped to operate more autonomously, with Watchstone taking a more strategic role rather than seeking to operate the businesses. Any potential divestment or any alternative strategic option will be determined with a view to maximising shareholder value.

As a result, Watchstone will be run by a much smaller team and Board from the start of 2018 and Indro and I are working together to shape the makeup of that structure. The main responsibility of the streamlined Watchstone will be to manage the divestment process (for those businesses remaining) and bring the legacy issues to their conclusion with a view to enabling the maximum amount of cash to be returned to shareholders at the earliest possible opportunity.

Following the planning and delivery of this strategic reshaping, Indro has informed the Board of his intention to leave the Group on completion of the planning and delivery of this strategic reshaping and will resign from the Board, both as of 31 December 2017. It was always part of our plan to have a CEO who could navigate the legacy issues as well as provide a strong and stable platform for Watchstone and its businesses to generate value for shareholders and I know that Indro will continue that work until his departure.

I would, once again, like to take this opportunity to thank all our colleagues for their commitment and hard work. I would also like to thank our investors who have been patient and maintained support for the Company as the intense work to deliver the best possible value from our assets has continued. The Board remains confident that we will go on to reward that support.

Richard Rose
Non-executive Chairman

Group Chief Executive's Update

After some 20 months with the Group, I can confidently say that, with the rather broad set of things to do, there has never been a dull moment.

My starting point has been well documented and the following three elements have been at the heart of my work from the beginning: setting a strategic direction for our businesses; working to reduce the Group's cash losses; and promoting uncompromising standards of governance.

Working with high calibre Board colleagues, the governance aspects of what we do as a company and how we do it have been developed to high standards. While realising that shareholders should be able to take this for granted, it should be noted that it took significant work and determination to get to this point.

Given the scale of the cash losses, it was an obvious priority to focus on addressing those quickly after I started. Over the course of 2016, some £14m of losses were eradicated through a combination of cost savings and cessation of entire activities.

For our businesses, the focus of 2016 was about rationalising what was a diverse starting point and working in the businesses on practical actions to get the best out of them. In order to be able to communicate performance clearly to shareholders, the income statement, including the comparatives, splits the Group between underlying and non-underlying activities with the latter category including business activities which do not form part of the Group's future focus. Today, the Group's underlying businesses are Healthcare Services (ptHealth including InnoCare), ingenie, Hubio and BAS.

With increased sales focus and tight cash management, we were able to show underlying sales growth of approximately 11% and to reduce the underlying EBITDA loss to (£9.8m) in 2016 vs. (£15.1m) in 2015. The full year benefits of the restructuring during 2016 are not fully reflected in the 2016 numbers and so our EBITDA losses for 2017 will be significantly lower once again.

At all times, I have done my best to consider the inevitably broad range of shareholder (both institutional and private) opinions and the feedback from our owners has helped to shape our actions. We have placed a significant emphasis on cash management and this was always the main reason for the cessation of certain activities in the Group.

With the exception of parts of Hubio, our businesses now no longer consume cash on an ongoing basis. Within Hubio, the enterprise and Canadian iter8 insurance software businesses became cash neutral within 2016 and only the telematics side of the business consumed cash while its real business prospects were being fully and now conclusively evaluated in what is a fast-changing market.

Business Review:

Now, taking each of the operating businesses in turn:

1. Healthcare Services

Our Healthcare Services activities consist of our ptHealth clinics business as well as InnoCare, which was launched in Spring 2016 to sell software and services to independent clinics in Canada. With significant effort and focus, Healthcare performed well in 2016, with revenue increasing by 12% and EBITDA turning profitable.

During 2016, ptHealth clinics treated a record number of patients and through strong operational improvement and selective clinic divestments, all clinics are now profitable. ptHealth clinic revenue increased some 7% (even with fewer clinics) and EBITDA increased by 21% compared with FY2015, reflecting operational improvements.

ptHealth is on target to continue the positive momentum in both top line revenue, patient treatments and assessments and clinic capacity utilisation during 2017.

InnoCare comprises:

- InnoCare SaaS, a market leading services and software package designed as a complete solution to clinics has increased its revenue by 101% when comparing Q1 2016 before InnoCare launch to Q1 2017; and
- InnoCare Charting, a digital charting platform to help clinicians be more efficient and thereby treat more patients has led to considerable media attention in Canada, bringing first of its kind solutions to the marketplace.

InnoCare has been developing momentum, including growth in network revenue up 17% over the prior period. From September 2016, investment in sales and business development has resulted in a substantial growth in its sales pipeline.

Group Chief Executive's Update (continued)

As commented in the pre-close trading update released on 19 January 2017, the required investment in InnoCare's products and associated marketing will impact the overall Healthcare Services' earnings for the immediate future. However, we still expect it to be profitable and cash generative in 2017.

Healthcare Services in 2016 at a glance

- In 2016, ptHealth treated an average of 3,000 patients a day
- Of the 2,958 patients surveyed 96% said they would recommend us
- Over 1,200 Practitioners use InnoCare software. Software sales were up 33% in 2016
- In 2016, our central call centre took a record 71,093 calls, made 52,156 new patient appointments and cared for 71,543 new patients
- 1,250 people a day visit our ptHealth/InnoCare websites
- Recent Q1 2017 PR for InnoCare has led to an 11% growth in sales pipeline for InnoCare products

2. Hubio

Hubio was launched at the start of 2016 to operationally pull together three previously disparate insurance software businesses and to evaluate opportunities for value creation. Hubio has been the business area which most polarised shareholder opinion and I owed it to all shareholders to pay particular attention to this business and so have been its CEO since creation.

Through working in this business and meeting customers, prospects and peers, the following elements became clear:

- Our telematics business was not able to profitably challenge larger and established players who had acquired market share;
- The telematics market was already moving rapidly to mobile solutions and we could not find a business case for the previously developed mapping technology; and
- There was no compelling market for 'end to end' Usage Based Insurance (UBI) solutions. This meant we could only find limited synergies between the telematics and enterprise software parts of Hubio and therefore the overall Hubio cost base was significantly out of line with its opportunities and so strong measures had to be taken.

So, 2016 became about reshaping the Hubio organisation to improve efficiency and to establish the best way to develop value. Naturally, I was deeply involved with both the restructuring and with new business initiatives, meeting with customers and industry commentators as well as guiding our employees.

With these actions, in addition to those taken since the end of 2016, (including the closure of our Dundee operation and the downsizing of our US telematics team), Hubio's cash needs were reduced from over £11.0m in 2015 to under £5.5m on an annualised basis by the end of 2016. With the full impact of last year's savings and the recently announced closure of Dundee and the further downsizing of our US telematics group, overall Hubio cash needs will be substantially lower in 2017.

With these changes, today we have the following businesses under the Hubio brand:

- **Hubio Enterprise:** This is our insurance claims and policy software business which is now operating profitably with well proven, award winning technology; a significantly increased sales pipeline; increased market recognition; and a clear strategy.
- **Hubio Exchange:** This is our technology solutions business in Canada which has been downsized and completely reoriented back to its niche iter8 insurance platform. It recently announced its Guidewire partnership and has developed its well-proven technology to be SaaS ready.
- **Hubio Fleet:** We launched this Fleet focused business using our telematics platform in September 2016. Since then we have developed an active book of 2,500 active subscriptions and a growing pipeline of opportunities. Through a lot of rapid learning since launch and following the decision to streamline our own software development resources, we have decided to work with an external technology partner to improve our Fleet solution which will be taken to market through the commercial team we have built. This improved solution has been recently launched and our objective is to rapidly increase the size of our active subscriber base.

- **Hubio Telematics:** I have already shared my disappointment with the development of the UBI activities in communications with shareholders. Whilst it is clear the US UBI market is growing, it is also evident that it is difficult to profitably break into this market without significant cash investment with an uncertain ROI. Given that we started with two legacy platforms, with the Hubio one not offering event scoring, we decided that our updated UBI proposition should be based on our successful ingenie platform. Engagement with US and European customers and prospects will now be managed within the ingenie team, but going to market under the recognised name "Hubio Telematics".

3. ingenie

There was a successful focus on ingenie business development in 2016 resulting in a 17% increase in new business sales and 22% increase of in force policies, compared with 2015. ingenie is now profitable and generating cash. Customer engagement and retention were both increased through ever improving use of social media which is one of the important differentiators for this business.

The ingenie business was split into two parts during 2016 to best focus on developing clear value propositions for its essential elements of the broker business as well as technology and services development.

The ingenie broker business, which deals direct with UK based consumers, is profitable and is expected to increase revenue further during 2017 through organic growth and with newly developed products, which will be announced to the market when released. These will create new product brands, stronger social content and target demographic awareness and revenue and Gross Written Premium (GWP) growth for our insurance propositions. As our products develop, we will establish broader and additional underwriting partnerships to address our new market propositions.

The ingenie technology division will be branded Hubio Telematics and manage relationships with UBI business customers and prospects, offering the transformational impact of ingenie's exceptional driver engagement along with its powerful algorithms to help insurers and their customers. Beyond the ANWB contract and relationship which has been successfully growing, Hubio Telematics will also target engagements in the US and other European countries with any partners that can deliver fast growing programs and cash generative, profitable business for us.

Our ingenie business has strong technological and marketing capabilities in both its broker and technology divisions and operates within a space which is growing. We have a strong sense of the expansion actions necessary to grow revenue and make the operational improvement to improve the bottom line.

ingenie in 2016 at a glance

- GWP increased by 22%
- Exceptional consumer engagement achieved by the combination of technology and psychology:
  - 99% ingenie drivers activate their feedback account
  - ingenie drivers engage 9x per month via feedback app
  - ingenie drivers have 40% fewer crashes than the national average
  - 90% drivers proven to improve after ingenie coaching
- Facebook and Twitter followers exceed 50,000
- Social traffic to ingenie.com has increased by 58% over previous year
- Traffic to ingenie Young Drivers Guide has doubled over the course of 2016
- Hubio Telematics systems have managed over 150,000 policies over the last 5 years
- Collects over 2.5 million miles of driver trip data every day

Group Chief Executive's Update (continued)

4. BAS

In 2016, BAS launched a new division targeting larger corporate opportunities in addition to its traditional base of SME customers. The first major corporate customer was won (providing energy procurement services for Suffolk County Council) and a further pipeline has been developed with an expectation for additional wins during 2017. Total new business sales were a record and up approximately 30% vs. 2015 resulting in the revenue growth seen in the accounts section of this report. In addition to launching the new corporate division, 2016 also saw major efforts in improving the IT and operational processes of the business and restructuring some of the South African sales teams. Despite the strong revenue growth in 2016 the business continues to operate in a competitive and mature market.

Update on legacy matters

It is well recognised that we have continued to deal with a substantial number of legacy matters.

Whilst we successfully resolved a number of historic matters in the year (and since year end), in September 2016, Slater & Gordon ("S&G") notified us of a purported claim in respect of its acquisition of our Professional Service Division which completed in May 2015. In November 2016, S&G obtained an opinion from an independent barrister in respect of the warranty escrow that based solely on the information presented to him (and on the assumption that no further evidence would be provided) that the purported claim has on balance a prospect of success and that, if successful, such claim would be likely to have a value of £53.0m ("Opinion"). Accordingly, £50.1m (including interest) is retained in the warranty escrow account until the purported claim is resolved ("Warranty Escrow").

Whilst Watchstone's view as to the lack of merits of the purported claim has not changed, on the basis of the Opinion, we consider it appropriate that a provision for impairment be established in respect of the Warranty Escrow and have determined that the appropriate amount should be to fully impair the Warranty Escrow. This reflects the inherent uncertainty in valuation of the purported claim and is in no way a reflection of the Group's view on ultimate resolution, which is uncertain in both time and quantum (if any).

As yet no proceedings have been brought and the Group will defend such claim robustly if commenced.

We remain in active dialogue with S&G on a number of other matters including the performance of the noise induced hearing loss ("NIHL") cases to which deferred consideration is due when, and if, such cases are profitable. To date, no deferred consideration has been paid.

The SFO investigation which was launched in August 2015 into historic matters remains on-going and we continue to co-operate fully with it. It remains the only regulatory enquiry to which the Company is subject.

We will continue our efforts to resolve these matters and will do so with a priority and focus on protecting shareholder interests.

2017 Outlook and strategic plans

Changing the company name to Watchstone in November 2015 was much more than a cosmetic event. Since then, we have developed clear plans for our underlying operating businesses with strong financial controls. We are continuing to work on addressing our legacy corporate matters with clarity and determination. At the same time, and realising that all the underlying businesses are going through improvement paths, I am always mindful of the best way to deliver best possible shareholder value. Our actions and improvements means the businesses have entered 2017 in a stronger position than they did in 2016.

I believe that we will best serve our shareholders by realising the value of our operating businesses (through sale, merger/demerger or IPO) at the optimal time; by managing legacy matters in the most efficient manner; and then to return the maximum cash to shareholders at the earliest opportunity subject always to the need to ensure the interests of creditors are adequately safeguarded (including in respect of any contingent liabilities).

As such, I have recommended, and the Board has agreed, a plan of action which will result in completing the phase I started in September 2015 and moving Watchstone into its next phase by the end of 2017.

Any businesses held beyond 2017 will be cash generative and will not need constant operational management by Watchstone, as has been the case so far. This will mean that any retained businesses will have their own complete management teams, clear business plans with milestones as well as systems and controls which will allow Watchstone to manage them as a shareholder rather than as an operator. This will enable a smaller Board/central team to divest of such companies more easily and quickly when the time is right.

Over the remainder of 2017, work will be done to either sell the operating businesses or develop them to a state where they can be managed as described above. There will also be work to re-shape the Board and further reduce the central team. The completion of this work by the end of this year will be a significant milestone for the Group.

On a personal level, this will signify the end of my work with the Group. I have informed my colleagues of my intention to stand down as Group CEO and resign from the Board, both as of 31 December 2017.

Since becoming Group Chief Executive Officer, it has been my intention to get the Group's businesses into the best possible position, while dealing with an array of legacy issues and challenges. I believe that the Board's work to date and the plan for the rest of this year will give shareholders a much better platform for the future than they had in 2015.

Shareholders will receive a further update on this plan on 27 June 2017 in our AGM statement. The AGM itself will be held in London on that day and notice will be sent to shareholders in due course.

There is a much still to be done and I would like to thank our employees for their commitment and our shareholders for their support.

Indro Mukerjee
Group Chief Executive Officer

Strategic Report

1. Business Review

1.1 About Watchstone

Watchstone Group plc is a company focused on managing the Group's operating, cash and other corporate assets in order to achieve the maximum shareholder value possible, whilst ensuring good governance.

The Group has technology at its core and our businesses offer leading technology solutions and other services primarily to the insurance, automotive and healthcare sectors. While we have a diverse portfolio, our operating businesses are unified by a set of shared commercial principles:

- We seek to anticipate change and we have the agility to exploit the dynamism of customer behaviour;
- We invest in the people and technologies that will drive innovation and success in our markets;
- We promote in-depth sector knowledge and experience as the starting point of value creation; and
- We strive for efficiency across our businesses through the optimal allocation of resources and good governance.

The individual businesses and segments in which they operate are set out below:

Hubio

- provides integrated solutions to help organisations in the insurance and automotive sectors increase efficiency, reduce claims, build customer engagement and enable usage-based personalisation.
- through the innovative use of telematics and enterprise technologies, Hubio is bringing new levels of data-driven insights to the insurance and automotive industries, while challenging and redefining established business models.

Healthcare Services

- ptHealth is a national healthcare company that owns and operates physical rehabilitation clinics across Canada. From large cities to small communities, ptHealth takes pride in delivering quality services in a compassionate and patient-centered atmosphere that is focused on providing recovery solutions for its patients.
- InnoCare is a proprietary clinic management software platform and call centre and customer service operation based in Canada. InnoCare uses its established industry expertise to enable clinic owners to transform their patient's experience and operate more efficient and productive practices in the growing North American healthcare market.

ingenie

- is an insurance broker focused on helping young drivers get on the road safely and affordably. Using telematics technology, ingenie gives its community feedback, bespoke advice via its Driver Behaviour Unit and discounts to help them improve their driving skills and stay safe.

BAS

- is one of the UK's leading energy brokerages providing a range of energy services to UK companies – including procurement, energy audit, monitoring and targeting and data sampling.

1.2 Overview of 2016

On 1 January 2016, the Group had £103.2m of cash, having successfully concluded the reduction of capital and capital return in December 2015.

During the year, the Group resolved the future of a number of businesses that were loss making and not considered to be part of the Group's future:

- In January, BE Insulated (UK) Limited ("BEI") and Carbon Reduction Company (UK) Limited ("CRC") were sold, which concluded the closure of the Property Services division, following an earlier restructuring during 2015. Full details of the disposal are shown in 1.5.2 below;
- In March, Quintica Holdings Limited ("Quintica") was sold in its entirety, details set out in 1.5.1 below;
- We ceased the distribution of personal life assurance in Maine Finance in June and small business life insurance in August and we are now managing any ongoing commission clawback matters, minimising any cash outflows; and
- In September, we closed the consumer B2C elements of Road Angel Group ("RAG") and sold its remaining assets.

In January 2016, we launched Hubio, rebranding a number of our insurance technology businesses.

In Q3 2016, we executed a substantial restructure of the Hubio businesses resulting in a reduction in the expense base of £3.0m.

InnoCare launched in Q2 2016 and has since been developing momentum, including growth in the network to 167 clinics from 152 clinics. From September 2016, investment in sales and business development has resulted in a substantial growth in its sales pipeline. InnoCare Charting, a market leading software tool to help clinicians be more efficient and so treat more patients was launched in November 2016. We have built upon this platform during the year with capitalised and other spend of £2.0m, and delivered incremental revenues of £0.6m.

ingenie's focus has been to create two distinct business lines and maximise the potential for profitable growth:

- an insurance broker, working with a panel of insurers, with expert marketing skills to attract the new drivers and utilising technology to reduce driver risk and therefore the likelihood of claims; and
- ingenie service organisation providing a B2B operational and technology platform service to organisations with either their own distribution and customer base. One external customer, ANWB, was successfully secured and implemented during the year, demonstrating the applicability and replicability of the model.

At the corporate level continued progress has been made in addressing the historical issues, liabilities and assets.

Certain potential assets and liabilities are not recognised in the Financial Statements due to their uncertainty. Amounts will be recognised in line with applicable standards if and when appropriate certainty is evident:

- Contingent assets include recoveries on customer contractual matters, vendor warranties relating to taxation on company purchases treated as share based remuneration and litigation in progress; and
- Contingent liabilities include potential fines that may be levied should the SFO investigation lead to an adverse outcome and potential damages should the purported class action litigation succeed. These are disclosed but no liability is recognised.

Escrow amounts related to the sale of the Professional Services Division ("PSD")

On 29 May 2015, the Group disposed of the PSD to Slater and Gordon UK (1) Limited for a total consideration of £644.9m, of which £55.0m was retained in escrow.

Of the £55.0m held in escrow, £5.0m related to a completion mechanism, of which £3.8m was received during 2016. The remaining £50.1m (including interest) remains in a joint escrow account pending resolution of S&G's purported warranty claim.

For the reasons stated in the Group Chief Executive's Update, and notwithstanding that the Group's view as to the lack of merits of the purported warranty claim has not changed, on the basis of the Opinion, we have established an impairment provision for £50.1m (being the full amount of the Warranty Escrow including interest) and reflected it as a net off the balance resulting in a £nil carrying amount as at 31 December 2016.

Conduct of taxation matters

Whilst the Group will continue to manage its liability to HMRC in respect of historic matters, a prudent approach continues to be taken to such matters. During the year settlement took place in relation to £2.5m, resulting in a deemed payment and release of provisions. In 2017, we expect there to be further settlement of the majority of remaining matters.

Litigation

Litigation relating to Navseeker Inc./Evogi settled during the year and resulted in cash payments of £2.3m to shareholders and a net provision release of £1.6m. In addition, litigation relating to Loft Space Insulation was settled after the year end resulting in a net provision release of £0.3m.

Property

During the year, as the remaining PSD operations moved out and the other Group businesses operating out of our Fareham building were either closed or sold, we relocated the remaining Finance staff to other offices and commenced a marketing exercise to dispose of the property. We expect to conclude a sale of this property this year.

1.3 Overview of Financial Statements

The Financial Statements are presented on pages 30 to 99.

An overview of the main factors which have influenced the Financial Statements are:

- **Disposal and closure of loss making businesses** has resulted in the reclassification of these businesses from underlying into non-underlying. Classification as non-underlying results include the income and expenses of businesses not forming part of the long term plans for the group and as such are being wound down or disposed of. Businesses meeting this criterion which also meet the definition of a discontinued operation under IFRS 5 have been further classified as discontinued operations within the non-underlying results.

Strategic Report (continued)

- **Resolution and settlement of historical issues** has progressed such that provisions now stand at £28.2m a net reduction of £8.8m, being settlements utilisation of £7.0m and a net release of provision no longer required. This is evidence of both our approach to preparation of the Group's financial statements and also our diligence in ensuring we minimise the ultimate cost of resolution.
- **Impairment of warranty escrow** by £50.1m including accrued interest has resulted in a charge to discontinued operations and reduction in net asset value.

In respect of Hubio, we have determined in line with accounting standards to expense all internal development expenditure until profitable product and service delivery is proven to be feasible and probable given the history of recent losses incurred. This is estimated to have resulted in approximately £2-2.5m of expenditure not capitalised.

1.4 Acquisitions and Investments

The Group made no acquisitions during the year, nor made any significant investments other than in the ordinary course of business.

1.5 Disposals

During the year, the Group disposed of or closed those businesses that were loss making and due to business model, scale or other reasons were unlikely to see a turnaround within the Group. Full details are given in note 36.

1.5.1 Quintica

On 7 March 2016, the Group disposed of the entire issued share capital of Quintica, a reseller and integrator of software to the telecoms industries. Following a review of the business by the Board, it was concluded that Quintica was non core, as it did not fit with the Group's current strategy and focus and due to its historical performance and associated cash funding requirements.

For the year ended 31 December 2016 Quintica broke even to the point of sale (2015: £1.9m operating loss).

Total consideration was approximately £1.38m; being £1.0m cash (£500,000 payable on completion and £500,000 due by 1 January 2017), plus the repayment of intracompany debt of US$500,000 (approximately £380,000).

When Quintica was acquired in September 2012, the consideration was largely satisfied in ordinary shares, giving rise to goodwill of £5.9m. The Group recognised an impairment of goodwill in the results to 31 December 2015, bringing the carrying value in line with the realisable value such that no significant profit or loss was recognised on the disposal in 2016.

1.5.2 Disposal of BEI and CRC and the closure of the property services division

On 7 January 2016, the Group substantially concluded its exit for the businesses that comprised the Property Services Division by the disposal of BEI and CRC. The property services division has recorded an operating loss of £0.1m in 2016 (2015: loss of £7.3m).

The business activities of the other entities in the property services division, Quindell Property Services and Brand Extension UK had been substantially reduced earlier in 2015 following disappointing business performance, with their remaining activities transferred into or fulfilled by BEI.

BEI was predominantly a property insulation supply and installation business and CRC was a provider of property maintenance services. Since acquisition by the Group, the performance of both BEI and CRC had been below expectations due to the unforeseeable changes to the market and legislation and, as a result, were loss making. The businesses operated in markets where unexpected changes to Government legislation in the funding of green, solar and other initiatives have substantially impacted trading and, in the view of the Board, the likely ongoing performance and prospects of the businesses.

The Group impaired the carrying value of goodwill in the first half 2015 interim results by £4.5m. Nominal consideration received in 2016 is £1 with net liabilities disposed of approximately £(0.3)m.

1.5.3 Disposal of the Professional Services Division

As noted in section 1.2, we have fully impaired the Warranty Escrow to a carrying value of £nil. The £50.1m cash (including interest) is held in a joint escrow account as security against any potential warranty claims. The period for warranty claims extended for 18 months from completion to 29 November 2016 (7 years for tax claims) and warranty claims are subject to a de-minimis of £200,000 for each item (£100,000 in the case of tax claims) with an aggregate basket of £2.5m before any claim can be made under the warranties. The limit of total liability in respect of warranty claims is £100.0m. Warranties were qualified by extensive disclosure given during the due diligence and negotiation process. No warranties were given by the Group in respect of historic accounting policies.

The disposal of the PSD contained an element of uncertain consideration in relation to future receipts arising on NIHL cases which were current at completion. Given the inherent uncertainties of this business line, the parties could not agree on an appropriate valuation at completion and so the agreement provides that the Group will receive 50% of the net after tax receipts (after allowing for administrative costs) collected on the NIHL cases outstanding at completion. Approximately 53,000 NIHL cases were active and transferred at completion. Such amounts are determined on a six monthly basis with the first measurement date on 31 December 2015. The process will continue until 30 June 2017 when a terminal value projection of expected receipts will be agreed. If no agreement is reached, the process will continue with payments every six months until the earlier of the date when a terminal value is agreed or 31 December 2018.

To date, there have been no amounts receivable by the Group in relation to these cases and based on an assessment of the costs that S&G will need to incur to pursue them and their potential outcome, the fair value of the deferred consideration has been determined as £nil (2015: £nil).

1.7 Retained earnings

The Company has negative retained earnings as at 31 December 2016 of £98.5m and after deducting unrealised profits of £1.6m, has negative distributable reserves of £100.1m.

1.8 Impairments of Goodwill and Intangible assets

A detailed review of each business has resulted, following assessment of potential future profitability, of impairments to goodwill and other intangible assets arising on acquisition as follows:

£m	Goodwill	Other intangibles	Total
Net at 31 December 2016 before impairment	30.0	6.4	36.4
Impairment			
– Hubio	(3.1)	–	(3.1)
– BAS	(3.7)	(0.1)	(3.8)
As at 31 December 2016			
– Hubio	**–**	**1.2**	**1.2**
– ingenie	**14.7**	**1.9**	**16.6**
– Healthcare Services	**8.5**	**3.2**	**11.7**
– BAS	**–**	**–**	**–**
Total	**23.2**	**6.3**	**29.5**

1.9 Discontinued operations and assets available for sale

The long leasehold property in Fareham that used to be the Group's head office has been vacated and as at 31 December 2016 was being marketed for sale. The carrying value of this asset has been categorised as an asset held for sale of £1.3m.

1.10 Post balance sheet events

On 31 March 2017, the Group disposed of its wholly owned subsidiary Metaskil Limited ("Metaskil") to Paul Hunsdon, a statutory director of Metaskil, for a nominal consideration of £1. This did not result in any gain or loss being recognised in the Consolidated Income Statement of the Group.

2. Financial Review

The Group classifies its continuing operating businesses as underlying with businesses sold or closed as either non-underlying or discontinued as appropriate. This review is prepared consistently with that classification and is intended to give a better guide to underlying business performance. Non-underlying includes exceptional items or other matters which might mask underlying trading performance.

2.1 KPIs and Alternative Performance Measures ("APM")

Throughout 2016, the Board used a number of measures to determine the performance of the Group. The principal KPIs are as set out in note 5 to the Financial Statements, which provides a breakdown of EBITDA and adjusted profit before tax, and note 13 to the Financial Statements and the Income Statement and are summarised in the following table:

Strategic Report (continued)

Underlying business

	2016	2015
KPI	**£000**	£000
Revenue	**60,703**	54,894
Gross profit margin	**47.6%**	43.3%
EBITDA	**(9,760)**	(15,091)
Group operating loss	**(11,985)**	(19,228)
Loss before tax	**(10,750)**	(19,519)
Basic earnings (pence per share)	**(24.3)**	(34.0)

2.2 Underlying business performance and adjusted results

2.2.1 Revenue

Underlying revenue for 2016 was £60.7m (2015: £54.9m).

The Hubio businesses delivered underlying revenues of £15.0m (2015: £14.4m). Telematics based UBI revenues consist of proceeds from the sale of on-board devices and service charges for their usage and associated data provision.

ingenie's revenues, which principally comprise broker commissions from UK insurers, rose to £13.6m in 2016 (2015: £12.5m). This increase reflects an increase in new driver customers from 33,757 to 39,606, and by renewals increasing from 10,307 to 14,603 customers. In addition, third party service revenues earned in 2016 from the provision of our technology and platform were £0.3m and in line with the contract life expectation are earned over a 5 year period.

Healthcare Services' (ptHealth including InnoCare), major source of revenues is from the provision of physiotherapy and similar services and showed an increase in the year to £28.1m in 2016 (2015: £25.1m). An underlying increase in customers served by ongoing clinics was offset by a loss of revenues from the exiting of loss making clinics. InnoCare, the software and service provider within ptHealth earned revenues of £0.7m.

BAS saw revenue growth to £3.7m (2015: £2.8m). During the year it won its first significant Corporate division contract, delivering revenues of £0.3m from its October start date in 2016 which is approximately one fifth of the overall estimated contract length.

2.2.2 Underlying EBITDA and Operating result

EBITDA on an underlying basis, was a loss of £9.8m, (2015: £15.1m) and is considered as follows:

Central costs have been identified as underlying and non-underlying and treated accordingly. Underlying costs have further been split and allocated to the business units where a link to that business unit has been established, on an appropriate basis for the type of cost. For example, senior management time would be allocated based on an assessment of the time spent working with or on behalf of that business unit, and property costs would be allocated based on headcount occupying the space.

Hubio reports a loss before central cost allocation of £4.6m against a loss of £6.3m in 2015, and once central costs are allocated this is a loss of £6.3m (2015: £8.3m). RAG has been moved from underlying within Hubio in 2015 to non-underlying in 2016.

ingenie in the UK generated an underlying profit before central cost allocation of £1.4m (2015: £0.8m) which reflects the customer growth noted above alongside more cost effective marketing activities.

Healthcare Services reported an underlying profit before allocation of central costs of £1.2m (2015: loss £0.0m). The movement in results reflecting a heightened focus on cost control and elimination of loss making clinics. The necessary investment required to develop and grow the InnoCare software and services has resulted in an earnings drag of £0.2m.

BAS delivered a small loss before allocation of central costs of £0.3m (2015: £0.7m). Continued focus is given to securing good quality pipeline which will deliver secure future earnings while developing the new Corporate division. The gross pipeline of future revenue already secured is £5.7m (2015: £5.9m).

Underlying central expenses totalled £7.5m in 2016 (2015: £8.9m), with £3.2m allocated to the business units (2015: £3.5m), and £4.4m attributable to head office and plc costs (2015: £5.4m). Some £4.3m was spent on Board and other staff costs (2015: £5.5m) with legal, financial and other professional adviser and consultancy costs totalling £2.3m (2015: £2.4m).

Group operating loss totalled £20.9m (2015: £177.6m) with £12.0m (2015: £19.2m) due to underlying business operations.

2.2.3 Non-underlying including exceptional Items

Revenues from non-underlying businesses were £3.1m (2015: £3.9m), of which the significant contributors were RAG £2.1m (2015: £2.9m) and Maine Finance £0.9m (2015: 2.1m). Both businesses were loss making and were closed during the year and up to the point of closure their EBITDA losses were £0.4m to end October for RAG (2015: £0.8m) and £0.4m to end August for Maine Finance (2015: £0.2m).

The Group has reported £2.0m of exceptional items (2015: £136.1m). Impairment of non-cash assets totalled £6.6m net of an inventory impairment reversal (2015: £113.6m), with impairments in Hubio of £3.1m and BAS £3.8m. Reorganisation costs in Hubio were £1.7m in the year (2015: £2.8m), with the costs of corporate restructuring at £0.4m in the current year (2015: £8.7m). Legal and regulatory costs were a net credit to the Income statement of £1.0m (2015 expense: £7.1m).

2.2.4 Loss before tax

The Group has incurred a continuing loss before tax of £18.9m for the year ended 2016 (2015: £178.0m), of which some £10.7m (2015: loss of £19.6m) derive from the underlying business activities.

Overall, the Group made a loss before tax of £68.8m (2015: profit £261.8m).

2.2.5 Cashflow

During the year the Company commenced placement of term deposits on rolling six month basis with a major UK bank. This increases the income arising on these deposits whilst the rolling maturities ensures that we have regular deposits maturing should we require access to the cash. Accounting standards require these deposits to be classified as Term Deposits.

The Group has experienced net cash outflows of £22.0m for the year (2015: cash inflows £53.7m) resulting in a closing balance of cash and term deposits of £81.2m (2015: £103.2m). A summary of flows by business is shown below:

	2016
Business	**£m**
Underlying business cash flows:	
Hubio	(6.1)
ingenie	1.8
Healthcare Services	0.8
BAS	0.2
Central	(9.5)
Total underlying*	(12.8)
Non underlying operating cash out flows excluding discontinued operations	(10.4)
Other non-underlying excluding discontinued operations	1.2
Total non-underlying excluding discontinued operations	(9.2)
Cash flow	(22.0)
Opening cash (excluding cash held for sale)	103.2
Closing cash and term deposits	81.2

* Includes cash used in operations of £18.9m, plus Corporation Tax refund received of £7.0m, less investing activities of £2.7m (excluding term deposits and non-underlying investing activities), plus financing activities of £0.6m, plus exchange gain of £0.6m, less cash held for sale of £(0.6m).

Strategic Report (continued)

Balance sheet movement summary

	Central	Hubio	Healthcare Services	ingenie	BAS	Discontinued and Non-underlying	Group Total
	£m	£m	£m	£m	£m	£m	£m
As at 31 December 2015	111.3	2.4	7.2	17.9	3.0	(4.7)	137.1
Underlying EBITDA	(7.5)	(4.6)	1.2	1.4	(0.3)	–	(9.8)
Discontinued and non-underlying EBITDA	(3.1)	–	0.1	–	–	(1.0)	(4.0)
Exceptional items	(43.8)	(0.6)	–	(0.1)	(4.0)	(0.7)	(49.2)
Other income statement	(0.6)	(3.4)	(0.7)	(0.4)	(0.2)	(2.1)	(7.4)
Other balance sheet and reserves movements including foreign exchange	(7.2)	3.5	–	(0.6)	–	4.9	0.6
As at 31 December 2016	**49.1**	**(2.7)**	**7.8**	**18.2**	**(1.5)**	**(3.6)**	**68.5**

Intercompany balances have been eliminated within the above analysis.

2.2.6 Balance Sheet

The net assets shown in the statement of financial position at 31 December 2016 were £68.5m (2015: £137.1m) following the impairment of the Warranty Escrow detailed in 1.2 and 1.5.3 above.

A summary analysis of the principal components and how they moved during the year is set out above.

The closing net assets can be analysed by their proximity to cash as follows:

	2016	2015
As at 31 December	**£m**	£m
Cash and term deposits	**81.2**	103.2
Escrow balances	**–**	53.8
Other net current liabilities/assets	**(41.2)**	(57.8)
Creditors, loans and provisions over one year	**(7.3)**	(5.5)
Non-cash assets	**35.8**	43.4
Net assets	**68.5**	137.1

2.2.7 Earnings per share

The underlying basic and diluted EPS, as defined in note 13 to the Financial Statements, was a loss of 24.3 pence per share (2015: loss of 34.0 pence per share).

2.3 Going Concern

The Group has significantly reduced its working capital requirements through the disposal of a number of non-core, loss making businesses. The Group holds significant cash reserves and no material debt. The Group has concluded that its cash reserves together with ongoing operating cash flows will be sufficient to fund the ongoing operations of the Group's businesses together with any future development needs of those businesses and the settlement of legacy matters.

On this basis, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Directors have not identified any material uncertainties that would cast significant doubt on the ability of the Group to continue as a going concern. As such, the Directors continue to adopt the going concern basis of accounting in the preparation of the financial statements.

2.4 Internal financial discipline

We have defined the financial disciplines under which we will operate at the Group and operating company level. We have summarised below the key areas upon which we focus:

- **Ethics.** Relationships and transactions will be conducted to high ethical standards. Customers, staff and suppliers should be treated fairly and transactions will be concluded on an arms-length basis. Regulators are communicated with on an open and prompt basis;
- **Safeguarding of assets.** We will ensure that the assets of the Group are appropriately protected and managed and that maximisation of shareholder value is at the heart of all transactions involving corporate assets;
- **Cash and profit management.** The Group and operating businesses are managed such that both profits and cash are given equal focus, recognising that some operating businesses may require investment to generate increased future profit and cash. Revenues and profit growth will be balanced by a requirement for there to be appropriate realisation of profits into cash. Dividend policy will be established such that cash profit generation forms the basis of a future sustainable dividend flow to our shareholders;

- **Establishment of Investment Disciplines.** Operating businesses are challenged to deliver profitable growth and the timescales for each will depend on their relative maturity and market positioning. Appropriate investment will be made by the Group in order to maximise shareholder value from these assets;
- **Authorisation and accountability.** Matters reserved for Board approval and the control environment are proportionate to the size of the Group. Operating and project expenditure will typically be authorised via the business planning process culminating in an approved budget in advance of the year commencing. Outside of the cycle additional expenditure can be approved subject to the appropriate justification and business case being established if appropriate. Individuals will have authority to approve expenditure to certain limits, determined by type of expenditure. Accountability for expenditure is ensured via the regular process of business performance reporting and review;
- **Financial Planning, Reporting and Monitoring.** The Group will run a business cycle as summarised below:

Mid year	Strategic review and target setting for the Group and its operating businesses.
Q3	Operating businesses perform detailed business planning and budget setting for the subsequent 3 years.
Q4	Group review and challenge of operating businesses plans. Board review and approval by year end.
Monthly	Reporting of financial results and KPIs.
Quarterly	Re-forecast of full year expected outturn and review with Group.

In addition to the internal financial discipline, the Group will make trading statements (as appropriate) and report full and half yearly financial results externally.

2.5 Interim Financial Statements for the period ending 30 June 2017

We intend to prepare a set of interim Financial Statements for the 6 months ending 30 June 2017 which will be subject to review by the Auditor.

3. Capital management

The Group's objective is to maintain a balance sheet structure that is efficient in terms of providing long term returns to shareholders and which safeguards the Group's financial position through economic cycles.

There is little or no external debt finance in the business and the Group maintains sufficient liquid funds to be able to fund the growth aspirations of its operating businesses.

4. Principal risks and uncertainties

The Group is exposed to a number of risks and uncertainties which could have a material impact on its long term performance. The Directors have identified those which they regard as being the principal risks and these are set out below.

4.1 Strategic risk

The take up rate of telematics by consumers globally and in local markets over the next three to five years, influenced by factors such as end-user perceptions, rate of adoption of new technologies, regulatory drivers and the economic climate could put at risk the Group's ability to meet its strategic objectives in the areas of telematics and connected car solutions. The Group may fail to execute its ongoing strategic plans in relation to connected car, healthcare or insurance. The Group may fail to execute its ongoing strategic plan in relation to connected car and the expected benefits of those plans.

4.2 Technological change

The markets for the Group's services can be affected by technological changes, resulting in the introduction of new products, evolving industry standards and changes to consumer behaviour and expectations. The Group regularly monitors trends in technological advancement to anticipate and plan for future changes and maintains close relationships with businesses and organisations which it believes will keep it to the forefront of product and service development on a sustained basis.

4.3 Key personnel and resources

The success of the Group depends to a large extent upon its executive management team and its ability to recruit and retain high calibre individuals at all relevant levels within the organisation. The Group will continue to seek to mitigate this resource risk by providing appropriate training, competitive reward and compensation packages, incentive schemes and succession planning.

Strategic Report (continued)

4.4 Regulatory and reputational risks

The investigation commenced by the SFO may affect the Group's reputation and brand and attract negative media coverage. Failure to protect the Group's reputation and brand in the face of regulatory, legal or operational challenges could lead to a loss of trust and confidence and a decline in our existing and future customer base. In addition, regulatory investigations could also affect our ability to recruit and retain talented employees. It is also possible that regulators will seek to levy fines on the Group or Courts will award damages against the Group. Reputational issues may also affect the attractiveness of the Company's shares to new and existing investors.

As a data controller, the Group is also subject to risks related to matters such as data processing and security, and data and service integrity. In the event of a breach, these risks may give rise to reputational, financial or other sanctions against some or all of the Group. Law or regulation of data use and protection may change. The Group considers these risks seriously and designs, maintains and reviews its policies and processes so as to mitigate or avoid these risks.

The pricing of products and services, the activities of major industry organisations, and the Group's ability to operate and contract in the manner that it has done so in the past, may be affected by the actions of regulatory bodies both in the UK and internationally. Such action could affect the Group's profitability either directly or indirectly. The Group continually monitors and assesses the likelihood, potential impact and opportunity provided by regulatory change, and adapts its plans and activities accordingly.

4.5 Liquidity risk

The Group expects to manage liquidity within its cash capacity. The Group actively forecasts, manages and reports its working capital requirements, including conducting sensitivity analyses on a regular basis to ensure that it has sufficient funds for its operations. In addition, it will manage the timing and value of any future investments in light of forecast cashflow requirements.

4.6 Management of growth

The Group will operate focused on its insurance related technology, healthcare and associated markets. Growth management will be controlled through the planning cycle and include scenario planning to ensure that the businesses are resilient when expanding in key markets and geographical locations.

4.7 Market conditions

Market conditions, including general economic conditions and their effect on exchange rates, interest rates and inflation rates, may impact the ultimate value of the Group regardless of its operating performance. The Group also faces competition from other organisations, some of which may have greater resources than the Group, or be more established in a territory or product area. The Group's strategy is to target a balance of markets, offering a range of tailored or specialised products and services.

4.8 Foreign exchange

The international nature of some of the Group's operations mean that it is exposed to volatility in exchange rates. This is in respect of foreign currency denominated transactions and the translation of income statements and net assets of foreign subsidiaries. The Group has its most significant presence in North America, and therefore its most significant foreign currency exposure is in relation to US$ and CDN$. In addition, BAS has operations in South Africa, with commensurate Rand exposure to its cost base. Foreign currency exposure is mitigated where possible by matching the purchasing and sales of revenue and cost transactions. The Company has not sought to mitigate its exposure to the translation of net assets.

Mark P Williams
Group Finance Director
By order of the Board

Board of Directors

Richard Rose (61)

Non-Executive Chairman
Richard is Non-Executive Chairman of Crawshaw plc, Anpario plc and Blue Inc Limited. Previously, he has held a number of positions in organisations such as AO World plc where he was Non-Executive Chairman from 2008 to 2016, Booker plc ('Booker') where he was Non-Executive Chairman (previously an Executive Director and Chairman of Blueheath Holdings plc immediately prior to its reverse acquisition by Booker in 2007), AC Electrical Wholesale, where he was Chairman from 2003 to 2006 and Whittard of Chelsea plc, where he was Chief Executive Officer and then Executive Chairman from 2004 to 2006.

Indro Mukerjee (56)

Group Chief Executive Officer
Indro joined the Group as Group Chief Executive Officer in September 2015. He has previous Board level leadership experience in corporate multinational, new venture and private equity backed fast moving technology and industrial companies. Prior to joining the Group, Indro launched FlexEnable Limited, a leader in flexible electronics technology for wearables and sensors, which was created from the transformation of Plastic Logic where he was CEO. His earlier career included being CEO of C-MAC MicroTechnology, a private equity backed LBO from which three market-leading businesses were created and sold; several executive board positions with Philips Semiconductors BV, including Executive VP Global Marketing & Sales and CEO of Automotive business unit; Commercial Director of VideoLogic during IPO and senior management positions within Hitachi's European semiconductor division.

Indro is a member of the Board of Sector Skills Council for UK Science, Engineering and Manufacturing Technologies and is the founding Chairman of the UK Electronics Skills Foundation.

Indro has a degree in Engineering Science from Oxford University, is a graduate of the Wharton Advanced Management Program and speaks several European languages.

Mark Williams (52)

Group Finance Director
Mark Williams is a Fellow of the Institute of Chartered Accountants and has 30 years of finance experience.

Mark has had a varied career to date, having qualified with what is now Deloitte. His experience ranges from a technology driven entrepreneurial start up through to divisions of major international FTSE businesses and through several business cycles.

He has operated at Board level for the past 15 years, including roles at AXA, Cofunds, Guardian Royal Exchange, Legal & General, Old Mutual and Skandia.

David Currie (47)

Non-executive Director
David has worked within the financial sector for over 20 years, and was appointed to the Board in July 2014. In April 2013 David established Codex Capital Partners and for the prior 10 years David headed Investec Bank plc's Investment Banking division.

As part of Investec's UK management and investment committee, he oversaw more than 100 clients in both the public and private markets and worked on a wide variety of transactions across many sectors.

The Rt. Hon. Lord Howard of Lympne, CH, QC (75)

Senior Non-executive Director
Lord Howard is the former leader of the Conservative Party, a distinguished lawyer and served as a Member of Parliament for 27 years. He filled many government posts, including Home Secretary, Secretary of State for Employment and Secretary of State for the Environment, as well as Shadow Foreign Secretary and Shadow Chancellor.

After his retirement from the House of Commons at the 2010 General Election, Lord Howard was created a Life Peer. He was created a Companion of Honour in the Queen's Birthday Honours List, 2011. Lord Howard is the Non-executive Chairman of Entree Gold Inc. and the Non-executive Chairman of Soma Oil & Gas Holdings Limited.

Tony Illsley (60)

Non-executive Director
Tony has held a variety of senior business positions including Chief Executive of Telewest Communications PLC, President of Pepsi Cola Asia Pacific and Senior Independent Non-Executive Director of easyJet PLC.

He is currently a Non-Executive Director of Camelot Global Services Limited and Camelot UK Lotteries Limited.

David Young (55)

Non-executive Director
David qualified as an accountant with Arthur Andersen before joining Morgan Grenfell as an Investment Banker specialising in Mergers & Acquisitions. In 1994, he joined listed insurance broker Bradstock Group PLC, initially as Finance Director before becoming Chief Operating Officer and, ultimately, Chief Executive. On leaving, David joined Barchester Group, a strategic and advisory business aimed at technology businesses.

David has held numerous Non-executive positions and audit committee chairs with insurance and financial services businesses. He is currently a Non-executive Director of Premium Credit Limited, the British Gas Insurance Group, Key Retirement Group and is a consultant to Independent Audit Limited.

Directors' Remuneration Report

The Board recognises the importance of shareholder transparency and compliance with corporate governance principles. The Company has prepared this report in order to enable a better understanding of Directors' remuneration. The information included in this report is unaudited.

The information in this report relates to the remuneration arrangements that applied during the year ended 31 December 2016 and the remuneration policy that applies in 2017.

Remuneration Committee

Tony Illsley was appointed chairman of the Committee in June 2015. The additional members are David Young and Lord Howard all of whom are independent. Richard Rose, the Non-executive Chairman is invited to attend all meetings of the Committee and is actively involved in consultation with major shareholders on key matters of remuneration.

The Committee meets at least twice each year and has delegated responsibility for making recommendations to the Board regarding the remuneration and other benefits of the executive Directors and senior executives and the Non-executive Chairman. The remuneration of the Non-executive Directors is determined by the Board.

Senior executives of the Company may be invited to attend meetings. The Group General Counsel & Company Secretary acts as secretary to the Committee (save where a conflict exists). No Director or other executive is involved in any decisions about his/her own specific remuneration.

Remuneration policy

The Board's policy is designed to promote the long-term success of the Company by rewarding senior executives with competitive but responsible salary and benefit packages combined with a significant proportion of executive remuneration dependent on performance, both short-term and long-term.

The Board's intention is to combine appropriate levels of fixed pay with incentive schemes that provide executives with the ability to earn above median levels for true out-performance. In determining the remuneration policy the Committee was conscious of both the unusual and challenging circumstances of the Company and the Board's strategy to simplify and focus the Company on delivering shareholder value (as detailed in the Chairman's Report and Group Chief Executive's Update). Accordingly, the Committee believes that the MIRP (as detailed below) focuses the executive Directors on enhancing value and returning that value to shareholders and ensures alignment between the executive Directors, Board strategy and shareholder interests.

The remuneration packages for executive Directors comprises the following main elements:

- basic annual salary – Basic salaries are reviewed by the committee annually to take effect on 1 January. In setting basic salaries the Committee assesses individual responsibilities, experience and performance and considers external market data;
- annual bonus payments in respect of the performance of the individual, achievement of performance criteria and the individual's contribution to that performance and the Group calculated as a percentage of salary; and
- a cash-based incentive and retention scheme ("MIRP"), focused on delivering growth in the value of the Company's operating businesses going forward without penalising or rewarding management in respect of historic matters.

Remuneration of the executive Directors in 2016

Given the scale, complexity and history of the Group, recruitment and retention of key management was considered, and remains, of critical importance. In addition, the Board and key management are required to accept an unusual level of risk in respect of the historical circumstances of the Company particularly given the investigations commenced in 2015 by the FRC, the FCA (both now terminated) and the SFO (ongoing). Accordingly, the Remuneration Committee believe it appropriate that pay and incentive packages should reflect these factors such that the Group was able to offer above average remuneration to recruit and retain the best people.

Indro Mukerjee (Group Chief Executive Officer)

Indro Mukerjee has a base salary of £475,000 per annum (2015: £475,000 per annum) (this has not been increased for 2017) and an entitlement to an annual discretionary bonus of up to 175% of salary. In addition, Mr. Mukerjee is entitled to a maximum of £47,000 per annum in cash in respect of pension contributions or other purposes and typical executive benefits including life assurance and health and medical insurance. His notice period on his rolling service contract is 3 months.

Mark Williams (Group Finance Director)

Mark Williams has a base salary of £250,000 per annum (2015: £250,000 per annum) (this has not been increased for 2017) and an entitlement to an annual discretionary bonus of up to 150% of salary. In addition, Mr. Williams is entitled to typical executive benefits including a pension contribution of 10% of base salary, life assurance and health and medical insurance. His notice period on his rolling service contract is 6 months.

Annual bonuses of the executive management team

In deciding on the annual cash bonuses awarded to the executive management team for 2016, the Remuneration Committee took into account the work of the team in respect of, inter alia, the:

- growth, profits and reduction of losses in the Group's operating businesses;
- disposal and restructuring of non-core assets; and
- resolution, careful management and mitigation of complex legacy matters both at the plc level and within our operating companies.

The executive Directors received 75% of their respective maximum bonus for the year ended 31 December 2016. For details of the annual bonuses paid to the Directors, please see the table below and the associated notes.

For 2017, annual discretionary bonuses for the executive management team will be closely aligned to the interests of the Company and its shareholders. Executive management will be rewarded based on the achievement of outcomes consistent with the optimisation of shareholder value in this Company. The discretionary bonus plan will reward, inter alia, a combination of:

- realisation of value of the Group's businesses;
- resolution, careful management and mitigation of legacy matters both at the plc level and within our operating companies;
- optimisation of returns from contingent assets; and
- the elimination of losses.

All of the above will be required to be delivered within a constrained set of cash management targets. Award of the maximum discretionary bonuses will only be given on optimal achievement of these targets.

The maximum potential bonus payments for the executive Directors are as detailed above.

Directors' Remuneration Report (continued)

Management Incentive and Retention Plan

The MIRP is a cash-based incentive and retention scheme that will only be triggered upon value-crystallising events (including, inter alia, a takeover of the Group or disposals of individual divisions) in excess of base values. A market price of 250 pence per share (being approximately a 18.5% premium to the closing share price on 18 March 2016) for the Group as a whole (including all its assets and liabilities) was used to ascribe a base value to each division ("Hurdle"). The Hurdle will be adjusted, inter alia, for cash invested by the Group and dividends or other proceeds paid to the Group by the respective divisions. The benefits paid pursuant to the MIRP (if any) will specifically exclude the impact of, or adjustment for the Company's cash balances, the cash held in the Warranty Escrow and the deferred consideration payable pursuant to the disposal of the PSD; and any cash paid to resolve liabilities relating to events which occurred prior to the appointment of the new Board of the Company on 29 May 2015.

Indro Mukerjee, Mark Williams and Stefan Borson are entitled to a share of up to a total in aggregate of 9.5% of any growth in value of each division of the Group above the Hurdle (as adjusted for cash invested or generated from 1 January 2016).

Non-executive Directors

The Non-executive Directors do not have service contracts, nor do they participate in any share option plan, MIRP, long term incentive plan or pension scheme. The services of each Non-executive Director are provided under a letter of engagement which can be terminated by either party giving notice (one months' notice for each Non-executive Director except David Currie (3 months)). Fees payable under the terms of their appointments for those Directors who served during the year are shown in the table below.

Directors' emoluments

The remuneration of the Directors, including the highest paid Director who was Indro Mukerjee, was as follows (see note 10):

2016	Salary and fees £000	Bonus £000	Contributions to personal pension schemes £000	**Total 2016 £000**
Executive				
I Mukerjee[(1)]	522	623	–	**1,145**
M Williams[(2)]	258	331	17	**606**
	780	954	17	**1,751**
Non-executive				
R Rose[(2)]	185	–	–	**185**
D Currie	50	–	–	**50**
A Illsley[(2)]	75	–	–	**75**
M Howard[(2)]	75	–	–	**75**
D Young[(2)]	75	–	–	**75**
Total	1,240	954	17	**2,211**

2015	Salary and fees £000	Bonus £000	Contributions to personal pension schemes £000	Compensation for loss of office £000	**Total 2015 £000**
Executive					
I Mukerjee[(1)]	166	269	–	–	**435**
M Williams[(2)]	147	369	14	–	**530**
R Fielding[(4)]	149	–	–	–	**149**
L Moorse[(4)]	171	–	36	575	**782**
	633	638	50	575	**1,896**
Non-executive					
R Rose[(2)]	108	–	–	–	**108**
D Currie	50	–	–	–	**50**
R Bright[(4)]	49	–	–	–	**49**
R Burrow[(4)]	50	–	–	–	**50**
R Cooling[(4)]	45	–	–	–	**45**
S Scott[(3)]	7	–	–	–	**7**
A Illsley[(2)]	44	–	–	–	**44**
M Howard[(2)]	44	–	–	–	**44**
D Young[(2)]	44	–	–	–	**44**
Total	1,074	638	50	575	**2,337**

Notes

1. Appointed 7 September 2015. As part of the negotiations relating to his appointment, in light of the regulatory uncertainty at the time of the appointment and to compensate for cash bonuses forfeited in respect of previous posts, the Remuneration Committee agreed to pay a total payment of £500,000 in cash ("Deferred Compensation Payment") to Mr Mukerjee. The Deferred Compensation Payment accrued on a daily basis for one year from 7 September 2015 and was not be subject to any exercise of discretion by the Remuneration Committee. £161,417 of the Deferred Compensation Payment was accrued and paid in respect of the period up to 31 December 2015. The remaining £338,582 of the Deferred Compensation Payment was accrued and paid in respect of the year ended 31 December 2016 and offset Mr. Mukerjee's annual discretionary bonus such that his aggregate cash bonus of £623,438.
2. Appointed 29 May 2015. M Williams bonus includes £50,000 retention payment paid in December 2016 and his annual cash bonus of £281,250.
3. Resigned 18 November 2014. Also provided services to the Group (see note 37)
4. Resigned 29 May 2015.

This report was approved by the Board on 27 April 2017
and signed on its behalf by:

Tony Illsley
Chairman of the Remuneration Committee

Corporate Governance Report

The Group is supportive of the principles embodied in the UK Corporate Governance Code that was issued by the Financial Reporting Council in 2010 and most recently updated in 2014. This report describes how the principles of corporate governance are applied to the Group.

The Board

The Group has appointed Non-executive Directors to bring an independent view to the Board and to provide a balance to the executive Directors. During the year, the Board of Directors comprised two executive Directors and five independent Non-executive Directors.

The Board meets monthly throughout the year (save in August and December), and meets at various times between these dates to discuss matters and agree actions on an ongoing basis. In preparation of each regular meeting, the Board receives a Board pack with the information necessary for it to discharge its duties. The Board has responsibility for formulating, reviewing and approving the Group's strategy, its financial plans, regulatory announcements, major items of expenditure, investments, acquisitions and disposals and the Directors' report and Annual and Interim Financial statements.

Each Director has access to the advice and services of the Group General Counsel & Company Secretary and is able to take professional advice at the Group's expense.

The Group maintains appropriate insurance cover in respect of legal actions against Directors as well as against material loss or claims against the Group and reviews the adequacy of cover regularly. The Group has also entered an agreement with each of its Directors whereby the Director is indemnified against certain liabilities to third parties which might be incurred in the course of carrying out his duties as a Director. These arrangements constitute a qualifying third party indemnity provision for the purposes of the Companies Act 2006.

Board committees

The Board has established four committees: Audit, Remuneration, Nomination and Disclosure. The Group Company Secretary is secretary to each committee but does not act where discussion relates to him or where there is another conflict.

Audit committee

The Audit Committee is chaired by David Young and consists of David Young, Tony Illsley and Lord Howard. It meets at least twice a year with attendance from the external Auditors and internal personnel as required. The committee is responsible for:

- ensuring that the appropriate financial reporting procedures are properly maintained and reported on;
- meeting the Auditors and reviewing their reports relating to the Group's accounts and internal control systems;
- reviewing and monitoring the independence of the external Auditor and the objectives and effectiveness of the audit process; and
- reviewing arrangements by which staff may in confidence raise concerns about possible improprieties in matters of financial reporting or otherwise and receiving and dealing with matters reported under these arrangements.

Remuneration committee

The Remuneration Committee is chaired by Tony Illsley and consists of Tony Illsley, David Young and Lord Howard. It meets at least twice a year and is responsible for reviewing the performance of the executive Directors and other senior executives and for determining appropriate levels of remuneration. The Committee's report is set out on pages 18 to 21.

Nomination committee

The Nomination Committee consists of Richard Rose, Lord Howard and Tony Illsley and is chaired by Richard Rose. It meets at least once a year and reviews the size, structure and composition of the Board and makes recommendations on changes, as appropriate. It also gives consideration to succession planning in the light of developments in the business.

Disclosure committee

The Disclosure Committee consists of Mark Williams, David Young and David Currie and is chaired by Mark Williams. The role of the Disclosure Committee is to assist and inform the Board in making decisions concerning the identification of information that requires announcement pursuant to the AIM Rules for Companies and other relevant rules. The Disclosure Committee meets as necessary to consider all relevant matters. It will in particular meet in advance of the release of all trading statements and other announcements of price sensitive information to ensure that they are true, accurate and complete and to consider if they are fair, balanced and understandable.

Shareholder relations

The Company meets with institutional shareholders and analysts as appropriate and uses its website to encourage communication with private, existing and prospective shareholders. The Company also maintains regular contact with private investors via meetings, email correspondence and via investor forums. The Company welcomes feedback from investors about its published reports and website. Please address your feedback to our investor relations team by e-mail to investor.relations@watchstonegroup.com or in writing to Watchstone Group plc, 21 Tower Street, London WC2H 9NS.

Internal control and risk management

The Group operates a system of internal control and intends to develop and review that system in accordance with guidance published by the FRC. The internal control system is designed to manage rather than eliminate the risk of failure to achieve business objectives. The Board is responsible for the system of internal control and for reviewing its effectiveness. It can only provide reasonable, but not absolute, assurance against material misstatement or loss.

Internal financial control monitoring procedures undertaken by the Board and executive team include the preparation and review of annual forecasts, review of monthly financial reports and KPIs, monitoring of performance, and the prior approval of all significant transactions.

The Company has established a policy and share dealing code relating to dealing in the Company's shares by Directors, employees and connected persons.

Going concern

The Board of Directors' consideration of the adequacy of the Group's resources to enable it to continue in operational existence for the foreseeable future is set out on page 14.

Directors' Report

The Directors present their report and the audited Financial Statements for the year ended 31 December 2016.

Directors

The Directors who held office at 31 December 2016 and up to the date of this report are set out on page 17 along with their biographies.

There were no changes to the Board during the year or up to the date of this report.

The remuneration of the Directors including their respective shareholdings in the Company is set out in the Directors' Remuneration Report on pages 18-21.

As at 31 December 2016, the following Directors held shares in the Company: Richard Rose (100,000); Indro Mukerjee (50,550); Mark Williams (50,550); Lord Howard (12,608); and David Currie (1,950).

Directors' and Officers' liability insurance and indemnification of Directors

The Company maintains Directors' and Officers' liability insurance which gives appropriate cover for any legal action brought against its Directors. The Company has also granted indemnities to each of its Directors to the extent permitted by law. Qualifying third party indemnity provisions (as defined in Section 324 of the Companies Act 2006) have been adopted by the Board. These indemnities remain in force in relation to certain losses and liabilities which the Directors may incur to third parties in the course of acting as Directors of the Company.

Share capital

The Company has only ordinary shares of 10 pence nominal value in issue. Note 13 to the consolidated Financial Statements summarises the rights of the ordinary shares.

Substantial shareholdings

As at 26 April 2017, the Company had been advised under the Disclosure and Transparency Regime, or had ascertained from its own analysis, that the following held interests of 3% or more of the voting rights of its issued share capital:

Shareholder	Shares	Percentage (%)
Beachpoint Capital Management LP	6,435,425	13.98
Sand Grove Capital Management LLP	3,471,638	7.54
M&G Investments	2,916,666	6.34
Polygon Global Partners LLP	2,356,709	5.12
BlueMountain Capital Management, LLC	2,319,940	5.04

Dividends

The Directors do not recommend the payment of a final dividend (2015: nil).

Committees of the Board

The Board has established Audit, Nominations, Remuneration and Disclosure Committees. Details of these Committees, including membership and their activities during 2015 are contained in the Corporate Governance section of this Annual Report and in the Remuneration Report.

Corporate governance

The Group's report on Corporate Governance is on pages 22-23 and forms part of this Directors' Report.

Companies Act 2006 disclosures

In accordance with Section 992 of the Companies Act 2006, the Directors disclose the following information:

- The Company's capital structure and voting rights are summarised in note 28, and there are no restrictions on voting rights nor any agreement between holders of securities that result in restrictions on the transfer of securities or on voting rights;
- There exist no securities carrying special rights with regard to the control of the Company;
- Details of the substantial shareholders and their shareholdings in the Company are listed above;
- The rules concerning the appointment and replacement of Directors, amendment to the Articles of Association and powers to issue or buy back the Company's shares are contained in the Articles of Association of the Company and the Companies Act 2006;
- There exist no agreements to which the Company is party that may affect its control following a takeover bid; and
- There exist no agreements between the Company and its Directors providing for compensation for loss of office that may occur because of a takeover bid.

Articles of Association

The Company's Articles of Association set out the rights of shareholders including voting rights, distribution rights, attendance at general meetings, powers of Directors, proceedings of Directors as well as borrowing limits and other governance controls. A copy of the Articles of Association can be requested from the Group Company Secretary.

Conflicts of interest

During the year no Director held any beneficial interest in any contract significant to the Company's business, other than a contract of employment. The Company has procedures set out in the Articles of Association for managing conflicts of interest. Should a Director become aware that they, or their connected parties, have an interest in an existing or proposed transaction with the Group, they are required to notify the Board as soon as reasonably practicable.

Going concern

The Group holds significant cash reserves and no material bank debt. The Group has concluded that its cash reserves and short term investments in term deposits will be sufficient to fund the ongoing operations of the Group's businesses, together with any future development needs of those businesses, and the settlement of legacy matters. The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Directors have not identified any material uncertainties that would cast significant doubt on the ability of the Group to continue as a going concern. As such, the Directors continue to adopt the Going Concern basis of accounting in the preparation of the Financial Statements.

Financial instruments

At the end of the year, the Group does not generally have complex financial instruments. The financial instruments comprise borrowings (primarily the non-voting Series 'A' preference shares issued by ptHealth), cash and liquid resources and various items such as trade debtors and trade creditors that arise from its operations. The main purpose of these financial instruments is to manage the Group's operations. Further information in relation to the financial risk management objectives of the Group, the financial risk factors noted and a detailed analysis of the Group's exposure to interest risk, liquidity risk, capital risk and credit risk is included in Note 33 to these Financial Statements.

Transactions in which one or more of the Directors had a material interest in and to which the Company, or its subsidiaries, was a party during the financial year are described in note 37, Related Parties. Other than as described in that note, there were no contractual relationships between the Directors and companies with which they are connected and the Watchstone Group plc Group of companies during the year.

Employees

The Group has a policy of offering equal opportunities to employees at all levels in respect of the conditions of work. Throughout the Group it is the Board's intention to provide possible employment opportunities and training for disabled people and to care for employees who become disabled having regard to aptitude and abilities.

Regular consultation and meetings, formal or otherwise, are held with all levels of employees to discuss problems and opportunities. Information on matters of concern to employees is presented in the in-house letters and publications.

Statement of Directors responsibilities in respect of the Annual Report, Strategic Report, the Directors' Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and the Group and Parent Company Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company Financial Statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group Financial Statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Parent Company Financial Statements on the same basis.

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 Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;

Directors' Report (continued)

- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its Financial Statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

Disclosure of information to the Auditor

In the case of each of the persons who are Directors of the Company at the date when this report is approved:

(a) so far as each Director is aware, there is no relevant audit information of which the Company's Auditor is unaware; and

(b) each of the Directors has taken all steps that they ought to have taken as a Director to make themselves aware of any relevant audit information (as defined) and to establish that the company's Auditor is aware of that information.

This information is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG LLP as auditor of the company is to be proposed at the forthcoming Annual General Meeting.

Annual General Meeting ("AGM")

The 2017 AGM will be held at 10.30am on 27 June 2017 at Vauxhall & Lambeth Suite – 2nd floor, Park Plaza County Hall, 1 Addington St, Lambeth, London SE1 7RY. The Chairmen of the Board and of each of its Committees will be in attendance at the AGM to answer questions from shareholders. The Company will be making use of the electronic voting facility provided by its registrars, Capita Asset Services. The facility includes CREST voting for members holding their shares in uncertificated form. For further information, please refer to the section on on-line services and electronic voting set out in the notes to the Notice of Meeting. The Notice of Meeting and an explanation of the resolutions to be put to the meeting are set out in the Notice of Meeting accompanying this Annual Report. The Board fully supports all the resolutions and encourages shareholders to vote in favour of each of them.

By order of the Board

Stefan Borson

Group General Counsel & Company Secretary

Audit Committee Report

The Audit Committee is chaired by David Young and consists of David Young, Lord Howard and Tony Illsley. It meets at least twice a year with attendance from the external Auditors and internal personnel as required. The Committee is responsible for:

- ensuring that the appropriate financial reporting procedures are properly maintained and reported on;
- meeting the Auditors and reviewing their reports relating to the Group's accounts and internal control systems;
- reviewing and monitoring the independence of the external Auditor and the objectives and effectiveness of the audit process; and
- reviewing arrangements by which staff may in confidence raise concerns about possible improprieties in matters of financial reporting or otherwise and receiving and dealing with matters reported under these arrangements.

Summary of meetings during the year

The focus of the Committee has again been on the integrity of the Group's financial accounting and ensuring that shareholders can have confidence in the Group's accounting systems and policies and, as a result, in its reported results. The very substantial amount of work undertaken in 2015 reduced somewhat in 2016, reflecting the simplification of the Group through the sale or closure of some businesses and the resolution of some legacy issues. There were two formal meetings of the Committee and a number of briefing discussions with individual committee members. The settlement of past issues, continues to require discussion and openness between the financial management team and the Auditors and a more consultative process than is usual.

2016 Audit and Financial Reporting

The Committee reviewed with both management and the external Auditor the appropriateness of the half-year and annual financial statements concentrating on, amongst other matters:

- the application of materiality to the reduced level of ongoing business given the still significant legacy assets and potential liabilities;
- the quality and acceptability of accounting policies and practices;
- the appropriateness and clarity of the disclosures and compliance with financial reporting standards;
- material areas in which significant judgements have been applied or where there has been discussion with the Auditor; and
- whether the annual report and accounts, taken as a whole, present the results for the year in a fair and balanced way and provide the information necessary for shareholders to assess the Company's financial position, performance, business model and strategy.

As a Committee it supports the Auditors in displaying the necessary professional scepticism their role requires and meets with the auditors without the executive being present.

Management, encouraged by the Committee, have made considerable progress in reducing the number of subsidiaries in the Group which trade by transferring business to other Group companies and striking them off or otherwise making companies dormant. At 31 December 2014, the Group comprised 148 companies; by 31 December 2016, this had been reduced to 59 after disposals of 76 and strike off of 13 and will reduce further in the current year.

The Committee paid particular consideration to the scope of the audit and the risks with the greatest impact on the audit. It reviewed and considered the significant issues in relation to the Financial Statements and how these have been addressed, including:

- **Revenue recognition, particularly on those contracts containing multiple elements**
  Revenue recognition is a complex area and particularly so when customer contracts involve technology with a variety of ongoing performance obligations and/or when contracts include multiple elements. The Committee reviewed the treatment of significant contracts in force during the year.

Audit Committee Report (continued)

- **Valuation of PSD escrow account and deferred consideration**
  The sale of the Professional Services Division was concluded during 2015. The disposal proceeds contain a number of estimates of amounts which are material to the Balance Sheet, in particular of the Warranty Escrow and deferred consideration potentially receivable in respect of NIHL cases. The Committee has reviewed the estimates and, in particular, the full impairment of the Warranty Escrow, considering whether it was possible to place a valuation or probability of success with any certainty on the purported claim.
- **Exceptional and adjusted items**
  The accounts and strategic report make a number of references to exceptional costs and other adjusting items. The Committee has reviewed the presentation of these items in the light of applicable accounting standards and guidance issued by the European Securities and Markets Authority and the FRC.
- **Valuation of goodwill, intangible assets and assets held for sale**
  The Consolidated Statement of Financial Position includes goodwill arising on acquisitions as well as other intangible assets such as software development costs as well as an asset held for sale. Goodwill and other intangible assets arising on all acquisitions was reviewed in the light of developments in their businesses in 2016.
- **Estimates of provisions required at the year end**
  The Group has significant provisions for tax related matters, legal and regulatory investigations and disputes, onerous contracts and reorganisation costs as shown in note 26. The level of net provisions has reduced during the year as issues have been settled. Nevertheless provisions can involve significant judgement and therefore we have reviewed the assumptions made by management of the accuracy and valuation of tax related assets and liabilities and of the likelihood of other costs expected to be incurred, in particular as a result of the investigations and actions referred to in note 26.

Relationship with the Auditor

Shareholders approved the re-appointment of KPMG at the 2016 AGM at which the Committee Chairman explained that the Board remained satisfied as to KPMG's independence and objectivity and the quality of the 2015 audit. The Committee believes that the independence of the Auditor is one of the primary safeguards for shareholders. The Committee reviewed audit independence and the scope of non-audit services and independence safeguards with KPMG. As part of this review, the Committee has received and reviewed written confirmation that, in KPMG's professional judgement, KPMG is independent within the meaning of all UK regulatory and professional requirements and the objectivity of the audit engagement partner and audit staff is not impaired.

During 2016, KPMG and financial management, including the Committee Chairman took part in a full audit planning day with the aim of ensuring the most effective and efficient audit.

The Committee is satisfied that there has been appropriate focus and challenge on the primary areas of audit risk and assess the quality of the audit process to be good and therefore has recommended to the Board the reappointment of KPMG as Auditor.

Risk management and internal control

The Committee has reviewed with the Group Finance Director the structure of the financial management team which is appropriate for the size and strategy of the Group going forward, taking into account the need still to manage legacy issues. During the year, the main finance function was moved from Fareham which allowed the Fareham lease to be offered for sale. The Committee discussed with the Group Finance Director his plans to mitigate potential loss of finance expertise whilst ensuring that staff were appropriately treated. The Committee received a report into the overstatement of reported earnings per share in the initial press release of the Group's interim results. I apologise on behalf of the Board for this error, the root cause of which was an immaturity in the Group's reporting systems. Changes have been made both to systems and review processes as a result.

Independent Auditor's Report to the members of Watchstone Group plc

We have audited the Financial Statements of Watchstone Group plc for the year ended 31 December 2016 set out on pages 30 to 99. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the Parent Company Financial Statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit 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 25, 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 Ethical Standards for Auditors.

Scope of the audit of the Financial Statements

A description of the scope of an audit of Financial Statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on Financial Statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent company's affairs as at 31 December 2016 and of the Group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the Financial Statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company Financial Statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Tudor Aw (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square,
London
E14 5GL
27 April 2017

Financial Statements

Consolidated Income Statement

for the year ended 31 December 2016	Note	2016 Underlying £000	2016 Non-underlying £000	2016 Total £000	2015 Underlying £000	2015 Non-underlying £000	2015 Total £000
Revenue		60,703	3,053	63,756	54,894	3,890	58,784
Cost of sales		(31,805)	(1,902)	(33,707)	(31,105)	(2,293)	(33,398)
Gross profit		28,898	1,151	30,049	23,789	1,597	25,386
Administrative expenses	8	(40,883)	(10,093)	(50,976)	(43,120)	(161,989)	(205,109)
Other income	9	–	–	–	–	1,971	1,971
Share of results of associates		–	–	–	103	–	103
Group operating loss		(11,985)	(8,942)	(20,927)	(19,228)	(158,421)	(177,649)
Finance income	11	1,504	831	2,335	1,217	19	1,236
Finance expense	11	(269)	–	(269)	(1,508)	(67)	(1,575)
Loss before taxation		(10,750)	(8,111)	(18,861)	(19,519)	(158,469)	(177,988)
Taxation	12	(464)	204	(260)	3,666	9,524	13,190
Loss after taxation for the year from continuing operations		(11,214)	(7,907)	(19,121)	(15,853)	(148,945)	(164,798)
Provision against escrow receivable	36	–	(50,120)	(50,120)	–	–	–
Net gain on disposal of discontinued operations	36	–	323	323	–	494,317	494,317
Loss for the year from discontinued operations, net of taxation	36	–	(152)	(152)	–	(54,580)	(54,580)
(Loss)/profit after taxation for the year		(11,214)	(57,856)	(69,070)	(15,853)	290,792	274,939
Attributable to:							
Equity holders of the parent		(11,206)	(57,856)	(69,062)	(15,358)	290,792	275,434
Non-controlling interests		(8)	–	(8)	(495)	–	(495)
		(11,214)	(57,856)	(69,070)	(15,853)	290,792	274,939
(Loss)/earnings per share (pence):							
Basic	13	(24.3)		(150.0)	(34.0)		609.0
Diluted	13	(24.3)		(150.0)	(34.0)		609.0
Loss per share from continuing activities (pence):							
Basic	13			(41.5)			(363.3)
Diluted	13			(41.5)			(363.3)

Non-underlying results have been presented separately to give a better guide to underlying business performance (see notes 1 and 8). Where items have become non-underlying in 2016 the comparable amounts in 2015 have been revised to also be classified on the same basis. This does not impact the total 2015 results.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2016	2016	2015
	£000	£000
(Loss)/profit after taxation	**(69,070)**	274,939
Items that may be reclassified in the Consolidated Income Statement		
Exchange differences on translation of foreign operations	**50**	(1,674)
Total comprehensive (loss)/income for the year	**(69,020)**	273,265
Attributable to:		
Equity holders of the parent	**(69,012)**	273,760
Non-controlling interest	**(8)**	(495)
	(69,020)	273,265

Financial Statements (continued)

Consolidated Statement of Financial Position

as at 31 December 2016	Note	2016 £000	2015 £000
Non-current assets			
Goodwill	15	**23,221**	28,377
Other intangible assets	14	**6,259**	7,539
Property, plant and equipment	16	**6,293**	7,440
Interests in associates	17	**–**	86
		35,773	43,442
Current assets			
Inventories	19	**941**	871
Trade and other receivables	20	**10,228**	66,169
Corporation tax assets		**355**	8,165
Term deposits	21	**37,500**	–
Cash	22	**43,714**	103,200
		92,738	178,405
Assets of disposal group classified as held for sale	36	**1,300**	3,382
Total current assets		**94,038**	181,787
Total assets		**129,811**	225,229
Current liabilities			
Cumulative redeemable preference shares	24	**–**	(427)
Other secured and unsecured loans	24	**(163)**	(154)
Trade and other payables	23	**(25,895)**	(41,667)
Obligations under finance leases	25	**(102)**	(144)
Provisions	26	**(27,816)**	(36,704)
		(53,976)	(79,096)
Liabilities of disposal group classified as held for sale		**–**	(3,534)
Total current liabilities		**(53,976)**	(82,630)
Non-current liabilities			
Cumulative redeemable preference shares	24	**(6,131)**	(4,816)
Obligations under finance leases	25	**–**	(64)
Provisions	26	**(425)**	(306)
Deferred tax liabilities	27	**(741)**	(304)
		(7,297)	(5,490)
Total liabilities		**(61,273)**	(88,120)
Net assets		**68,538**	137,109
Equity			
Share capital	28	**4,604**	4,596
Other reserves	29	**143,179**	146,626
Retained earnings	29	**(80,218)**	(14,722)
Equity attributable to equity holders of the parent		**67,565**	136,500
Non-controlling interests		**973**	609
Total equity		**68,538**	137,109

The Financial Statements of Watchstone Group plc, registered number 05542221, on pages 30 to 81 were approved and authorised for issue by the Directors on 27 April 2017 and signed on its behalf by:

Mark P Williams
Director

Richard Rose
Director

Consolidated Statement of Changes in Equity

for the year ended 31 December 2016	Share capital	Share premium account	Reverse acquisition and merger reserve	Other equity reserves	Foreign currency translation reserve	Total other reserves	Retained earnings	Equity attributable to equity holders of the parent	Non-controlling interests	Total equity
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
At 1 January 2016	4,596	127,251	(3,312)	26,647	(3,960)	146,626	(14,722)	136,500	609	137,109
Loss for the year	–	–	–	–	–	–	(69,062)	(69,062)	(8)	(69,070)
Other comprehensive income	–	–	–	–	50	50	–	50	–	50
Total comprehensive income	–	–	–	–	50	50	(69,062)	(69,012)	(8)	(69,020)
Issue of share capital (notes 28, 29)	8	–	–	–	–	–	–	8	–	8
Share-based payments (note 28)	–	–	–	441	–	441	–	441	–	441
Other reserves movements, including transfer of realised profits to retained earnings (note 29)	–	–	–	(3,772)	–	(3,772)	3,772	–	–	–
Acquisition of non-controlling interests without a change in control	–	–	–	–	–	–	(206)	(206)	206	–
Exchange differences on non-controlling interests	–	–	–	–	(166)	(166)	–	(166)	166	–
Total transactions with owners, recognised directly in equity	8	–	–	(3,331)	(166)	(3,497)	3,566	77	372	449
At 31 December 2016	4,604	127,251	(3,312)	23,316	(4,076)	143,179	(80,218)	67,565	973	68,538

Financial Statements (continued)

Consolidated Statement of Changes in Equity (continued)

for the year ended 31 December 2015	Share capital	Share premium account	Reverse acquisition and merger reserve	Shares to be issued	Other equity reserves	Foreign currency translation reserve	Total other reserves	Retained earnings	Equity attributable to equity holders of the parent	Non-controlling interests	Total equity
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
At 1 January 2015	65,467	447,533	160,795	30,744	31,036	(2,401)	667,707	(472,743)	260,431	4,065	264,496
Profit for the year	–	–	–	–	–	–	–	275,434	275,434	(495)	274,939
Other comprehensive income	–	–	–	–	–	(1,674)	(1,674)	–	(1,674)	–	(1,674)
Total comprehensive income	–	–	–	–	–	(1,674)	(1,674)	275,434	273,760	(495)	273,265
Issue of share capital (notes 28, 29)	2,734	29,426	–	(21,047)	(5,652)	–	2,727	–	5,461	–	5,461
Cash out of options (note 28)	–	–	–	–	–	–	–	(11,150)	(11,150)	–	(11,150)
Effect of capital reduction and return of capital (note 28)	(63,605)	(349,708)	–	–	–	–	(349,708)	1,442	(411,871)	–	(411,871)
Shares no longer issuable (note 29)	–	–	–	(9,697)	–	–	(9,697)	9,470	(227)	–	(227)
Disposal of shares treated as held in treasury (note 29)	–	–	–	–	12,496	–	12,496	(9,750)	2,746	–	2,746
Share-based payments (note 28)	–	–	–	–	17,235	–	17,235	–	17,235	–	17,235
Other reserves movements, including transfer of realised profits to retained earnings (note 29)	–	–	(164,107)	–	(28,468)	–	(192,575)	192,575	–	–	–
Non-controlling interests disposed of	–	–	–	–	–	–	–	–	–	(2,846)	(2,846)
Exchange differences on non-controlling interests	–	–	–	–	–	115	115	–	115	(115)	–
Total transactions with owners, recognised directly in equity	(60,871)	(320,282)	(164,107)	(30,744)	(4,389)	115	(519,407)	182,587	(397,691)	(2,961)	(400,652)
At 31 December 2015	4,596	127,251	(3,312)	–	26,647	(3,960)	146,626	(14,722)	136,500	609	137,109

Consolidated Cash Flow Statement

for the year ended 31 December 2016	Note	2016 £000	2015 £000
Cash flows from operating activities			
Cash used in operations before exceptional costs, net finance expense and tax	31	**(18,921)**	(57,554)
Non underlying operating cash out flows excluding discontinued operations		**(10,422)**	(10,538)
Cash used in operations before net finance expense and tax		**(29,343)**	(68,092)
Corporation tax received		**6,990**	419
Net cash used by operating activities		**(22,353)**	(67,673)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(5,469)**	(5,636)
Purchase of intangible fixed assets		**(1,400)**	(4,285)
Proceeds on disposal of property, plant and equipment		**–**	143
Proceeds from sale of investments		**–**	1,358
Acquisition of subsidiaries net of cash acquired		**–**	(648)
Disposal of subsidiaries net of cash foregone		**4,013**	575,001
Investment in term deposits		**(82,500)**	–
Maturity of term deposits		**45,000**	–
Interest income		**97**	–
Disposal of associated undertakings		**86**	7,069
Dividends received from associates		**–**	109
Repayment of financing loan		**1,255**	–
Net cash (used in)/generated by investing activities		**(38,918)**	573,111
Cash flows from financing activities			
Issue of share capital		**8**	1,305
Capital return		**–**	(411,871)
Cash out of options		**–**	(11,150)
Finance expense paid		**(66)**	(1,510)
Finance income received		**743**	1,234
Finance lease repayments		**(103)**	(2,738)
Additional secured loans		**–**	793
Repayment of secured loans		**–**	(30,265)
Sale of shares treated as held in treasury		**–**	2,746
Repayment of unsecured loans		**–**	(326)
Net cash generated by/(used in) financing activities		**582**	(451,782)
Net (decrease)/increase in cash and cash equivalents		**(60,689)**	53,656
Cash and cash equivalents at the beginning of the year	22	**103,839**	50,482
Exchange gains/(losses) on cash and cash equivalents		**564**	(299)
Cash and cash equivalents at the end of the year	22	**43,714**	103,839
Cash and cash equivalents			
Cash		**43,714**	103,839
	22	**43,714**	103,839

The above Consolidated Cash Flow Statement includes cash flows from both continuing and discontinued operations. Further details of the cash flows relating to discontinued operations are shown in note 36.

As at 31 December 2016 the group had cash and cash equivalents of £43,714,000 (2015: £103,839,000) and term deposits of £37,500,000 (2015: £nil).

Notes to the Financial Statements

1. General information

Watchstone Group plc is a company registered and domiciled in the United Kingdom. The Financial Statements are presented in pounds sterling, to the nearest thousand, as this is the currency of the primary economic environment in which the Company operates. The address of the registered office is 21 Tower Street, London WC2H 9NS. The nature of the Group's operations and its principal activities are set out on page 8.

Consolidated Income Statement presentation

The Income Statement is presented in three columns. This presentation is intended to give a better guide to underlying business performance by separately identifying adjustments to Group results which are considered to either be exceptional in size, nature or incidence, relate to businesses which do not form part of the continuing business of the Group, or have potential significant variability year on year in non-cash items which might mask underlying trading performance (see notes 8 and 9). The columns extend down the Income Statement to allow the tax and earnings per share impacts of these transactions to be disclosed. Equivalent elements of the Group results arising in different years, including increases in or reversals of items recorded, are disclosed in a consistent manner.

2. Significant accounting policies

The principal accounting policies adopted in the preparation of these Financial Statements are set out below. These policies have been consistently applied to all the years presented.

Basis of preparation

These Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations adopted by the European Union (EU). The Financial Statements have been prepared under the historical cost convention. A summary of the significant Group accounting policies, which have been applied consistently across the Group, is set out below. The Group has reviewed its accounting policies in accordance with IAS 8 and determined that they are appropriate for the Group and have been consistently applied.

In preparing these Financial Statements the board has taken into account all available information in the application of its accounting policies and in forming judgments.

Going concern

The Group holds significant cash reserves and no material bank debt. The Group has concluded that its cash reserves and short term investments in term deposits will be sufficient to fund the ongoing operations of the Group's businesses, together with any future development needs of those businesses, and the settlement of legacy matters.

On this basis, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Directors have not identified any material uncertainties that would cast significant doubt on the ability of the Group to continue as a going concern. As such, the Directors continue to adopt the Going Concern basis of accounting in the preparation of the Financial Statements.

Basis of Consolidation

The Financial Statements represent a consolidation of the Company and its subsidiary undertakings as at the Statement of Financial Position date and for the year then ended. Subsidiaries acquired or disposed of during the year are included in the Consolidated Financial Statements from, or up to, the date upon which the investor has control over the investee. In accordance with IFRS 10 the definition of control is such that an investor has control over an investee when a) it has power over the investee; b) it is exposed, or has the rights, to variable returns from its involvement with the investee; and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. All subsidiary undertakings in which the Group has control have been consolidated in the Group's results.

Non-controlling interests represent the portion of profit or loss in subsidiaries that is not held by the Group and is presented within equity in the Consolidated Statement of Financial Position, separately from the Company shareholders' equity. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Business Combinations

The acquisition of subsidiaries is accounted for in line with IFRS 3, 'business combinations'. On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the Consolidated Income Statement in the year of acquisition. Where the Group acquires a business with which it had a previous relationship, to the extent that is necessary, any settlement of a pre-existing relationship is separated from the business combination accounting.

Where investments are subsequently re-measured, profits or losses are recognised through the Consolidated Income Statement.

Assets and disposal groups held for sale

Assets are classified as held for sale if their carrying amount will be recovered by sale rather than by continuing use in the business. Where a group of assets and their directly associated liabilities are to be disposed of in a single transaction, such disposal groups are also classified as held for sale. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition, and management must be committed to and have initiated a plan to sell the asset or disposal group which, when initiated, was expected to result in a completed sale within 12 months. Assets that are classified as held for sale are not depreciated. Assets or disposal groups that are classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Revenue recognition

Revenue earned by continuing operations

The Group receives income through Software ILF (Initial Licence Fee), SaaS (Software as a Service), consulting fees, physiotherapy services, management charges, membership fees, e-commerce revenues, click fees and other success based one-time fees. Intellectual property rights ("IPR") or distribution rights to IPR are sold as licences and recognised on the delivery of IPR or granting of the rights to the customer either up front and over the term of the license.

When selling software, new solution sales typically involve software licences being sold together with Post Customer Support (PCS) services and/or implementation services. Where the commercial substance of such a combination is that the individual components operate independently of each other and fair values can be attributed to each of the components, each are then recognised in accordance with their respective policies described below. Where it is not possible to attribute reliable fair values to two or more components, these are viewed as a combination and revenue is recognised on the combined revenue streams as the combined service is delivered using the percentage of completion method based upon hours delivered compared to total hours expected or for a maintenance contract revenue is recognised over the agreed term. Provisions for estimated losses on uncompleted contracts are recorded in the year in which such losses become probable, based on contract cost estimates.

When selling products such as telematics devices, a sale is recognised when legal title has passed to the customer.

The revenue recognition policies for separately identifiable revenue streams are as follows:

Physiotherapy services

Revenues are recognised upon the delivery of the service by the healthcare professional.

Initial licence fees, SaaS and other success based one-time fees

Revenues are recognised when persuasive evidence of an arrangement exists, delivery has occurred, the licence or other one-time fee is fixed or determinable, the collection of the fee is reasonably assured, no significant obligations with regard to success, installation or implementation of the software or service remain, and customer acceptance, when applicable, has been obtained. On certain SaaS contracts where there are fixed and contracted term lengths and no other services are required to be performed during the remainder of the contract, receivables under the contracts are recognised at the point of sale.

Maintenance, Hosting and other PCS Services

Maintenance, Hosting and PCS services are billed on a periodic basis in advance. The Group recognises revenue on these services evenly over the period of the contract.

Solution Delivery Implementation Services

Revenues for all fixed fee contracts are delivered using the percentage of completion method based upon hours delivered compared to total hours expected. Project plans are reviewed on a regular basis with any losses recognised immediately in the period in which such losses become probable based on contract cost estimates.

Telematics Services and Devices

Revenues are recognised evenly over the period of the contract they relate to, including upfront payments, commencing when the end user takes up the telematics service. All elements of the service are treated as an integrated part of the overall offering and are not unbundled or fair valued because they are not separately usable to the end user. Costs excluding telematics boxes are recognised in the period as incurred. Where telematics

Notes to the Financial Statements (continued)

devices are included as part of the services to end users they are capitalised and depreciated over their useful economic life. Where telematics devices are sold separately to intermediaries in the telematics revenue chain a sale is recognised for these items when their legal title has passed.

Broking Commissions

Commissions are earned through negotiating rates with energy suppliers on behalf of business customers and generating revenues by way of commission receivable directly from the energy suppliers. Revenue is recognised when the contract between the customer and the energy supplier becomes live, and is measured at the fair value of the consideration received, or receivable when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity.

Broking commission for insurance business is recognised at inception of the insurance policy.

Where services are subject to clawbacks of revenue over the duration of the contract, an initial estimate of clawback is made based on historical data and an adjustment is made to the revenue already recognised.

Operating Segments

For reporting purposes, the results of the Group are allocated between reporting segments. These operate in specific product and market areas and are described in note 6. Central costs are shown separately. The Group's accounting policies are applied consistently across the Group.

Marketing expenses

Marketing expenses are expensed in the period in which they are incurred.

Operating loss

Operating loss is loss stated before finance income, finance expense and tax.

Exceptional items

Exceptional items are those that in management's judgement, need to be disclosed by virtue of their size, nature or incidence, in order to draw the attention of the reader and to better show the underlying business performance of the Group. These are expected to be non-recurring material items which are outside of the Group's ordinary activities. Such items are included within the income statement caption to which they relate, and are separately disclosed in the notes to the consolidated financial statements.

Retirement benefit costs

The Group provides pension arrangements to certain of its full time UK employees through a money purchase (defined contribution) scheme. Contributions and pension costs are based on pensionable salary and are charged as an expense as they fall due. The Group has no further payment obligations once the contributions have been paid. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

Borrowing costs

All borrowing costs are recognised in the Consolidated Income Statement in the year in which they are incurred. Borrowing costs have not been capitalised on the grounds of materiality as the business has not developed any significant qualifying assets.

Share-based payments

Options

The fair value of options granted to individuals is recognised as an expense, with a corresponding increase in equity, over the period in which the unconditional entitlement occurs. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options expected to vest. Upon the exercise of share options, the proceeds received net of attributable transaction costs are credited to share capital and share premium.

The Group adopted a Black-Scholes model to calculate the fair value of options granted. Costs relating to employees of subsidiaries has been accounted for by increasing the Company's cost of investment of those subsidiaries.

Post combination vendor remuneration

Where consideration towards an acquisition is linked to ongoing employment within the Group this consideration is not treated as a cost of the acquisition. It is treated as post combination remuneration and is recognised in the Consolidated Income Statement over the period in which the employment services are delivered. The valuation of such amounts, where the form of the payment is in shares, uses an option valuation model. Where such costs relate to employees of subsidiaries, this has been accounted for by increasing the Company's cost of investment of those subsidiaries.

Foreign currency translation

The functional and presentational currency of the Parent Company is UK pounds sterling. Transactions denominated in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each Statement of Financial Position date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the Statement of Financial Position date, with any gains or losses being included in net profit or loss for the year.

On consolidation the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the Statement of Financial Position date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are dealt with through the Group's reserves, until such time as the subsidiary is sold whereupon the cumulative exchange differences relating to the net investment in that foreign subsidiary are recognised as part of the profit or loss on disposal in the Consolidated Income Statement. Where the Group loans monies to overseas subsidiaries as quasi-equity, to facilitate an acquisition, this is designated as a net investment hedge in foreign operations and the foreign exchange movement is recognised directly in reserves.

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

Goodwill

Goodwill on the acquisition of a business is recognised as an asset at the date the business is effectively acquired ("the acquisition date") for both Group and subsidiary undertakings. Goodwill is measured as the excess of the sum of the consideration transferred over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. If the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred the excess is recognised immediately in the Consolidated Income Statement as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually with any impairment recognised immediately in the Consolidated Income Statement and not subsequently reversed. For the purpose of impairment testing, goodwill is allocated to each of the Group's CGUs expected to benefit from the synergies of the combination. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of the goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis.

Other intangible assets

Intangible assets with finite useful lives are initially measured at cost, or their fair value on the date of acquisition. These assets are assumed to have a residual value of £nil and amortised over their useful economic lives as follows:

- IPR, software and licences: between 3-10 years;
- Brands: between 2-10 years; and
- Customer contracts: over the anticipated life of contracts.

Internal costs are capitalised where these are directly attributable to the intangible asset.

Impairment of tangible fixed assets and intangible assets including goodwill

At each Statement of Financial Position date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of any impairment loss. The recoverable amount is the higher of the asset's value in use and its fair value less costs to sell. Value in use is calculated using cash flow projections for the asset (or group of assets where cash flows are not identifiable for specific assets) discounted at a pre-tax discount rate based on the Company's cost of capital adjusted to reflect current market assessment of time value of money and the risk specific to the asset or cash-generating unit. If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised as an expense in the Statement of Comprehensive Income, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Notes to the Financial Statements (continued)

Research and development expenditure – internally generated

Expenditure on research activities is recognised as an expense in the year in which it is incurred.

Development costs are capitalised as they are incurred where these are separately identifiable and directly attributable to specific intangible assets that meet the IAS 38 (Intangible Assets) criteria whereby an intangible asset arising from development (or from the development phase of an internal project) shall be recognised if, and only if, an entity can demonstrate all of the following:

(a) the technical feasibility of completing the intangible asset so that it will be available for use or sale;

(b) its intention to complete the intangible asset and use or sell it;

(c) its ability to use or sell the intangible asset;

(d) how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;

(e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

(f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Subsequent costs continue to be capitalised provided they continue to qualify under IAS 38. The intangible assets are amortised by specific asset on a straight line basis over each assets' specific economic life. Assets are evaluated annually against IAS 38 for any impairment and where identified are written down immediately in line with IAS 38.

Property, plant and equipment

Property, plant and equipment is stated at cost, net of depreciation and any provision for impairment. Depreciation is not provided on freehold land. On other assets, depreciation is calculated to write off the cost less estimated residual values over their estimated useful lives as follows:

- Freehold buildings: 2%-5% per annum straight line;
- Improvements to freehold land and buildings: 5%-10% per annum straight line;
- Improvements to leasehold land and buildings: Over the term of the lease; and
- Plant and equipment: 20%-33⅓% per annum reducing balance.

Assets in the course of construction are capitalised as expenditure is incurred. Depreciation is not charged until the asset is brought into use. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease. Residual value is based on the estimated amount that would currently be obtained from disposal.

Estimated residual values and useful economic lives are reviewed annually and adjusted where necessary.

Investments

Fixed asset investments comprise the Group's strategic investments in entities that do not qualify as subsidiaries, associates or jointly controlled entities. They are valued at fair value on initial recognition. Any impairments are dealt with through the Consolidated Income Statement, as are differences between carrying values and disposal receipts. Where investment stakes are subsequently increased a stepped acquisition approach is taken, i.e. when each additional tranche of shares is acquired, the indicators of control and influence for that investment are reviewed to determine how that transaction should be reflected in the Consolidated Financial Statements and also whether the shareholding should be accounted for as a fixed asset investment, associate (under the equity method) or a subsidiary undertaking (and consolidated).

Where investments are subsequently re-measured, profits or losses are recognised through the Consolidated Income Statement.

Leases

Rentals payable under operating leases are charged to income on a straight line basis over the term of the relevant lease.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to the ownership of the leased item are capitalised at the inception of the lease at the fair value of the leased asset, or if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. The finance cost is charged to the Consolidated Income Statement over the lease period as part of finance expense.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs comprise direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less costs to be incurred in marketing, selling and distribution.

Trade receivables

Trade receivables are held at amortised cost less any impairment provisions and this equates to their recoverable value. Movements in the impairment provision relating to credit risk are recognised within administrative expenses as bad debt expenses.

Trade payables

Trade payables do not carry any interest and are recognised initially stated at their fair value. Subsequent to initial recognition they are measured at amortised cost.

Cash and cash equivalents

Cash in the Statement of Financial Position comprises cash at banks and in hand. For the purpose of the Consolidated Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Term deposits

Term deposits represent short term (six months or less) investments in fixed interest deposits with a major UK bank. The related gross cash flows are included within investing activities in the Consolidated Cash Flow Statement. The interest receipts relating to term deposits are also shown within investing activities as interest received.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation in respect of a past event and it is probable that settlement will be required of an amount that can be reliably estimated.

Taxation including deferred tax

The tax expense represents the sum of current tax and deferred tax. Tax is recognised in the Consolidated Income Statement except to the extent that it relates to items recognised in equity in which case it is recognised in equity. The current tax is based on taxable profit for the year calculated using tax rates that have been enacted or substantively enacted by the Statement of Financial Position date.

Deferred tax is provided using the balance sheet liability method on temporary differences between the carrying amounts of assets and liabilities in the Financial Statements and the corresponding tax bases used in the computation of taxable profit. In principle deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets or liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each Statement of Financial Position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Share capital

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Deferred consideration

Deferred consideration is recognised when it is probable that future economic benefits associated with the consideration will be received and may be measured reliably.

Notes to the Financial Statements (continued)

3. Adoption of new and revised Standards

In the current year, the following new and revised Standards and Interpretations have been adopted:

Standards, amendment and interpretations affecting the Financial Statements adopted by the Company

There are no new standards, amendments or interpretations adopted by the Company that have a material impact on the Financial Statements for this year.

Standards, amendments and interpretations not significantly affecting the reported results nor the financial position

Amendments to IFRS 11	Accounting for Acquisitions of interests in Joint Operations
Amendments to IAS 16 and IAS 38	Clarification of acceptable methods of Depreciation and Amortisation
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants
Amendments to IAS 27	Equity method in Separate Financial Statements
Annual Improvements to IFRSs	2012-2014 cycle
Amendments to IFRS 10, 12 and 28	Investment Entities: Applying the consolidation Exception
Amendments to IAS 1	Disclosure Initiative
IFRS 14	Regulatory deferral accounts

New standards, amendments and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016 (which in some cases have not yet been adopted by the European Union), and have not been applied in preparing these Consolidated Financial Statements. None of these are expected to have a significant effect on the Consolidated Financial Statements of the Company, as follows:

Annual Improvements to IFRSs	2014-2016 cycle
Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
IFRS 9	Financial Instruments
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
Amendments to IFRS 10 and 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The following standards have not been applied in preparing these Consolidated Financial Statements:

IFRS 15	'Revenue from contracts with customers'. This standard deals with revenue recognition and establishes principles for reporting useful information to users of Financial Statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard is effective for annual periods beginning on or after 1 January 2018. The Group is assessing the impact of IFRS 15 upon its business. Whist it is expected that a number of agreements with customers will not be impacted the revised standard may result in revenues being recognised in earlier periods.
IFRS 16	'Leases'. This standard replaces IAS 17 and changes the basis for recognising and measuring lease obligations. The major impact of the standard is to remove the concept of operating leases and recognising a related asset and liability on the Statement of Financial Position. The standard is effective for annual periods beginning on or after 1 January 2019. The Group is assessing the impact of IFRS 16.

4. Critical accounting judgements and key sources of estimation uncertainty

As set out in the basis of preparation note, in the preparation of these Financial Statements the board has taken into account all available information in the application of its accounting policies and in forming judgments. In the process of applying the Group's accounting policies, management has made a number of judgements, and the preparation of Financial Statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the Financial Statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

The key management judgements together with assumptions concerning the future and other key sources of estimation uncertainty at the Statement of Financial Position date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Recognition of revenue

Revenues are recognised in-line with the delivery and receipt of services to and for our customers. Each revenue type is considered separately and revenue is recognised when the customer has received the service, the amount of revenue can be reliably measured and conversion of the revenue in to cash or other economic benefit can be assured. The exact timing of the reliable measurement and conversion criterion are judgemental. These considerations are applied to both ongoing core service activities and one off contracts that are entered into.

Identification of CGUs and measurement and impairment of goodwill

CGUs, or groups of CGUs, are identified as the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Goodwill is then allocated to each CGU or group of CGUs. Each unit or group of units to which the goodwill is so allocated represents the lowest level at which goodwill is monitored for management purposes and is not larger than the operating segments disclosed.

The CGUs for the Group have been determined based upon the level of integration of the businesses and where interlinking cash flows exist within each division. These CGUs are smaller than the operating segments disclosed in note 6. Further detail regarding CGUs is included in note 15.

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Capitalisation of internally generated development costs

The Company capitalises internally generated development costs where these can be clearly and fully assessed against IAS 38 as per the policy laid out in note 2. Such costs are clearly and separately identifiable by developed saleable product, with all products assessed against IAS 38.
The assessment of future cash inflows in excess of the costs incurred is uncertain in respect of new product development and therefore judgement must be applied. The amount capitalised for 2016 is laid out in note 14.

Identification of discontinued operations

The Group classifies the results of component business as discontinued where they are considered to relate to a separate major line of business or geographical area and have been disposed of, or are classified as held for sale.

Consideration receivable for the PSD

£50,000,000 (plus interest) of the PSD sale consideration is retained in a joint escrow account until the expiration of the warranty period or settlement of a claim. It is expected that a claim will be received in respect of the PSD disposal. The outcome of a potential claim is highly uncertain and therefore the carrying amount of the Group's receivable in respect of the consideration held in escrow is highly judgmental. At 31 December 2016, the Group has impaired in full its receivable in respect of this consideration.

Consideration for the sale of the PSD also included deferred, cash consideration and the Company has had to determine the fair value of this financial asset. At 31 December 2016 and 2015 the fair value has been assessed as £nil.

Notes to the Financial Statements (continued)

Provisions

The Group is aware of a number of legal and regulatory matters which, by their nature, are subject to significant judgement and uncertainty. This includes judgements around both the quantum of any related cash outflows and also the timing. The judgements are specific to the facts surrounding each case and often involve historic transactions. All such matters are periodically assessed with the assistance of external professional advisers, where appropriate, to determine the likelihood of the Group incurring a liability and to evaluate the extent to which a reliable estimate of any liability can be made. However, the likely cost to the Group of the Serious Fraud Office ("SFO") investigation and any group litigation which may potentially be brought against the Group is subject to a number of significant uncertainties and these cannot currently be estimated reliably. Accordingly, no provision has been made in respect of these matters. Further detail is provided in note 36.

Deferred tax in connection with the continuing business operations

Other taxable losses have arisen during the year ended 31 December 2016 which have the potential to give rise to a deferred tax asset. This asset has not been recognised due to the extent of the continuing business losses incurred in 2016 including head office costs, and the developing nature of the continuing businesses such that the expectation of profitability at sufficient quantum was not sufficiently certain within a reasonable timeframe.

Classification of underlying and non-underlying results

Management is required to exercise its judgement in the classification of certain items as exceptional and outside of the Group's underlying results. The determination of whether an item should be separately disclosed as an exceptional item or other adjustments requires judgement on its nature and incidence, as well as whether it provides clarity on the Group's underlying trading performance. In exercising this judgement, management takes appropriate regard of IAS 1 "Presentation of financial statements" as well as guidance issued by the Financial Reporting Council and the European Securities and Markets Authority on the reporting of exceptional items and Alternative Performance Measures.

5. Key performance indicators

	2016 £000	2015 £000
Revenue:		
Hubio	**15,004**	14,338
ingenie	**13,926**	12,530
Healthcare Services	**28,083**	25,203
BAS	**3,690**	2,823
Total underlying revenue	**60,703**	54,894
Underlying gross profit margin	**47.6%**	43.3%
Underlying EBITDA (note 6)	**(9,760)**	(15,091)
Underlying group operating loss (note 6)	**(11,985)**	(19,228)
Cash and term deposits (continuing businesses)	**81,214**	103,200
Total average number of employees (continuing operations)	**1,079**	1,426

Reconciliation of Alternative Performance Measures to nearest GAAP equivalents

	2016 £000	2015 £000
Underlying revenue	**60,703**	54,894
Non underlying revenue	**3,053**	3,890
Total revenue	**63,756**	58,784
Underlying EBITDA	**(9,760)**	(15,091)
Underlying depreciation and amortisation*	**(2,225)**	(4,137)
Underlying group operating loss	**(11,985)**	(19,228)
Non-underlying group operating loss	**(8,942)**	(158,421)
Group operating loss	**(20,927)**	(177,649)

* excludes depreciation of telematics devices of £2,998,000 (2015: £4,176,000) which is included within cost of sales and is therefore also included within underlying EBITDA.

Further detail regarding non-underlying results is provided in note 9.

6. Business and geographical segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker and represent four divisions supported by a Group cost centre (denoted as Central below). The principal activities of each segment are as follows. Hubio: a provider of telematics and insurance technology solutions. ingenie: Telematics based insurance broking. Healthcare Services: A Canadian based physiotherapy network. Business Advisory Service Limited ("BAS"), an energy brokerage.

During 2016, Maine Finance Limited ("Maine Finance"), a life insurance broker and the B2C business of Road Angel Group (being part of Hubio) ("RAG") ceased and the ingenie Canada business entered a state of managed wind down. Accordingly, the results of these businesses have been reclassified to non-underlying and the amounts for 2015 have been restated to be presented on a comparable basis.

Within the results of the discontinued operation are Quintica Holdings Limited ("Quintica") and property services, both of which were disposed of in 2016. In 2015, discontinued operations additionally includes the PSD, which was disposed of in May 2015.

Notes to the Financial Statements (continued)

Segment information about these businesses is presented below. The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 2. A reconciliation of alternative performance measure to nearest GAAP equivalents is presented in note 5.

	Hubio	ingenie	Healthcare Services	BAS	Central	Total
Year ended 31 December 2016	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Underlying revenue	**15,004**	**13,926**	**28,083**	**3,690**	**–**	**60,703**
Underlying cost of sales	**(7,025)**	**(7,565)**	**(14,856)**	**(2,359)**	**–**	**(31,805)**
Underlying gross profit	**7,979**	**6,361**	**13,227**	**1,331**	**–**	**28,898**
Underlying administrative expenses excluding depreciation and amortisation*	**(12,547)**	**(5,316)**	**(13,099)**	**(1,622)**	**(7,474)**	**(40,058)**
Underlying EBITDA before capitalisation of development expenditure	**(4,568)**	**1,045**	**128**	**(291)**	**(7,474)**	**(11,160)**
Capitalisation of development expenditure	**–**	**368**	**1,032**	**–**	**–**	**1,400**
Underlying EBITDA before allocation of central costs	**(4,568)**	**1,413**	**1,160**	**(291)**	**(7,474)**	**(9,760)**
Allocation of central costs	**(1,715)**	**(627)**	**(562)**	**(264)**	**3,168**	**–**
Underlying EBITDA after allocation of central costs	**(6,283)**	**786**	**598**	**(555)**	**(4,306)**	**(9,760)**
Depreciation and amortisation*						**(2,225)**
Share of results from associates						**–**
Underlying group operating loss						**(11,985)**
Net finance income						**1,235**
Underlying group loss before tax						**(10,750)**
Non-underlying adjustments						**(8,111)**
Total group loss before tax from continuing operations						**(18,861)**

	Hubio	ingenie	Healthcare Services	BAS	Central	Total
Year ended 31 December 2015	£000	£000	£000	£000	£000	£000
Underlying revenue	14,371	12,530	25,147	2,846	–	54,894
Underlying cost of sales	(7,324)	(7,451)	(13,864)	(2,466)	–	(31,105)
Underlying gross profit	7,047	5,079	11,283	380	–	23,789
Administrative expenses excluding depreciation and amortisation*	(16,350)	(5,290)	(11,610)	(1,101)	(9,049)	(43,400)
Underlying EBITDA before capitalisation of development expenditure	(9,303)	(211)	(327)	(721)	(9,049)	(19,611)
Capitalisation of development expenditure	2,996	1,028	322	–	174	4,520
Underlying EBITDA before allocation of central costs	(6,307)	817	(5)	(721)	(8,875)	(15,091)
Allocation of central costs	(1,983)	(333)	(319)	(876)	3,511	–
Underlying EBITDA after allocation of central costs	(8,290)	484	(324)	(1,597)	(5,364)	(15,091)
Depreciation and amortisation*						(4,240)
Share of results from associates						103
Underlying group operating loss						(19,228)
Net finance income						(291)
Underlying group loss before tax						(19,519)
Non-underlying adjustments						(158,469)
Total group loss before tax from continuing operations						(177,988)

* Depreciation added back above when calculating Underlying EBITDA from continuing operations excludes depreciation on telematics devices of £2,998,000 (2015: £4,176,000) which is included within cost of sales.

	United Kingdom	Canada	USA	Rest of World	Total
	£000	£000	£000	£000	£000
Year ended 31 December 2016					
Revenue (underlying)	**25,965**	**30,633**	**4,105**	**–**	**60,703**
Other segment information					
Total non-current assets	**21,224**	**13,972**	**550**	**27**	**35,773**
Capital expenditure					
Tangible assets	**4,349**	**517**	**603**	**–**	**5,469**
Intangible assets	**368**	**1,032**	**–**	**–**	**1,400**
Year ended 31 December 2015					
Revenue (underlying)	22,674	28,430	3,790	–	54,894
Other segment information					
Total non-current assets	31,779	11,614	–	49	43,442
Capital expenditure					
Tangible assets	4,639	283	489	24	5,435
Intangible assets	5,381	2,125	2,240	–	9,746

7. Operating loss

The operating loss for the year is stated after charging/(crediting):

	2016	2015
	£000	£000
Depreciation of property, plant and equipment	**4,327**	6,035
Amortisation of intangible assets	**3,440**	15,250
Operating lease rentals	**549**	292
Finished goods inventories expensed	**3,605**	3,851
Net foreign exchange gains	**(339)**	(500)
Auditor’s remuneration	**588**	1,892
Unused provisions released:		
– Underlying business	**(291)**	(1,130)
– Non-underlying	**(10,434)**	(8,124)
Staff costs (note 10)	**42,627**	46,837

Depreciation of £2,998,000 (2015: £4,176,000) relates to telematics devices which is included within cost of sales.

The analysis of Auditor’s remuneration for continuing and discontinued operations is as follows:

	2016	2015
	£000	£000
Fees payable to the Company’s Auditor and its associates for the audit of the Parent Company and Consolidated Financial Statements	**250**	372
Fees payable to the Company’s Auditor and its associates for other services:		
– Additional amounts in relation to the prior year audit	**55**	834
– The audit of the Company’s subsidiaries	**235**	304
– Audit-related services	**25**	50
– Other assurance services	**–**	332
– Taxation compliance services	**16**	–
– Taxation advisory services	**7**	–
	588	1,892

Notes to the Financial Statements (continued)

8. Non-underlying results

The non-underlying results of the business include the income and expenses of businesses classified as non-underlying by virtue of these not forming part of the long term plans for the group and as such are being wound down or disposed of. This includes Maine Finance, ingenie Canada and RAG. Businesses meeting this criterion which also meet the definition of a discontinued operation under IFRS 5 have been further classified as discontinued operations within the non-underlying results. This includes Quintica, BEI and CRC, and additionally in 2015, the PSD. The comparative amounts have been presented to be on a consistent basis.

Items which are considered to be exceptional in size, nature or incidence, or have potential significant variability year on year in non-cash items which might mask underlying trading performance are also included within non-underlying. In 2016 this includes providing for the escrowed receivable relating to the PSD disposal, which has been included alongside the discontinued operations to which it relates.

Non-underlying administrative expenses is analysed as follows:

	2016	2015
	£000	£000
Exceptional items:		
– Corporate restructuring	**425**	8,724
– Business restructuring	**1,415**	2,763
– Legal and regulatory	**(1,028)**	7,055
– Tax related matters	**(5,419)**	–
– Share based payments (note 28)	**–**	3,914
– Impairments of non-cash assets	**6,627**	113,610
Total exceptional items	**2,020**	136,066
Other adjustments:		
– Share based payments	**441**	7,874
– Amortisation of acquired intangibles	**2,676**	10,957
– Other non-underlying administrative expenses	**4,956**	7,092
Total other adjustments	**8,073**	25,923
Total non-underlying administrative expenses	**10,093**	161,989

Other adjustments are not exceptional however do not relate to the ongoing future trade of the Group and can vary significantly from year to year. Amortisation of acquired intangibles is significantly impacted by impairment charges in the previous year.

Other non-underlying administrative expenses relate principally to the costs of businesses classified as non-underlying and central costs associated with the same. These are specifically identifiable external costs and do not include allocations of internal amounts.

Where items have become non-underlying in 2016 the comparable amounts in 2015 have been revised to also be classified on the same basis.

Impairments of non-cash assets above relates to:

	2016	2015
	£000	£000
Goodwill	**6,814**	61,836
Other intangible assets	**178**	44,616
Tangible fixed assets	**–**	1,861
Investments	**–**	2,691
Inventory	**(365)**	2,606
	6,627	113,610

The corporate restructuring costs of £425,000 (2015: £8,724,000) for the year ended 31 December 2016 are stated after taking into account the release of unused provisions of £nil (2015: £2,586,000). In 2015, corporate restructuring costs consisted of acquisition related fees of £12,000 credit, employer's national insurance contributions in respect of the cashing out of options of £243,000, working capital and strategic review costs of £6,666,000 and costs associated with the return of capital of £1,827,000.

Business restructuring includes costs in relation to the wind down of ingenie Canada, the closure of Maine Finance and the RAG B2C business and is net of the release of provisions of £1,584,000.

The legal and regulatory credit of £1,028,000 includes the releases of provisions of £2,186,000 relating to legal disputes in the UK and the settlement of the Navseeker claim in the US. This is partially offset by additional legal fees in relation to recovery of the outstanding amounts held in escrow upon sale of the PSD. In 2015 costs of £7,055,000 are stated after taking into account the release of unused provisions of £5,538,000, which were created in 2014 and £12,593,000 of costs in relation to the known historical issues.

Tax related matters of £5,419,000 (2015: £nil) includes the reversal of £9,029,000 unused provisions (2015: £2,586,000). This reflects the settlement of historic tax matters with HMRC.

9. Other income

Continuing operations:

	2016	2015
	£000	£000
Profit on disposal of subsidiary undertakings	**–**	3,329
Loss on disposal of fixed asset investments	**–**	(1,358)
	–	1,971

In the year ended 31 December 2015, the profit on disposal of subsidiary undertakings related to the disposal of 360GlobalNet and loss on disposal of fixed asset investments was in respect of 360ViewMax.

10. Employee numbers and staff costs

The average number of employees during the year including executive Directors for continuing operations was as follows:

	2016	2015
	Number	Number
Front office technology, consulting and outsourcing	**917**	953
Back office management and administration	**162**	473
	1,079	1,426

At 31 December 2015, there were 168 employees relating to the disposal group classified as held for sale split between front office technology, consulting and outsourcing 95 and back office management and administration 73.

The remuneration of the executive and non-executive Directors was as follows:

	2016	2015
	£000	£000
Emoluments	**2,211**	1,763
Compensation for loss of office	**–**	575

Notes to the Financial Statements (continued)

The emoluments of the highest paid director were £1,145,000 (2015: £530,000). Two Directors received a total of £17,000 (2015: two directors a total of £51,000) in connection with contributions to pension schemes. Further details are provided in the Directors' Remuneration Report and in particular the tables on page 21 form part of this note to the Financial Statements.

Total employee costs for continuing operations were as follows:

	2016	2015
	£000	£000
Wages and salaries	**39,398**	37,494
Social security costs	**3,006**	2,611
Pension costs	**293**	274
Share-based payment charges	**441**	10,978
	43,138	51,357

Included in the total above are £511,000 (2015: £4,520,000) of salaries which were capitalised during the year in relation to software development.

11. Net finance income/expense

Continuing operations:

	2016	2015
	£000	£000
Bank interest receivable	**663**	1,236
Foreign exchange gain on intercompany loans	**1,592**	–
Other interest receivable	**80**	–
Total interest receivable	**2,335**	1,236
Interest payable on bank loans and overdrafts	**(24)**	(169)
Interest on obligations under finance leases	**(8)**	(305)
Foreign exchange loss on intercompany loans	**–**	(547)
Other interest payable	**(237)**	(554)
Total interest payable	**(269)**	(1,575)
Net finance income/(expense)	**2,066**	(339)

12. Taxation

Continuing operations:

	2016 £000	2015 £000
The taxation charge/(credit) comprises:		
Current tax:		
– Current year	**(44)**	–
– Adjustments in respect of prior year	**(131)**	(2,062)
Total current tax expense	**(175)**	(2,062)
Deferred tax expense:		
– Origination and reversal of temporary differences	**662**	(12,408)
– Adjustments in respect of changes in tax rates	**(5)**	(180)
– Adjustments in respect of prior year	**(222)**	1,460
Deferred tax charge/(credit)	**435**	(11,128)
Total tax expense	**260**	(13,190)

Income tax for the UK is calculated at the standard rate of UK corporation tax of 20% (2015: 20.25%) on the estimated assessable profit for the year. The total charge for the year can be reconciled to the accounting profit as follows:

	2016 £000	2015 £000
Loss on ordinary activities before tax from continuing operations	**(18,861)**	(177,988)
Tax at 20% (2015: 20.25%) thereon	**(3,772)**	(36,036)
Effect of:		
Expenses not deductible for tax purposes	**1,568**	10,278
Unrecognised deferred tax on losses	**4,000**	6,088
Intangible and investment impairments	**1,363**	7,250
Other short term timing differences	**(84)**	13
Income/credits not taxable	**(2,412)**	–
Effect of higher/(lower) tax rate overseas	**(44)**	–
Reduction in rate of deferred tax	**(5)**	(181)
Adjustments to tax charge in respect of prior periods	**(354)**	(602)
Total tax charge/(credit) for the year	**260**	(13,190)

The tax impact of the items included in the Consolidated Statement of Comprehensive Income is £nil (2015: £nil).

Deferred tax assets are recognised for tax losses available for carrying forward to the extent that the realisation of the related benefit through future taxable profits is probable. The continuing business has recognised deferred tax assets of £265,000 (2015: £nil) in respect of losses amounting to £1,559,000 (2015: £nil) that can be carried forward against future taxable income.

The total amount of goodwill that is expected to be deductible for tax for continuing business is £10,000 (2015: £1,042,000).

At the Statement of Financial Position date, there are unrecognised deferred tax assets of £17,377,000 (2015: £18,077,000).

Factors affecting future tax charges

Reductions in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax liability at 31 December 2016 has been calculated based on these rates.

Notes to the Financial Statements (continued)

13. Earnings per share

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

For diluted earnings per share the weighted average number of ordinary shares is adjusted to assume conversion of all dilutive potential ordinary shares where, on warrants or options, exercise price is less than the average market price of the Company's ordinary shares during the year.

The calculation of the basic and diluted earnings per share is based on the following data. The underlying profit for the year and resultant underlying earnings per share is used by the Directors as a measure of the underlying performance of the business:

	2016	2015
	£000	£000
(Loss)/profit attributable to ordinary shareholders	**(69,062)**	275,434
Net loss/(gain) from discontinued operations (including profit on disposal from discontinued operations)	**49,949**	(439,737)
Loss attributable to ordinary shareholders from continuing activities:	**(19,113)**	(164,303)
Other adjustments in respect of non-underlying results:		
– Gross profit	**(1,151)**	(1,597)
– Non-recurring administrative expenses	**10,093**	161,989
– Other income	**–**	(1,971)
– Finance (income)/expense	**(831)**	48
– Tax effect on the above	**(204)**	(9,524)
Underlying loss attributable to ordinary shareholders	**(11,206)**	(15,358)

Basic weighted average number of shares	**46,037,718**	45,229,213
Dilutive potential ordinary shares	**–**	–
Diluted weighted average number of shares	**46,037,718**	45,229,213

Due to their anti-dilutive effect in 2016 and in 2015, options which could potentially be exercised after the balance sheet date have not been included in the calculation of diluted earnings per share and underlying diluted earnings per share in 2016.

	2016	2015
	Pence	Pence
(Loss)/earnings per share (pence):		
– Basic	**(150.0)**	609.0
– Diluted	**(150.0)**	609.0
Loss per share from continuing operations (pence):		
– Basic	**(41.5)**	(363.3)
– Diluted	**(41.5)**	(363.3)
Underlying loss per share (pence):		
– Basic	**(24.3)**	(34.0)
– Diluted	**(24.3)**	(34.0)
(Loss)/earnings per share from discontinued operations (pence):		
– Basic	**(108.5)**	972.2
– Diluted	**(108.5)**	972.2

14. Intangible assets

	Note	2016 £000	2015 £000
Other intangible assets		**6,259**	7,539
Goodwill	15	**23,221**	28,377
		29,480	35,916

The movement in other intangible assets was as follows:

	Customer contracts, data, brands and relationships £000	IPR, software and licences £000	Total £000
Cost			
At 1 January 2015	70,778	27,596	98,374
Additions – internally generated	361	29	390
Additions – purchased	–	4,520	4,520
Transfer to assets of disposal group classified as held for sale	(147)	–	(147)
Disposals	(1,444)	(3,020)	(4,464)
Exchange differences	–	(291)	(291)
At 1 January 2016	**69,548**	**28,834**	**98,382**
Additions – internally generated*	**–**	**2,155**	**2,155**
Disposals	**(2,600)**	**–**	**(2,600)**
Exchange differences	**92**	**1,046**	**1,138**
At 31 December 2016	**67,040**	**32,035**	**99,075**
Amortisation			
At 1 January 2015	17,169	14,934	32,103
Charge for the year	11,452	3,798	15,250
Impairments	36,174	8,442	44,616
Transfer to assets of disposal group classified as held for sale	(83)	–	(83)
Disposals	(284)	(668)	(952)
Exchange differences	–	(91)	(91)
At 1 January 2016	**64,428**	**26,415**	**90,843**
Charge for the year	**2,405**	**1,035**	**3,440**
Impairments	**178**	**–**	**178**
Disposals	**(2,407)**	**–**	**(2,407)**
Exchange differences	**1**	**761**	**762**
At 31 December 2016	**64,605**	**28,211**	**92,816**
Net book value			
31 December 2016	**2,435**	**3,824**	**6,259**
31 December 2015	5,120	2,419	7,539

* additions include £755,000 reclassified from prepayments.

Amortisation relating to discontinued activities during the year ended 31 December 2016 was £nil (2015: £1,568,000). Impairment charges of £nil (2015: £64,000) were recognised in the Consolidated Income Statement in the year in respect of discontinued activities. During the year ended 31 December 2016, £913,000 of research and development was taken directly to profit and loss (2015: £4,034,000).

Notes to the Financial Statements (continued)

Brands are included within customer contracts, data, brands and relationships. The carrying value of brands at 1 January 2016 was £2,638,000 (2015: £14,335,000) with amortisation charged in the year of £1,220,000 (2015: £1,245,000) and impairment charges of £nil (2015: £1,367,000) recognised in the Consolidated Income Statement in the year. Brands with a carrying value of £193,000 (2015: £9,085,000) were disposed of in the year. The carrying value at 31 December 2016 was £1,225,000 (2015: £2,638,000).

All of these assets are recognised at fair value at acquisition or cost to purchase and are amortised over their estimated useful lives. Fair values of acquired intangible fixed assets have been assessed by reference to the future estimated cash flows arising from the application of assets, discounted at an appropriate rate to present value, or by reference to the amount that would have been paid in an arm's length transaction between knowledgeable and willing parties. The amortisation charge is included within administrative expenses.

The Group has conducted a review of all intangible assets at the balance sheet date and identified further assets previously valued at £178,000 (2015: £19,789,000) which are or will become obsolete, either because they are unused and are expected to remain so or will be replaced by other similar and existing assets held by the Group at the balance sheet date.

In note 33 an explanation is given to show the degree to which fair values are observable. These are grouped into three levels: Level 1, Level 2 and Level 3.

Where fair value calculations have been performed to identify separable intangible assets as part of the cost of an acquisition, to show separately from goodwill within other intangible assets, the level was as follows:

	Fair value degree observable	**2016**	2015
		£000	£000
Non-current assets:			
Other intangible assets	Level 3	–	4,795

The fair value degree represents unobservable inputs as they are based on an assessment of assets acquired. Where valuation techniques have been used the key inputs included an assessment of future performance and cash flows, growth rates, appropriate discount rate, the valuation of assembled workforces and contributory asset charges. The sensitivity to the unobservable inputs is not considered significant as the only impact of these fair values is an amortisation charge in the Consolidated Income Statement from separable intangibles identified on acquisitions.

15. Goodwill

The movement in goodwill is as follows:

	Goodwill
	£000
Cost	
At 1 January 2015	226,486
Additions – purchased	511
Arising on acquisition of subsidiaries	4,325
Disposal of a subsidiary (note 36)	(4,875)
Transfer of assets of disposal group classified as held for sale	(36,028)
Exchange differences	(4,503)
At 1 January 2016	**185,916**
Exchange differences	**7,978**
At 31 December 2016	**193,894**
Impairment	
At 1 January 2015	128,654
Charge for the year	61,836
Disposal of a subsidiary (note 36)	(1,836)
Transfer to assets of disposal group classified as held for sale	(27,487)
Exchange differences	(3,628)
At 1 January 2016	**157,539**
Charge for the year	**6,814**
Exchange differences	**6,320**
At 31 December 2016	**170,673**
Net book value	
31 December 2016	**23,221**
31 December 2015	28,377

Goodwill is allocated to the Group's CGUs as follows:

	2016	2015
	£000	£000
Total Hubio	–	3,143
ingenie	**14,674**	14,674
Healthcare Services	**8,547**	6,889
BAS	–	3,671
	23,221	28,377

The categorisation and description of the Group's CGUs was revised in 2016 following strategic changes implemented by management.

Hubio-UK, previously comprised Metaskil and Hubio Technologies businesses. These have been separated in the year into two CGU's where all of the goodwill was allocated to the Metaskil CGU. Upon performing an impairment review of this goodwill against the projected cash flows of the business the goodwill has been written down to nil.

The RAG business (providers of GPS based safety camera and other such products for the UK consumer and commercial markets) represented a single CGU in 2015. During 2016, the consumer (B2C) elements of the RAG business has ceased with the remaining commercial elements of the business becoming Hubio Fleet. The RAG CGU has been split into two CGUs, RAG B2C and Hubio Fleet and the goodwill allocated between.

Notes to the Financial Statements (continued)

The BAS business was previously included within ‘Other’ along with the Maine Finance business. Since Maine Finance closed to new business in 2016 it no longer represents its own CGU and therefore BAS is now presented on its own.

Basis of valuation and key assumptions for impairment testing of goodwill and intangible assets

The recoverable amount of goodwill for businesses at the year-end is determined on the basis of Value in Use, using a discounted cash flow (“DCF”) appraisal based on explicit forecast periods of between 3 and 4 years (2015: 5 to 7 years) to reflect the maturity of the businesses and/or markets they operate in. External market data has been used where possible and the Group has also drawn upon data used in its annual planning cycle, with reference to other market participants. In particular, changes in working capital and future investments in non-current assets are key assumptions.

For each of the CGUs with a significant amount of goodwill, the key assumptions used in the Value-in-Use calculations and recoverable amounts of goodwill are stated below.

2016	Hubio Fleet	RAG B2C	Metaskil	ingenie	Healthcare Services	BAS
Long term growth rate	2%	n/a	2%	2%	2%	2%
DCF appraisal period	4 years	n/a	3 years	3 years	3 years	3 years
Annualised revenue growth over DCF appraisal period	11%	n/a	7%	8%	5%	5%
Pre-tax discount rate	19%	n/a	13%	13%	15%	11%
Recoverable amount of goodwill (m)	£nil	n/a	£nil	£14.7	£8.5	£nil

2015	RAG	Hubio UK	ingenie	Healthcare Services	BAS
Long term growth rate	2%	2%	2%	2%	2%
DCF appraisal period	7 years	7 years	7 years	5 years	5 years
Annualised revenue growth over DCF appraisal period	9%	9%	6%	8%	6%
Pre-tax discount rate	17%	17%	18%	13%	12%
Recoverable amount of goodwill (m)	£3.0	£0.2	£14.7	£6.9	£3.7

Annualised revenue growth rates vary by operating division depending on the current development to maturity of the CGU. Hubio Fleet is higher due to the roll out of its newly developed proposition and the short appraisal period. In determining the applicable discount rate, management has applied judgement in respect of several factors, including, inter alia, assessing the risk attached to future cash flows. Pre-tax discount rates have been assessed for each CGU. The discount rate for Hubio Fleet reflects the risks associated with new product launches in a developing and immature market. Discount rates in the Healthcare Services and BAS CGUs are lower reflecting the reduced risk associated with those more mature markets.

Movement in Goodwill by CGU

The movement in goodwill by CGU is as follows:

	2015	Splitting of CGUs	Foreign exchange movements	Impairment	2016
	£000	£000	£000	£000	£000
Hubio UK	171	(171)	n/a	n/a	n/a
Metaskil	n/a	171	–	(171)	–
RAG	2,972	(2,972)	n/a	n/a	n/a
RAG B2C	n/a	2,080	–	(2,080)	–
Hubio Fleet	n/a	892	–	(892)	–
Total Hubio	**3,143**	**–**	**–**	**(3,143)**	**–**
ingenie	14,674	–	–	–	14,674
Healthcare Services	6,889	–	1,658	–	8,547
BAS	3,671	–	–	(3,671)	–
Total	**28,377**	**–**	**1,658**	**(6,814)**	**23,221**

During 2016, changes in management have resulted in the Hubio UK CGU being split between Hubio Technologies and Metaskil, with the existing goodwill relating to Metaskil. Review of the carrying value of this goodwill against the forecast cashflows of Metaskil alone result in an impairment charge of £171,000 against this CGU.

Similarly, in 2015 RAG represented a single CGU. In 2016 this business was split in to two, representing the RAG B2C products and the Fleet management products. The goodwill was allocated between the two CGUs on the basis of revenues at acquisition. The B2C business ceased in the year and consequently its allocated goodwill has been impaired to £nil (a charge of £2,080,000). The remaining business has become Hubio Fleet, and includes a new product to market. Due to the uncertainties surrounding the future success of a new product and the upfront investment in working capital required this goodwill has also been impaired to £nil (a charge of £892,000).

Despite the strong revenue growth in BAS an impairment charge of £3,671,000 arises from reassessment of the prospects for the business in a highly competitive and mature market.

If there were an increase in the pre-tax discount rate of 1 percentage point there would be no additional impairments to the amounts above. Similarly, if there were a decrease of 1 percentage point in the long term growth rate or annualised revenue growth over the DCF appraisal period there would be no additional impairments to the amounts above.

Notes to the Financial Statements (continued)

16. Property, plant and equipment

	Freehold land and buildings	Leasehold land and buildings	Plant and equipment	Total
	£000	£000	£000	£000
Cost				
At 1 January 2015	3,566	2,423	15,159	21,148
Additions	29	128	5,278	5,435
Disposals	(1,270)	(225)	(8,462)	(9,957)
Transfer to assets of disposal group classified as held for sale	–	–	(806)	(806)
Exchange differences	(6)	(436)	(624)	(1,066)
At 1 January 2016	**2,319**	**1,890**	**10,545**	**14,754**
Additions	**27**	**223**	**5,219**	**5,469**
Disposals	**(44)**	**(506)**	**(6,720)**	**(7,270)**
Reclassification	**40**	**1,315**	**8,216**	**9,571**
Transfer to assets classified as held for sale	**(1,816)**	**–**	**–**	**(1,816)**
Exchange differences	**214**	**539**	**1,851**	**2,604**
At 31 December 2016	**740**	**3,461**	**19,111**	**23,312**
Depreciation				
At 1 January 2015	1,854	497	4,706	7,057
Charge for the year	125	124	5,786	6,035
Impairments	–	–	1,861	1,861
Disposals	(1,186)	(163)	(4,998)	(6,347)
Transfer to assets of disposal group classified as held for sale	–	–	(645)	(645)
Exchange differences	–	(234)	(413)	(647)
At 1 January 2016	**793**	**224**	**6,297**	**7,314**
Charge for the year	**178**	**300**	**3,849**	**4,327**
Disposals	**(44)**	**(225)**	**(5,098)**	**(5,367)**
Reclassification	**40**	**1,315**	**8,216**	**9,571**
Transfer to assets classified as held for sale	**(516)**	**–**	**–**	**(516)**
Exchange differences	**2**	**572**	**1,116**	**1,690**
At 31 December 2016	**453**	**2,186**	**14,380**	**17,019**
Net book value				
31 December 2016	**287**	**1,275**	**4,731**	**6,293**
31 December 2015	1,526	1,666	4,248	7,440

As part of the Group's review of assets post disposal of the PSD a reclassification has been made between cost and accumulated depreciation. This has no impact upon net book value.

There were no material commitments for the acquisition of property, plant or equipment at either 31 December 2016 or 31 December 2015.

Depreciation of £157,000 (2015: £298,000) was charged in the year on assets of the disposal groups classified as held for sale.

Assets with a net book value of £nil (2015: £13,000) are held under finance leases, on which depreciation of £13,000 (2015: £382,000) was charged in the year.

Telematics devices which are included as part of the services to end users were held with a net book value of £3,903,000 (2015: £4,865,000) on which depreciation of £2,998,000 (2015: £4,176,000) was charged in the year. The depreciation on these devices is included within Cost of Sales.

17. Associates

At 31 December 2016, the Group did not have any associates.

Reconciliation of summarised financial information:

	Nationwide Accident Repair Services plc ("NARS")	**Other**	**Total**
	£000	**£000**	**£000**
2016			
Opening net assets at 1 January 2016	**–**	**86**	**86**
Disposals	**–**	**(86)**	**(86)**
Closing net assets	**–**	**–**	**–**

	NARS	**Other**	**Total**
	£000	**£000**	**£000**
2015			
Opening net assets/(liabilities) at 1 January 2015	(4,624)	495	(4,129)
Reclassified as subsidiary undertaking	–	(497)	(497)
Additions	–	10,040	10,040
Disposals	4,624	(10,040)	(5,416)
Closing net liabilities	–	(2)	(2)
Group's share of net liabilities	–	–	–
Consolidation and other adjustments	–	100	100
Impairment	–	(14)	(14)
Carrying value	–	86	86

On 10 February 2016, the Group disposed of its interest in Ferneham Health Limited for £86,000, which resulted in a £nil gain/loss on disposal.

18. Investments

	Fair value degree observable	**2016**	2015
		£000	£000
Investments carried at fair value	Level 3	**–**	–

In note 33, a definition is given to record the degree to which fair values are observable. These are grouped into three levels: Level 1, Level 2 and Level 3. Where fair value calculations have been performed for investments, the level is disclosed above under "fair value degree observable". The fair value degree represents unobservable inputs as they are based on unquoted entities – as listed in note 42.

Notes to the Financial Statements (continued)

	Shares in investments
	£000
Cost	
At 1 January 2015	4,347
Disposals	(1,788)
Recategorisation	1,500
Exchange differences	132
At 1 January 2016	**4,191**
Exchange differences	**552**
At 31 December 2016	**4,743**
Impairment	
At 1 January 2015	330
Disposals	(330)
Recategorisation	1,500
Movement for the year	2,691
At 1 January 2016	**4,191**
Movement for the year	**552**
At 31 December 2016	**4,743**
Net book value	
31 December 2016	**–**
31 December 2015	–

The following information relates to the fixed asset investment of the Group:

Investment name	Country of incorporation	Percentage holding
eeGeo Inc.	USA	8.9%
OS3 Distribution Limited	England and Wales	5.3%

The principal activity of each investment is the provision of software, consulting and other services.

In March 2016, as a result of various investments by new third parties, the company's interest in eeGeo Inc. fell to 8.9%.

In December 2015, OS3 Distribution Limited (formerly Quob Park Solutions Limited) allotted and issued new share capital, which diluted the Group's holding to 5.3% so this investment, as a result, was recategorised from being an Associate to a Fixed Asset Investment.

The fair value of investments was assessed on net present value of cash flows or sales value less cost of sale and fall within Level 3 of the fair value hierarchy. These investments were impaired due to uncertainty over obtaining any future value in the investment.

Uncertainty remains over the future value of these investments and hence both will continue to be held at £nil net book value unless greater certainty is evident.

Details of subsidiary undertakings are provided in note 42.

19. Inventories

	2016	2015
	£000	£000
Finished goods for resale	**214**	376
Telematics devices held pending fitting	**727**	495
	941	871

There is no material difference between the book value and the replacement cost of the inventories shown.

Telematics devices are taken to tangible fixed assets upon fitting to end user vehicles. During 2016, £365,000 credit (2015: £2,506,000) impairment for obsolescence and firmware upgrades has been expensed prior to end user fitting.

20. Trade and other receivables

	2016	2015
	£000	£000
Trade receivables (net of impairment provision)	**7,247**	6,477
Monies held in escrow (net of impairment provision)	**–**	55,049
Other receivables	**1,641**	2,405
Prepayments	**1,231**	1,930
Accrued income	**109**	308
	10,228	66,169

As discussed in note 36 an amount of £50,120,000 held in joint escrow in relation to the disposal of the PSD to S&G in 2015 has been retained. It is considered highly likely that a claim will be received before the expiration of the warranty period. No provisions have been made in respect of a settlement. It is considered that the escrow monies, which have been fully provided for at 31 December 2016 will be sufficient to settle any claim.

The Directors consider that the net carrying amount of trade receivables approximates to their fair value. Further disclosures concerning trade receivables are given in note 33.

21. Term deposits

Term deposits represent cash which has been invested in to short term (less than six months) fixed interest bearing instruments with a major UK bank.

	2016	2015
	£000	£000
Term deposits	**37,500**	–
	37,500	–

22. Cash and cash equivalents

Cash and cash equivalents comprise the following for the purposes of the cash flow statement:

	2016	2015
	£000	£000
Cash	**43,714**	103,200
	43,714	103,200
Amounts classified as held for sale		
Cash	**–**	639
	43,714	103,839

Cash and cash equivalents comprise cash held by the Group. The carrying amount of these assets approximates to their fair value.

Notes to the Financial Statements (continued)

23. Trade and other payables

	2016	2015
	£000	£000
Current liabilities		
Trade payables	**2,547**	5,488
Payroll and other taxes including social security	**1,641**	3,695
Accruals	**10,919**	15,921
Deferred income	**9,118**	9,324
Other liabilities	**1,670**	7,239
	25,895	41,667

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs. The Directors consider that the carrying amount of trade payables approximates to their fair value.

24. Borrowings

	2016	2015
	£000	£000
Current		
Cumulative redeemable preference shares	**–**	427
Other secured loans	**163**	154
Finance leases (note 25)	**102**	144
	265	725
Non-current liabilities		
Cumulative redeemable preference shares	**6,131**	4,816
Finance leases (note 25)	**–**	64
	6,131	4,880
Total	**6,396**	5,605

	2016	2015
	£000	£000
The borrowings are repayable as follows:		
– On demand or within one year	**265**	725
– In the second to fifth years inclusive	**6,131**	4,880
	6,396	5,605
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(265)**	(725)
Amount due for settlement after 12 months	**6,131**	4,880

The cumulative redeemable preference shares are in respect of pt Healthcare Solutions Corp. ("ptHealth") and relate to non-voting Series 'A' preference shares (issued by ptHealth between 2008 and 2011) with a cumulative dividend (if declared) of 8.0% per annum. Holders of these shares may require ptHealth to redeem them 10 years from the date of issuance at par of £6,622,000. In the event of any liquidation, dissolution or winding up of ptHealth, the Series 'A' holders shall be entitled to receive, from the assets of ptHealth, a sum equal to the redemption amount before any amount is paid or assets of ptHealth are distributed to common shares or any shares ranking junior to the Series 'A' preference shares. The Series 'A' preference shares shall not otherwise be entitled to any other amount or assets of ptHealth.

In note 33 an explanation is given to show the degree to which fair values are observable. These are grouped into three levels: Level 1, Level 2 and Level 3.

	Fair value degree observable	2016	2015
		£000	£000
Liabilities:			
Cumulative redeemable preference shares	Level 3	**6,131**	5,243

The fair value degree represents unobservable inputs as they are based on internal valuation techniques. The key variable components and assumptions within this model include the discount rate, the effective internal rate of return, the redemption profile and timing and dividend payments. The sensitivity to the unobservable inputs is not considered significant as the impact of this fair value valuation is insignificant in the Consolidated Income Statement.

The weighted average interest rates paid for continuing operations were as follows:

	2016	2015
	%	%
Other secured loans	**–**	–
Cumulative redeemable preference shares	**8.00**	8.00

The Directors estimate the fair value of the Group's borrowings as follows:

	2016	2015
	£000	£000
Cumulative redeemable preference shares	**6,131**	5,243
Finance leases	**102**	208
	6,233	5,451

Due to the cash holding of the group and its forecast working capital requirements the committed undrawn borrowing facilities were not renewed in the year. At 31 December 2016, these were at floating interest rates based on prevailing LIBOR rates:

	2016	2015
	£000	£000
Expiring within one year	**–**	1,000
	–	1,000

25. Obligations under finance leases

	2016	2015
	£000	£000
Minimum lease payments		
Within one year	**103**	124
In the second to fifth year inclusive	**–**	98
	103	222
Less future finance charges	**(1)**	(14)
Present value of lease obligations	**102**	208
Present value of minimum lease payments		
Within one year	**102**	144
In the second to fifth years inclusive	**–**	64
Present value of lease obligations	**102**	208
Analysed as:		
Amounts due for settlement within one year	**94**	92
Amounts due for settlement after more than one year	**8**	116
	102	208

Notes to the Financial Statements (continued)

It is the Group's policy to lease certain of its fixtures and equipment under finance leases. The average lease term is 4 years (2015: 4 years). For the year ended 31 December 2016, the average effective borrowing rate was 8.6% (2015: 6.4%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. All lease obligations are denominated in sterling or Canadian dollars. The fair value of the Group's lease obligations is approximately equal to their carrying amount. The Group's obligations under finance leases are secured by the lessor's rights over the leased assets disclosed in note 16.

26. Provisions

	Tax related matters	Legal disputes	Onerous contracts	Other	Total
	£000	£000	£000	£000	£000
At 1 January 2015	21,108	7,538	1,511	2,867	33,024
Additional provisions	6,586	4,400	6,502	1,885	19,373
Unused amounts released	(3,716)	(5,538)	–	–	(9,254)
Used during the year	(435)	–	(4,370)	(1,328)	(6,133)
At 1 January 2016	**23,543**	**6,400**	**3,643**	**3,424**	**37,010**
Additional provisions	**3,231**	**1,814**	**525**	**3,315**	**8,885**
Unused amounts released	**(9,181)**	**(1,300)**	**(100)**	**(144)**	**(10,725)**
Used during the year	**(2,500)**	**(800)**	**(1,349)**	**(2,313)**	**(6,962)**
Exchange movements	**–**	**–**	**–**	**33**	**33**
At 31 December 2016	**15,093**	**6,114**	**2,719**	**4,315**	**28,241**
Split:					
Non-current	–	419	–	6	425
Current	15,093	5,695	2,719	4,309	27,816

Tax related matters

A provision for tax-related matters has been established with respect to judgemental tax positions primarily in relation to historic PAYE and VAT issues which have not yet been resolved. Key judgements exist around the classification of certain transactions and therefore the related tax treatment. The amount provided represents the Directors' estimate of the likely outcome based upon the information available; however the ultimate settlement may be different. The Group is taking steps to resolve this and believe the majority will be settled within twelve months from the balance sheet date.

Certain elements of the provisions held at 31 December 2015 have been settled during the year at amounts less than management's estimate of the expected outflow at the time of the preparation of the 31 December 2015 Financial Statements. Any provision held over and above any specific settlement amount have been released as unused.

Legal disputes

On 5 August 2015, the SFO informed the Group that it had opened an investigation, which relates to past business and accounting practices at the Group. The Group is co-operating fully with the SFO investigation. At this stage, the timing of completion of the SFO investigation and its conclusions cannot be anticipated. Therefore, having taken external advice, no liability has been recognised at the balance sheet date as it is not possible to reliably estimate a liability (if any) in respect of this matter.

On 14 December 2015, the Company received a letter of claim from a law firm ("Claimant Firm") acting for 342 claimants commencing an action against the Company under the Financial Services and Markets Act 2000 ("Letter of Claim"). Despite the Company's endeavours in correspondence with the Claimant Firm, the Company is not in a position to verify the assertions in the Letter of Claim which, inter alia, details the expected value of the potential claims against the Company to be approximately £9.4 million. No proceedings have been commenced to date in respect of this matter. Having taken external advice, no liability has been recognised at the balance sheet date as it is not possible to reliably estimate a liability (if any) in respect of this matter.

The amount provided in respect of these legal cases is in respect of defence costs and is considered to be in the mid-range of possible outcomes given the uncertainty in relation to these outcomes. If successful in defending these disputes then the final costs may be lower than the total provision recognised above. Additional provisions in the table above relate to expected legal costs to defend a claim arising after the retention of the PSD escrow monies (see notes 20 and 36). This is in addition to further amounts being provided for the expected legal costs of the other matters discussed above, although no amounts have been provided for the costs of any actual settlement

Additional provisions in the table above relate to expected legal costs to defend a claim arising after the retention of the PSD escrow monies (see notes 20 and 36). This is in addition to further amounts being provided for the expected legal costs of the other matters discussed above, although no amounts have been provided for the costs of any actual settlement.

Amounts used during the year represents legal costs incurred to date as a result of the above items. The provisions will be utilised further as the cases progress.

There were also a number of other smaller legal cases outstanding for which £2,000,000 was provided at 31 December 2015. £1,000,000 of unused amounts released relates to a historic technology related dispute within one of the Group's trading entities. Since no further correspondence has been received on this matter during 2016 the related provision has been released to the Consolidated Income Statement. A further £300,000 has been released due to agreement being reached over a historic claim which will now be settled during the first half of 2017.

Onerous contracts

Where contracted income is expected to be less than the related expected expenditure the difference is provided in full. The timing and amount of these items can be reasonably determined. The majority of the amount provided at 31 December 2016 relates to three onerous property leases and therefore amounts used during the year relate to the ongoing costs of these obligations. Management are looking to sublet or settle these obligations within twelve months. Unused amounts reversed is a consequence of a change in estimate regarding the timing of the settlement of one such lease and new provisions relate to additional property being vacated during the year.

Other

Provisions have been established for expected costs where a commitment has been made at the balance sheet date and for which no future benefit is anticipated. No reimbursement has been recognised in relation to any provision as there is no certainty of recovery or reliable means of estimation. This primarily relates to three areas, commission clawback relating to non-underlying businesses, warranties provided by the Group and outstanding restructuring payments and has given rise to an additional £3,315,000 charge in 2016. With the exception of the latter, the exact timing and quantum of the amounts is uncertain and the provision is based upon historic trends in these businesses. The amounts of the restructuring provision can be reasonably estimated and are time bound within an upper limit of one year. Amounts used in the year primarily relate to commission clawback and unused amounts released are as a result of actual device warranty claims being lower than previously anticipated.

Notes to the Financial Statements (continued)

27. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior year.

	Accelerated capital allowances	Provisions and other temporary timing differences	Total
	£000	**£000**	**£000**
At 1 January 2015	11,209	(13)	11,196
Credit to Income Statement	(11,061)	(67)	(11,128)
Transfer to liabilities of disposal group classified as held for sale	236	–	236
At 1 January 2016	384	**(80)**	304
Debit to Income Statement	625	**(188)**	437
At 31 December 2016	1,009	**(268)**	741

	2016	2015
	£000	£000
Deferred tax liabilities	**1,009**	384
Deferred tax assets	**(268)**	(80)
	741	304

At the Statement of Financial Position date, there are unrecognised deferred tax assets of £17,377,000 (2015: £18,077,000).

28. Share capital

	Number	**Nominal value fully paid**	**Nominal value unpaid**	**Nominal value total**
2016	**000**	**£000**	**£000**	**£000**
At 1 January – issued shares of 10 pence	**45,963**	**4,585**	**11**	**4,596**
Issued shares of 10 pence	**75**	**8**	**–**	**8**
At the end of the year	**46,038**	**4,593**	**11**	**4,604**

	Number	Nominal value fully paid	Nominal value unpaid	Nominal value total
2015	000	£000	£000	£000
At 1 January – issued shares of 15 pence	436,447	65,298	169	65,467
Issued shares of 15 pence fully paid	17,871	2,681	–	2,681
Effect of capital reduction	–	(63,447)	(158)	(63,605)
Issued shares of 1 pence fully paid	3,909	39	–	39
Effect of share consolidation	(412,405)	–	–	–
Issued shares of 10 pence	141	14	–	14
At the end of the year	45,963	4,585	11	4,596

On 16 December 2015, the High Court of Justice in England and Wales made an order approving the reduction of the Company's share capital under the Companies Act 2006, which had been approved by shareholders at a General Meeting held on 26 November 2015. The capital reduction became effective on 18 December 2015 and the nominal value of the Company's shares reduced to 1 pence at that time, which had the effect of reducing the nominal value of issued share capital by £63,605,000 and share premium by £349,708,000. Subsequently, £411,871,000 was paid out to shareholders as a return of capital. On 21 December 2015, the ordinary shares of the Company were consolidated. The share consolidation replaced every 10 existing ordinary shares of 1 pence each with 1 new ordinary share of 10 pence. The impact of the share consolidation on the number of allotted, called up, unpaid and fully paid shares was 412 million. There was no change in the total nominal value of the Company's issued share capital.

The Company has one class of ordinary shares of 10 pence each which carry no right to fixed income.

The Company issued the following ordinary shares during the year:

	Effective date of issue (2016)	Issue share price		Issue Premium
		Pence	Number	£000
Reason for issue				
Exercise of options:	4 Jan	10.	75	–

Share based payments – all schemes (warrants, options and post-combination vendor remuneration)

Volatility is a measure of the amount by which a price is expected to fluctuate during a period. The measure of volatility used in all of the Group's option pricing models are the annualised standard deviation of the continuously compounded rates of return on the share over a period of time. In estimating the future volatility of the Company's share price, the Board considers the historical volatility of the share price over the most recent period that is generally commensurate with the expected term of the option, taking into account the remaining contractual life of the option.

Share based payments in the 2016 Consolidated Income Statement include options charges of £441,000 (2015: options charges of £7,064,000, 2013 post combination vendor remuneration charge of £4,162,000 and 2012 post combination vendor remuneration charge of £562,000, totalling £11,788,000, plus a further £6,257,000 was charged to the loss from discontinued operations).

Share-based payments – options

The Group has previously issued options, which are equity settled share based payments. Generally, these options vest in equal annual or 6-monthly tranches if the performance criteria for each option holder, which includes reference to the Group's upper targets for adjusted earnings per share, has been met for that year.

The Group had the following options outstanding as at 31 December 2016:

Grant Date	Exercise Price (Pence)	Expiry Date	2016 Number (options over 10 pence shares)	2015 Number (options over 10 pence shares)
21 November 2013	1,500.00	30 June 2019	272,637	281,525
21 November 2013	1,500.00	30 June 2019	134,425	158,523
21 November 2013	1,500.00	30 June 2017	15,583	15,583
21 November 2013	1,500.00	30 June 2019	10,417	31,250
6 March 2014	5,100.00	30 June 2019	–	58,333
20 June 2014	1,500.00	30 June 2019	100,000	108,333
12 January 2015	10.00	12 January 2025	–	75,000
			533,062	728,547

Notes to the Financial Statements (continued)

Details of the movement in options outstanding are as follows:

		2016 WAEP		2015 WAEP
	Number	**Pence**	Number	Pence
Outstanding at the beginning of the year	**728,547**	**1,634.86**	24,550,953	110.84
Granted	–	–	31,265,115	118.16
Forfeited	–	–	(8,728,940)	147.00
Cancelled	**(120,485)**	**3,242.95**	(12,593,487)	160.15
Exercised	**(75,000)**	**10.00**	(5,315,341)	33.00
Cashed out	–	–	(21,892,991)	48.42
Effect of share consolidation 21 December 2015	–		(6,556,762)	
Outstanding at the end of the year	**533,062**	**1,500.00**	728,547	1,634.86
Exercisable at the end of the year:				
Issued at 10 pence	–	–	75,000	10.00
Issued at 1,500 pence	**454,924**	**1,500.00**	329,609	1,500.00
Issued at 5,100 pence	–	–	25,000	5,100.00
	454,924	**1,500.00**	429,609	1,449.37

The Group recognised a total expense of £441,000 (2015: £7,064,000) related to the cost of options during the year (included as share based payment charges within administrative expenses). A further charge of £nil (2015: £6,257,000) was recognised within the profit on sale of discontinued operations, relating to the accelerated charge for those employees belonging to the PSD. As of 31 December 2016, the weighted-average remaining contractual life of the options outstanding is 2.4 years (2015: 4.0 years) and the weighted-average exercise price was 1,500.00 pence (2015: 1,634.86 pence). The expected life used in the model was adjusted, based on management's best estimate, for the effects of non-transferability, performance conditions, exercise restrictions, and behavioural considerations.

29. Reserves

	2016	2015
	£000	£000
Share premium account	**127,251**	127,251
Reverse acquisition and merger reserve	**(3,312)**	(3,312)
Other equity reserves	**23,316**	26,647
Foreign currency translation reserve	**(4,076)**	(3,960)
Total other reserves	**143,179**	146,626
Retained earnings	**(80,218)**	(14,722)
Non-controlling interests	**973**	609

The reverse acquisition and merger reserve represents the fair value of the share consideration over and above the share's nominal value of 10 pence per share (15 pence per share prior to the share consolidation exercise in December 2015) for those shares issued as consideration for acquisitions that take the Group's ownership of the acquired entity above 90%.

The consolidated Group accounts show the reverse acquisition and merger reserve net of the reverse acquisition reserve of £10,842,000 created on the reverse acquisition of Quindell Limited by Mission Capital plc (now Watchstone Group plc, which occurred in 2011). In the transaction, the Company remains the legal parent and therefore the Company accounts show the gross position of the reverse acquisition reserve.

The fair value of the share consideration over and above the share's nominal value of 10 pence per share (15 pence per share prior to the share consolidation exercise in December 2015) for all other shares issued by the Company is included in the share premium reserve. In addition, directly attributable costs incurred in the issuing of shares are also recognised in the share premium reserve.

Other equity reserves comprise:

	Equity reserve	Shares treated as held in treasury	Share-based payments	Share consideration reserve	Total other equity reserves
	£000	£000	£000	£000	£000
At 1 January 2015	54	(12,665)	20,713	22,934	31,036
Disposal of shares treated as held in treasury	–	12,496	–	–	12,496
Share-based payments (note 28)	–	–	17,235	–	17,235
Shares issued in respect of iter8	–	–	(5,652)	–	(5,652)
Realised profits transfer to retained earnings	–	169	(28,637)	–	(28,468)
At 1 January 2016	**54**	**–**	**3,659**	**22,934**	**26,647**
Share-based payments (note 28)	**–**	**–**	**441**	**–**	**441**
Realised profits transfer to retained earnings	**–**	**–**	**(3,772)**	**–**	**(3,772)**
At 31 December 2016	**54**	**–**	**328**	**22,934**	**23,316**

Share consideration reserve

The share consideration reserve represents the difference between the fair value of shares consideration versus the value of the non-controlling interest acquired.

Share-based payment reserve

The share-based payment reserve is increased to reflect the fair value to the Group of share-based payment transactions, with the reserve being reduced when shares are issued. An amount of £3,772,000 was transferred to retained earnings, representing amounts which have become realised profits.

30. Operating lease commitments

At the Statement of Financial Position date the Company had outstanding commitments for minimum lease payments due under non-cancellable operating leases, which expire as follows:

	Land and buildings		Plant and equipment	
	2016 £000	2015 £000	**2016 £000**	2015 £000
Expiring:				
Within one year	**4,675**	4,112	**6**	4
Between two and five years	**8,615**	9,073	**–**	–
After five years	**498**	1,721	**–**	–
	13,788	14,906	**6**	4

Operating lease payments represent rentals payable by the Group for certain of its rehabilitation clinics in Canada, office properties and operating equipment. Leases are typically negotiated for an average period of three years in the case of plant and machinery, five years in the case of buildings.

Notes to the Financial Statements (continued)

31. Cash flow from operating activities

	2016	2015
	£000	£000
(Loss)/profit after tax	(69,070)	274,939
Tax	260	(11,788)
Finance expense	269	1,989
Finance income	(2,335)	(1,238)
Operating (loss)/profit	(70,876)	263,902
Adjustments for:		
– Non underlying operating cash out flows excluding discontinued operations	10,422	10,538
– Share-based payments	441	17,235
– Depreciation of property, plant and equipment	4,327	6,333
– Amortisation of intangible assets	3,440	16,818
– Impairment of goodwill	6,814	70,192
– Impairment of investments and associates	–	2,691
– Impairment of intangible assets	178	44,680
– Impairment of escrow	50,120	–
– Impairment of property, plant and equipment	–	1,861
– Impairment of inventories	(365)	2,506
– Share of profit of associates	–	(103)
– Loss on disposal of plant, property and equipment	1,903	1,935
– Loss on disposal of intangibles	193	–
– Profit on disposal of interests in property, subsidiary undertakings and operations (note 36)	(323)	(494,317)
– Profit on disposal of subsidiary undertakings and fixed asset investments	–	(1,971)
Operating cash flows before movements in working capital and provisions	**6,274**	(57,700)
– Decrease in inventories	295	91
– (Increase) in trade and other receivables	(885)	(18,075)
– (Decrease)/Increase in trade and other payables	(24,605)	18,130
Cash used by operations before exceptional costs	**(18,921)**	(57,554)

32. Reconciliation of net cash flow to movement in net funds

	1 January	Acquisitions & Disposals	Cash flow movements	Non-cash movements	31 December
	£000	£000	£000	£000	£000
2016					
Cash	**103,839**	**(1,087)**	**(59,602)**	**564**	**43,714**
Overdrafts and bank loans	**–**	**–**	**–**	**–**	**–**
Cash and cash equivalents	**103,839**	**(1,087)**	**(59,602)**	**564**	**43,714**
Other secured loans > 1 year	**(154)**	**–**	**–**	**(9)**	**(163)**
Cumulative redeemable preference shares < 1 year	**(427)**	**–**	**–**	**427**	**–**
Cumulative redeemable preference shares > 1 year	**(4,816)**	**–**	**–**	**(1,315)**	**(6,131)**
Finance leases < 1 year	**(144)**	**–**	**103**	**(61)**	**(102)**
Finance leases > 1 year	**(64)**	**–**	**–**	**64**	**–**
Net funds	**98,234**	**(1,087)**	**(59,499)**	**(330)**	**37,318**

	1 January	Acquisitions	Cash flow movements	Non-cash movements	31 December
	£000	£000	£000	£000	£000
2015					
Cash	69,991	(3,204)	37,351	(299)	103,839
Overdrafts and bank loans	(19,509)	–	19,509	–	–
Cash and cash equivalents	50,482	(3,204)	56,860	(299)	103,839
Other secured loans < 1 year	(25,840)	73	25,767	–	–
Other secured loans > 1 year	(3,879)	–	3,705	20	(154)
Cumulative redeemable preference shares < 1 year	(500)	–	–	73	(427)
Cumulative redeemable preference shares > 1 year	(4,947)	–	–	131	(4,816)
Unsecured loans < 1 year	(326)	–	326	–	–
Unsecured loans > 1 year	–	–	–	–	–
Finance leases < 1 year	(1,086)	–	942	–	(144)
Finance leases > 1 year	(1,080)	–	1,035	(19)	(64)
Net funds	12,824	(3,131)	88,635	(94)	98,234

Notes to the Financial Statements (continued)

33. Financial instruments

(a) Carrying value and fair value

The accounting classification of each class of the Company's financial assets and liabilities, together with their fair values is as follows:

	Loans and receivables	Other liabilities	Total carrying value	Total fair value
	£000	£000	£000	£000
At 31 December 2016				
Trade and other receivables	**7,247**	**–**	**7,247**	**7,247**
Monies held in Escrow (note 20)	**–**	**–**	**–**	**–**
PSD deferred consideration	**–**	**–**	**–**	**–**
Cumulative redeemable preference shares	**–**	**(6,131)**	**(6,131)**	**(6,131)**
Other secured loans	**–**	**(163)**	**(163)**	**(163)**
Trade and other payables	**–**	**(4,188)**	**(4,188)**	**(4,188)**
Finance leases	**–**	**(102)**	**(102)**	**(102)**
Term deposits	**37,500**	**–**	**37,500**	**37,500**
Cash and cash equivalents	**43,714**	**–**	**43,714**	**43,714**

	Loans and receivables	Other liabilities	Total carrying value	Total fair value
	£000	£000	£000	£000
At 31 December 2015				
Trade and other receivables	6,477	–	6,477	6,477
Monies held in Escrow (note 20)	55,049	–	55,049	55,049
PSD deferred consideration	–	–	–	–
Cumulative redeemable preference shares	–	(5,243)	(5,243)	(5,243)
Other secured loans	–	(154)	(154)	(154)
Trade and other payables	–	(9,183)	(9,183)	(9,183)
Finance leases	–	(208)	(208)	(208)
Cash and cash equivalents	103,200	–	103,200	103,200

The fair values of financial assets and liabilities are determined as follows:

(a) The fair value of the PSD deferred consideration has been determined using an income approach taking into account the risk in the expected cash flows

(b) The fair value of obligations under finance leases, cumulative redeemable preference shares and other borrowings is estimated by discounting the future cash flows to net present values

(c) The fair value of cash and cash equivalents, term deposits and bank overdraft is equivalent to the carrying value due to the short-term nature of those instruments

(d) The fair value of other financial assets and liabilities with standard terms and conditions is determined in relation to estimated discounted cash flows to net present values

(e) Monies held in escrow is a receivable in respect of an escrow account controlled jointly by the Company and S&G (see Note 20). Fair value has been determined based on an assessment of the likely timing and amount of any cash which the Company will receive from the escrow.

Cash and cash equivalents, classified as loans and receivables mainly comprise investments in major UK bank deposits which can be withdrawn without notice. Term deposits represent investments with fixed returns over periods not exceeding six months.

Both term deposits and amounts in escrow are held with major UK banks.

(b) Fair value hierarchy

The Group's financial instruments which are carried at fair value comprise available for sale investments in unlisted companies and the PSD deferred consideration. Fair values are measured using inputs that are not based on observable market data and are categorised as Level 3 in the fair value hierarchy.

(c) Financial risk management

The Group's financial instruments comprise borrowings, derivative financial instruments, cash and liquid resources and various items such as trade debtors and trade creditors that arise from its operations. The main purpose of these financial instruments is to manage the Company's operations. Term deposits are used to generate a return for the Company where the invested cash is not required for the operations of the Company.

Fair value estimation

Certain assets and liabilities, as separately disclosed in these Financial Statements, are carried at fair value. Fair value is determined by a valuation method which is categorised as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, prices) or indirectly (that is, derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

Interest risk and sensitivity

The Group's borrowings mainly comprise preference share (classified as debt) arising from previous acquisitions. These will be settled at maturity. Since the preference shares attract a fixed rate of interest there is minimal exposure to the Group from changes to interest rates upon its borrowings.

Interest bearing assets consist of cash balances which earn interest at variable rates. The interest achieved on term deposits is fixed at inception and therefore not subject to interest rate risk, although the future available rates may vary when reinvesting maturing deposits. Finance lease arrangements are contracted on fixed rate terms.

An increase of 100 basis points in interest rates at the reporting date would have increased equity and profit and loss by the amounts shown below. This analysis assumes that all other variables remain constant.

	2016	2015
	£000	£000
Variable rate instruments	**–**	–

Liquidity risk

The Group has a sufficient level of liquidity to ensure it has a sufficient level of funding to develop its operations, recognising that it operates in markets which it believes are high growth. Liquidity risks are managed through regular forecasting and reporting of working capital requirements, including conducting sensitivity analysis and growth scenario testing. Surplus funds are maintained in accessible deposits.

Notes to the Financial Statements (continued)

The following are the contractual maturities of financial liabilities:

	Carrying amount	Contractual cash flows	Less than 1 year	Between 1-5 years	Over 5 years
	£000	£000	£000	£000	£000
Non-derivative financial liabilities					
2016					
Other secured loans	**163**	**(163)**	**(163)**	**–**	**–**
Cumulative redeemable preference shares	**6,131**	**(6,131)**	**–**	**(3,858)**	**(2,273)**
Trade and other payables	**4,217**	**(4,217)**	**(4,217)**	**–**	**–**
Finance leases	**102**	**(103)**	**(96)**	**(7)**	**–**
	10,613	**(10,614)**	**(4,476)**	**(3,865)**	**(2,273)**

	Carrying amount	Contractual cash flows	Less than 1 year	Between 1-5 years	Over 5 years
	£000	£000	£000	£000	£000
Non-derivative financial liabilities					
2015					
Other secured loans	154	(154)	(154)	–	–
Cumulative redeemable preference shares	5,243	(7,393)	(427)	(5,718)	(1,248)
Trade and other payables	9,183	(9,183)	(9,183)	–	–
Finance leases	208	(222)	(124)	(98)	–
	14,788	(16,952)	(9,888)	(5,816)	(1,248)

Capital risk

The Group defines its capital as the Group's total equity, including non-controlling interests. Its objectives when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to have available the necessary financial resources to allow the Group to invest in other areas that may deliver future benefit and to maintain sufficient financial resources to mitigate risks and unforeseen events, without need to raise further equity from shareholders. The Group will manage its capital base to source any future investment requirement from working capital realisation or other cash inflows in respect of deferred consideration for NIHL cases, return of warranty escrow and the proceeds from disposal of non-core assets. It will use its planning cycle to manage capital risk, including conducting sensitivity and scenario testing on forecast capital and in assessing any new investments.

Credit risk

The Group is not subject to significant concentration of credit risk with exposure spread across many companies. The credit quality of the Group's trade receivables is considered by management to be good as the exposure to a concentration of debt from a small number of individual end customers is low. Further information is given in the Financial Review in relation to areas of cash and debtor management. No interest is charged on the receivables balances. The Group does not hold any collateral or other credit enhancements over these balances nor has the legal right of offset with any amounts owed by the Group to the receivables counterparty.

The Group holds significant deposits which are spread across UK regulated banks holding A3 or higher credit ratings.

The carrying amounts of borrowings are denominated in the following currencies:

	2016	2015
	£000	£000
Sterling	**50**	61
Canadian Dollar	**6,181**	5,390
Other	**165**	154
	6,396	5,605

The carrying amount of financial assets represents the maximum credit exposure. At the reporting date the principal financial assets were:

		2016	2015
	Note	£000	£000
Non-derivative financial assets			
Trade receivables	20	**7,247**	6,477
Term deposits	21	**37,500**	–
Cash and cash equivalents	22	**43,714**	103,200
		88,461	109,677

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	2016	2015
	£000	£000
UK	**3,501**	3,164
Canada	**3,325**	2,631
Rest of World	**421**	682
	7,247	6,477

The carrying amounts of trade receivables are denominated in the following currencies:

	2016	2015
	£000	£000
Sterling	**3,501**	3,164
Canadian Dollar	**3,325**	2,631
Other	**421**	682
	7,247	6,477

The ageing of trade and other receivables at 31 December 2016 was as follows:

	2016 Gross	2016 Impairment	2016 Net	2015 Gross	2015 Impairment	2015 Net
	£000	£000	£000	£000	£000	£000
Under 1 year	**7,277**	**253**	**7,024**	6,144	1,246	4,898
1-2 years	**703**	**480**	**223**	2,543	970	1,573
2-3 years	**19**	**19**	**–**	61	55	6
	7,999	**752**	**7,247**	8,748	2,271	6,477

Notes to the Financial Statements (continued)

The movement in the allowance for impairment in respect of trade and other receivables during the year was as follows:

	2016	2015
	£000	£000
At 1 January	**2,271**	5,216
Provision for receivables impairment	**45**	1,393
Receivables written off	**(1,338)**	(4,180)
Unused amounts reversed	**(410)**	(15)
Transfer to assets of the disposal group classified as held for sale	**–**	(107)
Exchange differences	**184**	(36)
At 31 December	**752**	2,271

The allowance has been determined by reference to the recoverability of specific due and overdue debts. The creation and reversal of provisions for impaired trade receivables where they arise are included in administrative expenses in the Consolidated Income Statement. The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

34. Ultimate parent company

There were no shareholders with overall control of the Company as at 31 December 2016 or 31 December 2015.

35. Contingent liabilities

The Group routinely enters into a range of contractual arrangements in the ordinary course of business which can give rise to claims or potential litigation against Group companies. It is the Group's policy to make specific provisions at the Statement of Financial Position date for all liabilities which, in the opinion of the Directors, are expected to result in a significant loss.

On 5 August 2015, the SFO informed the Group that it had opened an investigation, which relates to past business and accounting practices at the Group. On 14 December 2015, the Company received a letter of claim from a law firm acting for 342 claimants commencing an action against the Company under the Financial Services and Markets Act 2000. Further information on both these matters is presented in note 26.

36. Discontinued operations and disposals

Assets classified as held for sale at 31 December 2016

During 2016 the Group vacated its former head office property and marketed it for sale. It is therefore presented as available for sale at 31 December 2016 and is held at its fair value less costs to sell of £1,300,000.

Disposal of businesses in 2016

BE Insulated (UK) Limited and Carbon Reduction Company

The sale of the BE Initial Limited (formerly BE Insulated (UK) Limited ("BEI")) and BE Insulated Limited (formerly Carbon Reduction Company ("CRC")) completed on 7 January 2016 for a nominal consideration of £1 to The BE Smart Group Limited (a company owned by Ben Williams, a statutory director of BEI and CRC) ("BEI Agreement"). Following the completion of the BEI Agreement, the Group ceased to operate directly in the property and maintenance services sector.

The results of these businesses have therefore been disclosed as discontinued activities on the face of the Consolidated Income Statement and related notes. Amounts in the Consolidated Statement of Financial Position relating to these businesses were classified as held for sale.

The assets and liabilities of BEI and CRC classified as held for sale at 31 December 2015 were:

	£000
Intangibles and goodwill	102
Property, plant and equipment	41
Trade and other receivables	1,082
Cash and cash equivalents	12
Assets classified as held for sale	**1,237**
Trade and other payables	(1,395)
Provisions	(900)
Liabilities classified as held for sale	**(2,295)**
Net liabilities classified as held for sale	**(1,058)**

IFRS 5 requires the disposal group to be measured at the lower of its carrying value and its fair value less costs to sell. Accordingly, as at 31 December 2015, the carrying value of this business was written down to realisable value and a goodwill impairment charge of £4.2 million was recognised in the discontinued activities in the year ended 31 December 2015. The Group provided funding to QHL in 2016 prior to disposal. The subsequent profit arising on sale in the period ended 31 December 2016 is as follows:

	2016
	£000
Sales proceeds	**–**
Net liabilities at disposal	**302**
Expenses and other costs of sale	**(55)**
Profit arising on sale	**247**

The overall result recognised in the Consolidated Income Statement for BEI's, CRC's and the other property and maintenance operations disposed of was as follows:

	2016	2015
	£000	£000
Revenue	**148**	4,657
Expenses	**(258)**	(11,926)
Loss before tax of discontinued operation	**(110)**	(7,269)
Tax	**(35)**	17
Loss after tax of discontinued operation	**(145)**	(7,252)

The cash flows of BEI and CRC's discontinued operations recognised in the Consolidated Cash Flow Statement were as follows:

	2016	2015
	£000	£000
Operating cash outflows	**–**	(1,198)
Investing cash flows	**–**	–
Financing cash flows	**–**	858
Total cash flows	**–**	(340)

Quintica Holdings Limited

On 4 March 2016, the Group disposed of the entire issued share capital of Quintica Holdings Limited to Quintica International Holdings Inc ("QIH") for approximately £1.35 million (the "Quintica Agreement").

The results of this business have therefore been disclosed as discontinued activities on the face of the Consolidated Income Statement and related notes. Amounts in the Consolidated Statement of Financial Position relating to this business are classified as held for sale at the end of 2015.

Notes to the Financial Statements (continued)

The assets and liabilities of Quintica classified as held for sale at 31 December 2015 were:

	£000
Intangibles and goodwill	83
Property, plant and equipment	42
Trade and other receivables	1,025
Deferred tax	368
Cash and cash equivalents	627
Assets classified as held for sale	**2,145**
Trade and other payables	(1,153)
Corporation tax	(86)
Liabilities classified as held for sale	**(1,239)**
Net assets classified as held for sale	**906**

IFRS 5 requires the disposal group to be measured at the lower of its carrying value and its fair value less costs to sell. Accordingly, as at 31 December 2015, the carrying value of this business was written down to realisable value and a goodwill impairment charge of £4.2 million was recognised in the discontinued activities in the year ended 31 December 2015.

The subsequent profit arising on sale in the period ended 31 June 2016 is as follows:

	2016
	£000
Sales proceeds	1,376
Net liabilities at disposal	(1,259)
Expenses and other costs of sale	(41)
Profit arising on sale	**76**

The overall result recognised in the Consolidated Income Statement for Quintica's operations disposed of was as follows:

	2016	2015
	£000	£000
Revenue	1,034	5,576
Expenses	(1,038)	(11,659)
Loss before tax of discontinued operation	(4)	(6,083)
Tax	(3)	(58)
Loss after tax of discontinued operation	**(7)**	(6,141)

The cash flows of Quintica's discontinued operations recognised in the Consolidated Cash Flow Statement were as follows:

	2016	2015
	£000	£000
Operating cash outflows	(553)	(2,556)
Investing cash flows	(17)	(3)
Financing cash flows	212	2,678
Total cash flows	**358**	119

Disposal of the Professional Services Division ("PSD")

On 29 May 2015, the Group disposed of the PSD (i.e. its interests in its legal, claims management and health service businesses) to Slater and Gordon UK (1) Limited for a total consideration of £644,867,000, of which £55,000,000 was retained in escrow, together with further cash consideration payable in respect of the future settlement of its clients' noise induced hearing loss ("NIHL") cases.

Of the £55,000,000 held in escrow, £5,000,000 related to a completion mechanism, of which £3,805,000 was received during 2016. The remaining £50,120,000 (including interest) remains in a joint escrow account ("Warranty Escrow").

In September 2016, Slater & Gordon ("S&G") notified the Group of a purported claim in respect of its acquisition of the PSD. In November 2016, S&G obtained an opinion from an independent barrister in respect of the Warranty Escrow that based solely on the information presented to him (and on the assumption that no further evidence would be provided) that the purported claim has on balance a prospect of success and that, if successful, such claim would be likely to have a value of £53,000,000 ("Opinion").

As yet no proceedings have been brought and the Group will defend such claim robustly if commenced. Since proceedings have not been issued to the Company disclosure of key evidence (if any exists) in support of the merits or quantum of a claim cannot yet be enforced. Since the escrow monies have been retained in the Warranty Escrow at this time, the Company has fully provided against its recoverability at 31 December 2016. The Company believes the escrow monies will be sufficient to settle a claim (if any).

Given the inherent uncertainties of the NIHL business line, the parties could not agree on an appropriate valuation at completion and so the agreement provides that the Group will receive 50% of the net after tax receipts (after allowing for administrative costs) collected on the NIHL cases outstanding at completion. Approximately 53,000 NIHL cases were active and transferred at completion. The agreement provided for such amounts to be determined on a six monthly basis commencing on 31 December 2015 and continue until 30 June 2017 when a terminal value projection of expected receipts would be agreed. If no agreement was then reached, the process would continue with payments every six months until the earlier of the date when a terminal value was agreed or 31 December 2018. Based on an assessment of the costs that S&G will would need to incur to pursue the NIHL cases and the potential outcome of the NIHL cases, the fair value of the consideration was determined as £nil. There have been no amounts received to date in respect of this consideration and the fair value continues to be assessed as £nil.

The profit arising on this disposal comprises the following elements:

	£000
Sales proceeds	**644,867**
Net assets at disposal	**(132,234)**
Expenses and other costs of sale	**(18,316)**
Profit arising on sale	**494,317**

The net gain on disposal of PSD represents sales proceeds of £644,867,000 less net assets at completion of £132,234,000 and expenses of £18,316,000.

The overall result recognised in the Consolidated Income Statement for the PSD operations disposed of was:

	2016	2015
	£000	£000
Revenue	–	95,162
Expenses	–	(134,988)
Loss before tax of discontinued operation		(39,826)
Tax	–	(1,361)
Loss after tax of discontinued operation	–	(41,187)

The cash flows of the PSD discontinued operations recognised in the Consolidated Cash Flow Statement were as follows:

	2016	2015
	£000	£000
Operating cash outflows	–	(24,919)
Investing cash flows	–	(150)
Financing cash flows	–	10,260
Total cash flows	–	(14,809)

Notes to the Financial Statements (continued)

Nationwide Accident Repair Services Plc

The Group disposed of its entire shareholding in NARS on 4 March 2015. No gain or loss occurred in the year on the disposal of NARS.

360 GlobalNet ("360G") and 360ViewMax ("360V")

The interests that the Group held in 360G and 360V were sold in January 2015 and May 2015. In 2015, a £3,329,000 gain was recognised on the sale of 360G and a loss of disposal of £1,358,000 was recognised on the sale of 360V. These are both reported as Other Income in the Consolidated Income Statement.

37. Related party transactions

Transactions between Group undertakings, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Disposal of businesses

On 8 January 2016, the Group disposed of its entire investment in BEI and CRC for a nominal consideration of £1 to the BE Smart Group Limited, being a company owned by Ben Williams, a statutory director of BEI and CRC.

On 7 March 2016, the Group disposed of its investment in Quintica to QIH being a company owned by Charles Osburn, a statutory director of Quintica, for approximately £1.35 million. The Group will be entitled to additional consideration in the event that Quintica is disposed of (in whole or part) by QIH in the year following completion of the transaction.

On 31 March 2017, the Group disposed of its wholly owned subsidiary Metaskil Limited ("Metaskil") to Paul Hunsdon, a statutory director of Metaskil, for a nominal consideration of £1. This did not result in any gain or loss being recognised in the Consolidated Income Statement of the Group.

Compensation of key management personnel

The key management personnel are the Directors and the Group General Counsel & Company Secretary. In 2015, key management personnel were the Directors, James Sutcliffe and Richard Rose prior to his appointment as non-executive Chairman on 29 May 2015.

During 2015, BaxterBruce Limited, of which James Sutcliffe is the non-executive Chairman, provided strategic consultancy services to the Board of Directors. Richard Rose, Mark Williams and James Sutcliffe were consultants providing services under the arrangement. Included in the table below, as well as emoluments paid to the Company's Directors, are amounts paid directly to Richard Rose of £1,072,000 (prior to his becoming a Director) and £247,000 to James Sutcliffe in the period to 30 June 2015.

	2016	2015
	£000	£000
Short-term employee benefits	**3,281**	3,041
Post-employment benefits	**33**	51
Termination benefits	**–**	575
Share-based payments	**–**	6,122
	3,314	9,789

Transactions with Directors and Key Management

Other than noted above, there have been no transactions with Directors and Key Management during 2016. In the first half of 2015, the Group purchased £2,800,000 of financial services from Codex Capital Partners (UK) Limited, a company of which D Currie is a Director, in relation to the disposal of the PSD and an additional £52,000 in relation to other services. No amounts were outstanding at 31 December 2015.

Prior to his resignation from the Board of Directors on 18 November 2014, R Terry was employed as a Director of the Company holding the positions of Chief Executive Officer and Executive Chairman. The Company engaged the services of an internal auditor towards the end of 2015 to review expense claims submitted by Mr Terry and payments made by the Company to him during his period of employment ("Investigation"). The initial phase of the Investigation was completed in February 2016, and identified an amount of expenses and payments that the Directors allege should not have been claimed from the Company. These expenses totalled £184,865. Pending completion of the Investigation, the Company ceased paying Mr Terry instalments of payments relating to Mr Terry's settlement agreement with the Company entered into upon his exit in November 2014. On 10 December 2015, Mr Terry issued proceedings to claim outstanding instalments and on 8 February 2016 the Company lodged a defence and counterclaim for the recovery of the allegedly improper expenses and payments. The Investigation is on-going as is the litigation with Mr Terry as detailed above.

Those transactions that form part of the Company's defence and counterclaim detailed above had not been disclosed in historic Director's Remuneration Report or Related Party Transaction notes. The Company will provide full disclosure in due course, if necessary.

In the first quarter of 2015, the Group made payments of £20,000 to Quindell Directorial Services, the trading name of R Terry.

In the first quarter of 2015, the Group made sales of fixed assets for £134,000 to Quob Park Estate Limited ("QPE"), a company controlled by R Terry. This included an amount of £85,000 for the sale of Quob Barn, the former head office of the Company.

From February 2015, QPE subleased an apartment from the Group in Ontario, Canada for CDN$66,000 per annum for a period to 20 August 2016 (being the head lease expiration date). There are no on-going commercial obligations between the Group and QPE or R Terry.

Transactions with OS3 Distribution Limited

On 28 June 2016, the outstanding loan notes of £1,387,000 were settled by OS3 Distribution Limited (formerly Quob Park Solutions Limited), a Company in which the Group holds an investment.

38. Post balance sheet events

Legal claim

In February 2017, Hubio Solutions Inc ("Hubio Solutions") issued a claim in the Ontario Superior Court of Justice against Aviva Canada Inc ("Aviva Canada") in respect of breach of contract and unpaid amounts due under an agreement entered into by the parties in October 2014 and announced on 21 October 2014 ("Agreement"). At the same time, Aviva Canada issued a claim against Hubio Solutions and ingenie (Canada) Inc.

Watchstone is confident in the strength of the Group's case and will defend any claim robustly.

Disposal of Metaskil Limited

On 31 March 2017, the Group disposed of its wholly owned subsidiary Metaskil. Further details are provided in note 37.

Company Statement of Financial Position

as at 31 December 2016	Note	2016 £000	2015 £000
Non-current assets			
Property, plant and equipment	41	**22**	1,484
Investments in subsidiaries	42	**24,030**	43,076
Interests in associates	42	**–**	86
Investments	42	**–**	–
		24,052	44,646
Current assets			
Trade and other receivables	43	**25,346**	87,041
Corporation tax assets		**–**	787
Term deposits	44	**37,500**	–
Cash and cash equivalents	45	**36,641**	97,639
		99,487	185,467
Assets classified as held for sale		**1,300**	–
Total current assets		**100,787**	185,467
Total assets		**124,839**	230,113
Current liabilities			
Trade and other payables	46	**(61,358)**	(72,687)
Provisions	46	**(22,186)**	(28,322)
Total current liabilities		**(83,544)**	(101,009)
Non-current liabilities			
Deferred tax liabilities	46	**–**	(28)
		–	(28)
Total liabilities		**(83,544)**	(101,037)
Net assets		**41,295**	129,076
Equity			
Share capital	48	**4,604**	4,596
Other reserves	49	**135,163**	138,494
Retained earnings	49	**(98,472)**	(14,014)
Total equity		**41,295**	129,076

The Financial Statements of the Company, registered number 05542221, on 82 to 99 were approved by the Directors on 27 April 2017 and signed on its behalf by:

Mark P Williams
Director

Richard Rose
Director

Company Cash Flow Statement

for the year ended 31 December 2016	Note	2016 £000	2015 £000
Cash flows from operating activities			
Cash used by operations before exceptional costs, net finance expense and tax	52	**(13,918)**	(56,678)
Non underlying operating cash out flows excluding discontinued operations		**(2,089)**	(1,000)
Cash used by operations before net finance expense and tax		**(16,007)**	(57,678)
Corporation tax received/(paid)		**289**	366
Net cash used by operating activities		**(15,718)**	(57,312)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(2)**	(31)
Sale of PSD		**3,805**	558,739
Acquisition of subsidiaries		**–**	(1,000)
Sale of subsidiaries		**–**	5,194
Sale of associated undertakings		**86**	7,069
Purchase of term deposit		**(82,500)**	–
Proceeds from maturing term deposits		**45,000**	–
Interest income		**97**	–
Loans to group undertakings		**(20,372)**	(32,355)
Loans from group undertakings		**6,968**	8,936
Repayment of financing loan		**1,255**	–
Net cash (used in)/generated by investing activities		**(45,663)**	546,552
Cash flows from financing activities			
Net finance income received		**375**	2,375
Issue of share capital		**8**	1,305
Repayment of secured loans		**–**	(2,000)
Return of capital		**–**	(411,871)
Cash out of options		**–**	(11,150)
Net cash generated by/(used in) financing activities		**383**	(421,341)
Net (decrease)/increase in cash and cash equivalents		**(60,998)**	67,899
Cash and cash equivalents at the beginning of the year		**97,639**	29,740
Cash and cash equivalents at the end of the year	45	**36,641**	97,639

Notes to the Financial Statements (continued)

Company Statement of Changes in Equity

for the year ended 31 December 2016	Share capital	Share premium account	Merger reserve	Other equity reserve	Share-based payments reserve	Total other reserves	Retained earnings	Total equity
	£000	£000	£000	£000	£000	£000	£000	£000
At 1 January 2016	4,596	127,251	7,530	54	3,659	138,494	(14,014)	129,076
Profit for the year	–	–	–	–	–	–	(89,070)	(89,070)
Other comprehensive income	–	–	–	–	–	–	–	–
Total comprehensive income	–	–	–		–	–	(89,070)	(89,070)
Issue of share capital (notes 28, 29)	8	–	–		–	–	–	8
Share-based payments (note 28)	–	–	–	–	441	441	–	441
Reserves adjustments, including transfer of realised Profits to retained earnings (note 29)	–	–	–	–	(3,772)	(3,772)	3,772	–
Dividends received	–	–	–	–	–	–	840	840
Total transactions with owners, recognised directly in equity	8	–	–	–	(3,331)	(3,331)	4,612	1,289
At 31 December 2016	4,604	127,251	7,530	54	328	135,163	(98,472)	41,295

for the year ended 31 December 2015	Share capital	Share premium account	Merger reserve	Shares to be issued	Other equity reserve	Share-based payments reserve	Shares treated as held in treasury	Total other reserves	Retained earnings	Total equity
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
At 1 January 2015 (note 5)	65,467	447,533	171,637	30,744	54	20,713	(169)	670,512	(206,579)	529,400
Profit for the year	–	–	–	–	–	–	–	–	228	228
Other comprehensive income	–	–	–	–	–	–	–	–	–	–
Total comprehensive income	–	–	–	–	–	–	–	–	228	228
Issue of share capital (notes 28, 29)	2,734	29,426	–	(21,047)	–	(5,652)	–	2,727	–	5,461
Shares no longer issuable (note 29)	–	–	–	(9,697)	–	–	–	(9,697)	9,470	(227)
Cash out of options (note 28)	–	–	–	–	–	–	–	–	(11,150)	(11,150)
Effect of capital reduction and return of capital (note 28)	(63,605)	(349,708)	–	–	–	–	–	(349,708)	1,442	(411,871)
Share-based payments (note 28)	–	–	–	–	–	17,235	–	17,235	–	17,235
Reserves adjustments, including transfer of realised profits to retained earnings (note 29)	–	–	(164,107)	–	–	(28,637)	169	(192,575)	192,575	–
Total transactions with owners, recognised directly in equity	(60,871)	(320,282)	(164,107)	(30,744)	–	(17,054)	169	(532,018)	192,337	(400,552)
At 31 December 2015	4,596	127,251	7,530	–	54	3,659	–	138,494	(14,014)	129,076

39. General information

Watchstone Group plc is a company registered and domiciled in the United Kingdom. The Financial Statements are presented in pounds sterling, to the nearest thousand, as this is the currency of the primary economic environment in which the Company operates. The address of the registered office is 3rd floor, 21 Tower Street, London WC2H 9NS.

40. Significant accounting policies

The principal accounting policies adopted in the preparation of these Financial Statements are set out below. These policies have been consistently applied to all the years presented.

Basis of preparation

These Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations adopted by the European Union (EU). The Financial Statements have been prepared under the historical cost convention. A summary of the significant Company accounting policies is set out below. The Company has reviewed its accounting policies in accordance with IAS 8 and determined that they are appropriate for the Company and have been consistently applied.

In preparing these Financial Statements the board has taken into account all available information in the application of its accounting policies and in forming judgments.

Going concern

The Company holds significant cash reserves and no material bank debt. The Company has concluded that its cash reserves and short term investments in term deposits will be sufficient to fund the ongoing operations of the Company together with any future development needs, and the settlement of legacy matters.

On this basis, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Directors have not identified any material uncertainties that would cast significant doubt on the ability of the Company to continue as a going concern. As such, the Directors continue to adopt the Going Concern basis of accounting in the preparation of the Financial Statements.

Income Statement and Statement of Comprehensive Income

The Company has not presented its own Income Statement and Statement of Comprehensive Income as permitted by section 408 of the Companies Act 2006.

Operating profit

Operating profit is profit stated before finance income, finance expense and tax.

Share-based payments

Options

The fair value of options granted to individuals is recognised as an expense, with a corresponding increase in equity, over the period in which the unconditional entitlement occurs. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options expected to vest. Upon the exercise of share options, the proceeds received net of attributable transaction costs are credited to share capital and share premium.

The Company adopted a Black-Scholes model to calculate the fair value of options granted. Costs relating to employees of subsidiaries has been accounted for by increasing the Company's cost of investment of those subsidiaries.

Notes to the Financial Statements (continued)

Post combination vendor remuneration

Where consideration towards an acquisition is linked to ongoing employment within the Company this consideration is not treated as a cost of the acquisition. It is treated as post combination remuneration and is recognised in the Income Statement over the period in which the employment services are delivered. The valuation of such amounts, where the form of the payment is in shares, uses an option valuation model. Where such costs relate to employees of subsidiaries, this has been accounted for by increasing the Company's cost of investment of those subsidiaries.

Property, plant and equipment

Property, plant and equipment is stated at cost, net of depreciation and any provision for impairment. Depreciation is not provided on freehold land. On other assets, depreciation is calculated to write off the cost less estimated residual values over their estimated useful lives as follows:

- Freehold buildings: 2%-5% per annum straight line
- Improvements to freehold land and buildings: 5%-10% per annum straight line
- Improvement to leasehold land and buildings: Over the term of the lease
- Plant and equipment: 20%-33⅓% per annum reducing balance

Assets in the course of construction are capitalised as expenditure is incurred. Depreciation is not charged until the asset is brought into use. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease. Residual value is based on the estimated amount that would currently be obtained from disposal.

Estimated residual values and useful economic lives are reviewed annually and adjusted where necessary.

Trade receivables

Trade receivables are held at amortised cost less any impairment provisions and this equates to their recoverable value. Movements in the impairment provision relating to credit risk are recognised within administrative expenses as bad debt expenses.

Trade payables

Trade payables do not carry any interest and are initially stated at their fair value. Subsequent to initial recognition they are measured at amortised cost.

Cash and cash equivalents

Cash in the Statement of Financial Position comprises cash at banks and in hand. For the purpose of the Consolidated Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Consideration receivable for the Professional Services Division

£50,000,000 (plus interest) of the PSD sale consideration is retained in a joint escrow account until the expiration of the warranty period or settlement of a claim. It is expected that a claim will be received in respect of the PSD purchase. The outcome of a potential claim is highly uncertain and therefore the carrying amount of the Company's receivable in respect of the consideration held in escrow is highly judgmental. At 31 December 2016 the Company has impaired in full its receivable in respect of this consideration.

Term deposits

Term deposits represent short term (six months or less) investments in fixed interest deposits with a major UK bank. The related cash flows are included within investing activities in the Company Cash Flow Statement.

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation in respect of a past event and it is probable that settlement will be required of an amount that can be reliably estimated.

Taxation including deferred tax

The tax expense represents the sum of current tax and deferred tax. Tax is recognised in the Income Statement except to the extent that it relates to items recognised in equity in which case it is recognised in equity. The current tax is based on taxable profit for the year calculated using tax rates that have been enacted or substantively enacted by the Statement of Financial Position date.

Deferred tax is provided using the balance sheet liability method on temporary differences between the carrying amounts of assets and liabilities in the Financial Statements and the corresponding tax bases used in the computation of taxable profit. In principle deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets or liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each Statement of Financial Position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Share capital

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Exceptional costs

Exceptional costs are or are expected to be non-recurring material items which are outside of the Company's ordinary activities. Such items are disclosed separately in the Financial Statements.

Notes to the Financial Statements (continued)

41. Property, plant and equipment

	Leasehold land and buildings
	£000
Cost	
At 1 January 2015	1,815
Additions	31
At 1 January 2016	**1,846**
Additions	**1**
Transfer to assets classified as held for sale	**(1,815)**
At 31 December 2016	**32**
Depreciation	
At 1 January 2015	235
Charge for the year	127
At 1 January 2016	**362**
Charge for the year	**163**
Transfer to assets classified as held for sale	**(515)**
At 31 December 2016	**10**
Net book value	
31 December 2016	**22**
31 December 2015	1,484

42. Investments

	Shares in investments	Shares in associates	Shares in group undertakings	Total
	£000	£000	£000	£000
Cost				
At 1 January 2015	3,188	15,471	257,458	276,117
Additions	–	–	9,158	9,158
Disposals	(1,688)	(9,504)	(1,815)	(13,007)
Other	–	(278)	–	(278)
At 1 January 2016	**1,500**	**5,689**	**264,801**	**271,990**
Additions	**–**	**–**	**3,397**	**3,397**
Disposals	**–**	**(261)**	**–**	**(261)**
At 31 December 2016	**1,500**	**5,428**	**268,198**	**275,126**
Impairment				
At 1 January 2015	1,567	8,302	135,707	145,576
Charge for the year	(12)	14	86,018	86,020
Disposals	(55)	(2,435)	–	(2,490)
Other	–	(278)	–	(278)
At 1 January 2016	**1,500**	**5,603**	**221,725**	**228,828**
Charge for the year	**–**	**–**	**22,443**	**22,443**
Disposals	**–**	**(175)**	**–**	**(175)**
At 31 December 2016	**1,500**	**5,428**	**244,168**	**251,096**
Net book value				
31 December 2016	**–**	**–**	**24,030**	**24,030**
31 December 2015	–	86	43,076	43,162

Investment additions during the year mainly relate to forgiveness of subsidiary loans.

The following information relates to the related undertakings of the Company. Unless otherwise stated, all holdings are 100% and the principal activity of the undertaking is the provision of software, consulting and other services.

Name of investment	Nature of holding	Class and percentage of shares held (100% ordinary shares unless otherwise stated)
Investments incorporated in Canada		
Registered Address: 20 Victoria Street, 6th Floor, Toronto, Ontario, M5C 2N8		
Connected Car Solutions Inc	Indirect	
Hubio SaaS Solutions Inc	Direct	
Hubio Solutions Inc	Indirect	
Intrinsic Holding Company Inc	Indirect	
Intrinsync Insurance Company Inc	Indirect	
Iter8 Consulting Services inc	Indirect	
Watchstone (Canada) Inc	Direct	
Registered Address: 35 The Esplanade, Suite 250, Toronto, Ontario, M5E 1Z4		
Quindell Services Inc	Indirect	
Registered Address: 510-157 Adelaide St W, Toronto, Ontario, M5H 4E7		
ingenie (Canada) Inc	Indirect	
Registered Address: 70 Frid Street, Unit 2, Hamilton, Ontario, L8P 4M4		
pt Healthcare Solutions Corp	Indirect	
7211589 Canada Inc	Indirect	
Registered Address: 11510-40 Street S E, Calgary, Alberta, T2Z 4V6		
Edgewater Employee Services Inc	Indirect	50%
Registered Address: 67 Yonge Street, Suite # 1101, Toronto, Ontario, M5E 1J8		
pt Health Aspen Limited Partnership	Indirect	51%
Registered Address: c/o Actus Law Droit, 900 Main Street, Moncton, New Brunswick, E1C 1G4		
pt Health NB 2015 Professional Corporation Inc	Indirect	25% Common shares, 100% preference share

Name of investment	Nature of holding	Class and percentage of shares held
Investments incorporated in South Africa		
Registered Address: 28 Hilton Avenue, Hilton, Kwa-Zulu Natal, 3245		
Quindell Business Process Outsourcing (Pty) Limited	Indirect	

Name of investment	Nature of holding	Class and percentage of shares held
Investments incorporated in United Kingdom		
Registered Address: 10 East Street, Fareham, Hampshire, PO16 0BN		
OS3 Distribution Limited	Direct	5.29%
Registered Address: 15 Olympic Court, Whitehills Business Park, Blackpool, FY4 5GU		
Brand Extension (UK) Limited	Indirect	
Business Advisory Service Limited	Direct	
Maine Finance Limited	Indirect	
QPS Energy Limited	Indirect	
QPS Scaffolding Limited	Indirect	
QPS South West Limited	Indirect	
QSM (UK) Limited	Indirect	
Quindell Property Services Limited	Direct	
Sunlite Solutions Limited	Indirect	

Notes to the Financial Statements (continued)

Name of investment	Nature of holding	Class and percentage of shares held (100% ordinary shares unless otherwise stated)
Investments incorporated in United Kingdom (continued)		
Registered Address: 2nd Floor, Home Ground Barn, Pury Hill Business Park, Towcester, NN12 7LS		
Black Spot Interactive Limited ~	Indirect	
Black Spot Limited ~	Indirect	
Hubio Fleet Limited	Indirect	
Ingleby (1653) Limited	Indirect	
Morpheous Holdings Limited	Indirect	
Road Angel Group Limited	Indirect	
Road Angel Pogo Limited ~	Indirect	
RoadPilot Limited	Indirect	
Registered Address: 2nd Floor, Building 4, Meadows Business Park, Blackwater, Camberley, Surrey		
Hubio Technologies Limited	Direct	
Metaskil Group Limited	Direct	
Metaskil Limited	Direct	
Open Square Limited	Indirect	
Registered Address: 3rd Floor, 21 Tower Street, London, WC2H 9NS, England		
Connected Car Solutions Limited	Direct	
Hubio Solutions Limited	Direct	99.92%
Quindell Business Process Services Limited	Direct	98.4%
Watchstone Limited	Direct	
Registered Address: 4 Prince Albert Road, London, NW1 7SN, England,		
Glanty Limited	Direct	3.15%
Registered Address: Pillar House, 113/115 Bath Road, Cheltenham, Gloucestershire, GL53 7LS		
BestPriceHotDeals Limited	Indirect	50%
Registered Address: 1 Barnes Wallis Road, Segensworth East, Fareham, Hampshire, PO15 5UA		
ACH Management Services Limited	Direct	
Enzyme International Limited ~	Indirect	
Overland Associates Limited ~	Direct	
Quindell Champion and Challenger Methods Limited ~	Direct	
Quindell Motor Services Limited ~	Direct	
SMI Telecoms Distribution Limited	Indirect	
SWB Consulting Limited ~	Indirect	
Utility Switch Limited ~	Indirect	
Registered Address: Quob Park, Titchfield Lane, Wickham, Fareham, Hampshire		
OS3 Telecoms Distribution Limited	Indirect	5.29%
Registered Address: The Stables, Thorncroft Manor, Thorncroft Drive, Leatherhead, Surrey		
ingenie (UK) Limited	Indirect	
ingenie Limited	Direct	
ingenie Services Limited	Indirect	
ingenie Software Limited ~	Indirect	

Name of investment	Nature of holding	Class and percentage of shares held (100% ordinary shares unless otherwise stated)
Investments incorporated in United States of America		
Registered Address: 280 Madison Avenue, Room 912 – 9th Floor, New York 10016		
SMI Telecoms LLC	Indirect	5.29%
Registered Address: 160 Greentree Drive, Ste 101, Dover, DE 19904	Indirect	
Hubio Inc.	Indirect	
Registered Address: 3800 N Central Ave, Ste 460, Phoenix, AZ 85012		
Navseeker Inc	Indirect	
Registered Address: Corporate Trust Co., Corporate Trust Center, 1209 Orange Street, Wilmington, DE 19801		
ingenie (US) Limited	Indirect	
SMI Telecoms Distribution LLC	Indirect	
Registered Address: Corporation Service Company, 2711 Centerville Road, Ste 400, Wilmington, DE 19808		
eeGeo Inc	Indirect	8.9%
Iter8 (USA) Inc	Indirect	
Registered Address: National Registered Agents, 818 W 7th Street, Ste 930, Los Angeles, CA 90017		
LocX Inc	Indirect	

~ denotes that the Group has applied to have the company struck off

The financial year ends of the Group's subsidiaries are 31 December 2016. The above investments are treated as consolidated subsidiaries of the Group, with the exception of those set out below.

The following information relates to investments of the Company also treated as investments within the Group accounts (see note 18):

Name of investment	Country of incorporation	Nature of holding
OS3 Distribution Limited (5.29%)	UK	Direct
SMI Telecoms LLC (5.29%)	USA	Indirect
OS3 Telecoms Distribution Limited (5.29%)	UK	Indirect
eeGeo Inc (8.9%)	USA	Indirect
Glanty Limited (3.15%)	UK	Direct

The fair value of investments was assessed on sales value less cost to sell and falls within Level 3 of the fair value hierarchy.

43. Trade and other receivables

	2016	2015
	£000	£000
Payroll and other taxes including social security	**142**	567
Other debtors	**477**	1,553
Monies held in escrow (net of impairment provision)	**–**	55,049
Prepayments	**93**	111
Amounts due from subsidiary undertakings	**24,634**	29,761
	25,346	87,041

Notes to the Financial Statements (continued)

Monies held in escrow of £50,120,000 have been fully impaired to £nil and relate to the disposal of the PSD to S&G.
All receivables fall due within one year of the balance sheet date. The Directors consider that the net carrying amount of trade receivables approximates to their fair value.

44. Term deposits

Term deposits represent cash which has been invested in to short term (less than six months) fixed interest bearing instruments with a major UK bank.

	2016	2015
	£000	£000
Term deposits	**37,500**	–

45. Cash and cash equivalents

Cash and cash equivalents comprise the following for the purpose of the cash flow statement:

	2016	2015
	£000	£000
Cash and cash equivalents	**36,641**	97,639

46. Liabilities

	2016	2015
	£000	£000
Current liabilities		
Trade payables	**488**	1,692
Amounts owed to Group undertakings	**57,881**	56,671
Other creditors	**–**	3,960
Accruals	**2,989**	10,364
Provisions	**22,186**	28,322
	83,544	101,009
Non-current liabilities		
Deferred tax liabilities	**–**	28
	–	28

The Directors consider that the net carrying amount of liabilities approximates to their fair value.

The analysis of provisions is as follows:

	Tax related matters	Legal disputes	Other	Total
	£000	£000	£000	£000
At 1 January 2015	16,697	5,538	781	23,016
Additional provisions	4,000	4,400	6,218	14,618
Unused amounts reversed	–	(5,538)	–	(5,538)
Used during the year	–	–	(3,774)	(3,774)
At 1 January 2016	**20,697**	**4,400**	**3,225**	**28,322**
Additional provisions	**3,231**	**1,800**	**525**	**5,556**
Unused amounts reversed	**(7,626)**	**–**	**(100)**	**(7,726)**
Used during the year	**(2,202)**	**(800)**	**(964)**	**(3,966)**
At 31 December 2016	**14,100**	**5,400**	**2,686**	**22,186**
Split:				
Non-current	–	–	–	–
Current	14,100	5,400	2,686	22,186

Tax related matters

A provision for tax-related matters has been established with respect to judgemental tax positions primarily in relation to historic PAYE and VAT issues which have not yet been resolved. Key judgements exist around the classification of certain transactions and therefore the related tax treatment. The amount provided represents the Directors' estimate of the likely outcome based upon the information available; however the ultimate settlement may be different. The Company is taking steps to resolve this and believe the majority will be settled within twelve months from the balance sheet date.

Certain elements of the provisions held at 31 December 2015 have been settled during the year at amounts less than managements' estimate of the expected outflow at the time of the preparation of the 31 December 2015 Financial Statements. Any provision held over and above any specific settlement amount have been released as unused.

Legal disputes

On 5 August 2015, the SFO informed the Company that it had opened an investigation, which relates to past business and accounting practices at the Company. The Group is co-operating fully with the SFO investigation. At this stage, the timing of completion of the SFO investigation and its conclusions cannot be anticipated. Therefore, having taken external advice, no liability has been recognised at the balance sheet date as it is not possible to reliably estimate a liability (if any) in respect of this matter.

On 14 December 2015, the Company received a letter of claim from a law firm ("Claimant Firm") acting for 342 claimants commencing an action against the Company under the Financial Services and Markets Act 2000 ("Letter of Claim"). Despite the Company's endeavours in correspondence with the Claimant Firm, the Company is not in a position to verify the assertions in the Letter of Claim which, inter alia, details the expected value of the potential claims against the Company to be approximately £9.4 million. No proceedings have been commenced to date in respect of this matter. Having taken external advice, no liability has been recognised at the balance sheet date as it is not possible to reliably estimate a liability (if any) in respect of this matter.

The amount provided in respect of these legal cases is in respect of defence costs and is considered to be in the mid-range of possible outcomes given the uncertainty in relation to these outcomes. If successful in defending these disputes then the final costs may be lower than the total provision recognised above. Additional provisions in the table above relate to expected legal costs to defend a claim arising after the retention of the PSD escrow monies (see notes 20 and 36). This is in addition to further amounts being provided for the expected legal costs of the other matters discussed above, although no amounts have been provided for the costs of any actual settlement.

Additional provisions in the table above relate to expected legal costs to defend a claim arising after the retention of the PSD escrow monies (see notes 20 and 36). This is in addition to further amounts being provided for the expected legal costs of the other matters discussed above, although no amounts have been provided for the costs of any actual settlement.

Notes to the Financial Statements (continued)

Amounts used during the year represents legal costs incurred to date as a result of the above items. The provisions will be utilised further as the cases progress.

Other

Provisions have been established for expected costs where a commitment has been made at the balance sheet date and for which no future benefit is anticipated. No reimbursement has been recognised in relation to any provision as there is no certainty of recovery or reliable means of estimation. An element of this relates to a restructuring provision which can be reasonably estimated and are time bound within an upper limit of one year.

The majority of the amount provided at 31 December 2016 relates to two property leases and therefore amounts used during the year relate to the ongoing costs of these obligations. Management are looking to sublet or settle these obligations within twelve months. Unused amounts reversed is a consequence of a change in estimate regarding the timing of the settlement of one such lease and new provisions relate to additional property being vacated during the year.

47. Financial instruments and financial risk management

(a) Financial instruments

The Company's financial instruments comprise:

1. Loans and receivables comprising: trade and other receivables including amounts due from subsidiary undertakings £24,634,000 (2015: £29,761,000)
2. Monies held in Escrow of £nil (2015: £55,049,000)
3. PSD deferred consideration of £nil (2015: £nil)
4. Cash and cash equivalents of £36,641,000 (2015: £97,639,000)
5. Other liabilities comprising: trade and other payables including amounts owed to Group undertakings of £58,369,000 (2015: £ 58,363,000)

The carrying value and fair values are approximately the same. The fair values of assets and liabilities and fair value hierarchy is as described in note 33.

(b) Financial risk management

The Company manages its exposure to capital, liquidity and credit risk as set out in note 33.

The following are the contractual maturities of financial liabilities:

	Carrying amount	Contractual cash flows	Less than 1 year	Between 1-5 years	Over 5 years
	£000	£000	£000	£000	£000
2016					
Trade and other payables	**488**	**(488)**	**(488)**	**–**	**–**
Amounts owed to Group undertakings	**57,881**	**(57,881)**	**(57,881)**	**–**	**–**
	58,369	**(58,369)**	**(58,369)**	**–**	**–**
2015					
Trade and other payables	1,692	(1,692)	(1,692)	–	–
Amounts owed to Group undertakings	56,671	(56,671)	(56,671)	–	–
	58,363	(58,363)	(58,363)	–	–

Included within trade and other payables is an amount of CDN$9,000 (2015: CDN$520,000); all other financial instruments are denominated in pounds sterling.

48. Called up share capital

	Number	Nominal value fully paid	Nominal value unpaid	Nominal value total
2016	**£000**	**£000**	**£000**	**£000**
At 1 January – issued shares of 10 pence	**45,963**	**4,585**	**11**	**4,596**
Issued shares of 10 pence	**75**	**8**	**–**	**8**
At the end of the year	**46,038**	**4,593**	**11**	**4,604**

	Number	Nominal value fully paid	Nominal value unpaid	Nominal value total
2015	£000	£000	£000	£000
At 1 January – issued shares of 15 pence	436,447	65,298	169	65,467
Issued shares of 15 pence fully paid	17,871	2,681	–	2,681
Effect of capital reduction	–	(63,447)	(158)	(63,605)
Issued shares of 1 pence fully paid	3,909	39	–	39
Effect of share consolidation	(412,405)	–	–	–
Issued shares of 10 pence	141	14	–	14
At the end of the year	45,963	4,585	11	4,596

On 16 December 2015, the High Court of Justice in England and Wales made an order approving the reduction of the Company's share capital under the Companies Act 2006, which had been approved by shareholders at a General Meeting held on 26 November 2015. The Reduction of Capital became effective on 18 December 2015 and the nominal value of the Company's shares reduced to 1 pence at that time, which had the effect of reducing the nominal value of issued share capital by £63,605,000. On 21 December 2015, the ordinary shares of the Company were consolidated. The share consolidation replaced every 10 existing ordinary shares of 1 pence each with 1 new ordinary share of 10 pence. The impact of the share consolidation was to reduce the number of allotted, called up, unpaid and fully paid shares by 412 million shares. There was no change in the total nominal value of the Company's issued share capital.

The Company has one class of ordinary shares of 10 pence each which carry no right to fixed income.

49. Reserves

	2016	2015
	£000	£000
Share premium account	**127,251**	127,251
Merger reserve	**7,530**	7,530
Other equity reserve	**54**	54
Share-based payments reserve	**328**	3,659
Other reserves	**135,163**	138,494
Retained earnings	**(98,472)**	(14,014)

The fair value of the share consideration over and above the share's nominal value of 10 pence per share (15 pence per share prior to the share consolidation exercise in December 2015) for all other shares issued by the Company is included in the share premium reserve. In addition, directly attributable costs incurred in the issuing of shares are also recognised in the share premium reserve.

The merger reserve represents the fair value of the share consideration over and above the share's nominal value of 10 pence per share (15 pence per share prior to the share consolidation exercise in 2015) for those shares issued as consideration for acquisitions that take the Company's ownership of the acquired entity above 90%.

Notes to the Financial Statements (continued)

The equity reserve represents the equity component of share-based payments prior to 1 October 2010.

The share-based payment reserve is increased to reflect the fair value to the Company of share-based payment transactions, with the reserve being reduced when shares are issued.

Further details relating to reserves are included in the Company Statement of Changes in Equity on page 84.

At the Statement of Financial Position date, the Company had negative distributable reserves of £100,039,000, as a result of unrealised profit amounts totalling £1,567,000 in retained earnings.

50. Income statement of the Company

The Company has taken advantage of the exemption under section 408 of the Companies Act 2006 to not disclose the Income Statement of the Company. The loss after taxation of the Company for the year ended 31 December 2016 was £89,070,000 (2015: profit of £228,000).

51. Operating lease commitments

At the Statement of Financial Position date the Company had outstanding commitments for minimum lease payments due under non-cancellable operating leases, which expire as follows:

	Land and buildings	
	2016	2015
	£000	£000
Expiring:		
Within one year	**709**	632
Between two and five years	**1,717**	2,426
After five years	**–**	–
	2,426	3,058

Operating lease payments represent rentals payable by the Company for office properties. Leases are typically negotiated for an average period of five years in the case of buildings.

52. Cash flow from operating activities

	2016	2015
	£000	£000
(Loss)/profit after tax	**(89,070)**	228
Tax	**(33)**	(782)
Finance expense	**14**	202
Finance income	**(712)**	(2,603)
Operating loss	**(89,801)**	(2,955)
Adjustments for:		
– Non underlying operating cash out flows excluding discontinued operations	**2,089**	1,000
– Share-based payments	**237**	2,320
– Depreciation of property, plant and equipment	**163**	127
– Amortisation of intangible assets	**–**	337
– Profit on disposal	**–**	(218,327)
– Impairment of investments	**22,443**	86,020
– Impairment of intercompany	**13,855**	92,253
– Impairment of escrow	**50,120**	–
– Impairment of intangible assets	**–**	72
Operating cash flows before movements in working capital and provisions	**(894)**	(39,153)
– (Increase)/decrease in trade and other receivables	**(1,640)**	303
– Decrease in trade and other payables	**(11,384)**	(17,828)
Cash used by operations before exceptional costs	**(13,918)**	(56,678)

Reconciliation of net cash flow to movement in net funds:

	1 January	Cash flow movements	31 December
	£000	£000	£000
2016			
Cash	**97,639**	**(60,998)**	**36,641**
Cash and cash equivalents	**97,639**	**(60,998)**	**36,641**
Net funds	**97,639**	**(60,998)**	**36,641**
2015			
Cash	29,740	67,899	97,639
Cash and cash equivalents	29,740	67,899	97,639
Other secured loans < 1 year	(2,000)	2,000	–
Net funds	27,740	69,899	97,639

Notes to the Financial Statements (continued)

53. Discontinued operations and disposals

Quintica Holdings Limited ("Quintica")

On 4 March 2016, the Company disposed of the entire issued share capital of Quintica to QIH for approximately £1.35 million. In addition, the Company will be entitled to additional consideration in the event that Quintica is disposed of (in whole or part) by QIH in the year following completion of the transaction.

Under the Quintica Agreement, the Company received £1 million in cash (£0.5 million paid immediately and £0.5 million due by 1 January 2017), plus the repayment of intra-company debt of US$0.5 million (approximately £0.35 million).

The net assets of Quintica classified as held for sale at 31 December 2015 were £nil. There was a gain on the disposal of Quintica of £190,000.

Ferneham Health Limited ("Ferneham")

On 10 February 2016, the Company disposed of its interest in Ferneham Health Limited for £86,000. There was no gain or loss on the disposal of Ferneham.

Further details on discontinued operations and disposals are included in note 36.

54. Deferred tax

	2016	2015
	£000	£000
Deferred tax liabilities	**–**	28
Deferred tax assets	**–**	–
	–	28

55. Ultimate controlling party

There are no shareholders with overall control of the Company as at 31 December 2016 or 31 December 2015.

56. Contingent liabilities

The Company routinely enters into a range of contractual arrangements in the ordinary course of events which can give rise to claims or potential litigation against group companies. It is the Company's policy to make specific provisions at the Statement of Financial Position date for all liabilities which, in the opinion of the Directors, are expected to result in a significant loss.

57. Related party transactions

The Directors had no material transactions with the Company during the year, other than disclosed in the Directors' Remuneration Report on pages 18 to 21 or as described in note 37. The Directors are considered to be the key management personnel of the Company.

During the year, the Company entered into transactions, in the ordinary course of business, with other related parties as follows:

	2016	2015
	£000	£000
Subsidiary undertakings:		
Purchases	**(3,311)**	(1,931)
Sales	**2,727**	2,217

At 31 December the outstanding balances with subsidiaries are as follows:

	2016	2015
	£000	£000
Amounts due from subsidiary undertakings	**24,634**	29,761
Amounts due to subsidiary undertakings	**(57,881)**	(56,671)

58. Post balance sheet events

Disposal of Metaskil Limited

On 31 March 2017 the Group disposed of its wholly owned subsidiary Metaskil. Further details are provided in note 37.

pt Healthcare Solutions Corp

The Company has provided a guarantee to pt Healthcare Solutions Corp post year end regarding specific intercompany balances.

59. Dividends

The Company did not pay any dividends during the year, nor in the prior year.

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Rt. Hon. Lord M Howard
Mr A Illsley
Mr D Young
Mr I Mukerjee
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