

Watchstone.



Watchstone Group plc  
Annual Report and Financial Statements  
for the year ended 31 December 2018

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# Key Summary

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- Revenues of £38.0m (2017: £44.9m)
- Underlying central costs<sup>1</sup> reduced to £3.5m (2017: £5.6m)
- Underlying<sup>2</sup> EBITDA<sup>3</sup> loss of £4.6m (2017: £3.6m)
- Group operating loss of £20.5m (2017: £7.4m)
- Total loss after tax £18.9m (2017: £2.6m)
- Group net assets of £46.8m representing approximately 101 pence per share (2017: 144 pence per share)
- Group cash and term deposits at 31 December 2018 of £50.1m (31 December 2017: £62.8m)
- Successful resolution of a number of legacy tax matters and other obligations resulting in the release of provisions of £1.9m (2017: £10.3m)

1 A reconciliation of underlying central costs to statutory measures can be found in note 6.

2 Underlying comprises Healthcare Services, ingenie and Central. See note 1 for details on Underlying and Non-Underlying classification.

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

# Chairman's Report

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During the year, we largely completed the work to simplify and rationalise the operating assets of the Group and significantly reduced the size of the central overhead. In line with this, Mark Williams, Group Finance Director has notified the Group of his intention to step down from the Board on 30 June 2019. It is not currently envisaged that Mark will be replaced on the Board.

We remain on track with the execution of our plan to prepare our businesses for future disposal. These potential divestments will be determined with a view to maximising shareholder value taking all factors into consideration.

Our Canadian physiotherapy clinic and technology business, ptHealth, trades profitably with future opportunities for profit improvement from both organic growth and margin enhancement. Our UK based specialist insurance broker, Ingenie, has emerged from a challenging period and its new management team has formulated a turnaround plan and although we remain in the early stages, we are beginning to see shoots of recovery.

We will continue to address the legal and regulatory matters that face the Group with resolve, focus and determination.

There is still much work to be done, both at the Group level and within our businesses, and I would like to thank our colleagues for their commitment. I would particularly like to thank Mark for his dedication and effectiveness in dealing with a multitude of complex legacy issues.

I would also like to thank our shareholders who have been patient and maintained support for the Company as the intense work to maximise value from all 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

Our focus remains on resolving all of our legacy matters as efficiently as possible and generating as much value as we can from our remaining businesses, ptHealth and ingenie.

Each business has a clear strategy as well as high quality and ambitious management teams and our plan is to achieve maximum value from an exit at the appropriate time.

Until we resolve the Slater & Gordon litigation we will not be able to distribute capital to shareholders but that remains our ultimate aim. Later this year, we will robustly defend in court what we consider a wholly unmeritorious claim. Further, we remain in communication with Slater & Gordon regarding any deferred consideration due from Noise Induced Hearing Loss ("NIHL") cases.

## Business Review

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 sells software and services to independent clinics in Canada. Healthcare Services performed satisfactorily in 2018, with revenue, excluding the impact of foreign exchange, increasing by 2% and an EBITDA of £0.9m.

### Healthcare Services in 2018 at a glance

- In 2018, ptHealth and InnoCare treated an average of 2,810 patients a day with over 705,000 visits for the year
- Of the 4,933 patients surveyed 97% said they would recommend us (up 7% from 2017)
- Over 1,124 Practitioners use InnoCare software, an increase of 17% over 2017

### 2. ingenie

As previously announced, ingenie had a challenging 2018 continuing the issues of H2 2017 with revenue falling to £7.8m (2017: £14.4m) with an EBITDA loss of £1.9m (2017: EBITDA profit of £1.3m). The business has taken significant actions during the year to return the business to profit and it is now trading with a revised structure and business model. Whilst there are positive signs, visible results are only expected later this year. This limited history creates inherent uncertainty in future forecasts and has resulted in a further impairment charge of £9.1m to goodwill and £0.3m to intangibles in the year ended 31 December 2018.

We are investing prudently in the business to achieve the anticipated turnaround and in March 2019, ingenie completed a transformational move of its policy management platform to a new provider. This significant development allows ingenie's consumer business to better control its proposition including pricing; to respond rapidly to customer and market demands; and to facilitate new product deployment at a lower cost. We have seen positive signs in new business volumes albeit we remain at an early stage following this move. The programme supporting our external customer in the Netherlands, ANWB, continues to perform well, endorsing our technology developments and market leading approach to road safety and motor insurance pricing.

## Group Chief Executive's Update (continued)

### ingenie in 2018 at a glance

- Driving and safety improvements achieved by the combination of technology and psychology:
  - 99% ingenie drivers activate their feedback account
  - 90% of ingenie drivers view their driving feedback at least once a month
  - 91% drivers proven to improve after ingenie coaching on driving speed
  - 89% of drivers proven to improve after ingenie coaching on braking behaviours
- Social followers exceed 50,000
- Over 2,000,000 visits to ingenie.com
- B2B policies increased by 230%

### Update on legacy matters

Whilst we continue to resolve historic legal matters, the Slater & Gordon claim is ongoing and we are preparing for trial commencing in October 2019. In November 2018 we received Slater & Gordon's disclosure which reaffirms the position set out in our filed defence to the claim. Our position remains that Slater & Gordon's allegations of deceit and the associated breach of warranty claim are wholly without merit and should never have been advanced. Our preparation for trial is well advanced and it has been necessary to invest considerable financial resource to ensure we are fully prepared.

The SFO investigation continues and we are cooperating fully. It remains the only regulatory inquiry to which the Group is subject.

There have been no further developments on the threatened (but not commenced) class action litigation first announced in September 2015 and the Group has received no communication regarding class action litigation since mid 2016.

### 2019 outlook

ptHealth continues to make satisfactory progress in operational improvements generating more appointments and treatments from its existing clinics. In addition, more third-party clinics are using our services to meet patient needs.

ingenie's current volumes are being addressed in partnership with its underwriting panel and by the development of new product and technology offerings that will launch during 2019.

Central costs will be carefully managed at greatly reduced levels consistent with the unresolved legacy matters and the needs of the organisation. The result of the Slater & Gordon trial is unlikely to be known until 2020 and as such it may not affect the outcome of the 2019 financial year (save for the costs in defending the claim).

### Stefan Borson

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 businesses, cash and other corporate assets and legacy issues in order to achieve maximum shareholder value, whilst ensuring good governance.

The sectors in which the Group operates are within healthcare in Canada and insurance telematics. The markets are addressed through the following businesses:

#### 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-centred 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 alongside ptHealth. InnoCare uses its established industry expertise to enable third-party clinic owners to transform their patients' 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 use the road safely and affordably. Using telematics technology, ingenie gives its community discounts, feedback and bespoke advice via its Driver Behaviour Unit to help them improve their driving skills whilst staying safe.

It provides its telematics technology to certain third parties as a technology solutions provider.

### 1.2 Overview of 2018

#### 1.2.1 Continuing business activities

ptHealth has continued to develop its software and services offering, branded InnoCare. In addition, it has focussed on improving its operational efficiency and productivity in its core clinic operation. Remuneration of physiotherapists has been moved over to their receiving a share of fees received rather than a salary. This change has taken place alongside action to improve loss making and lower margin clinics. InnoCare has seen a refocus into higher revenue Network and Managed Service Agreement service lines.

ingenie's focus has been on 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. The business has broadened its panel of referring insurers while changing its outsourced operations to improve efficiency and efficacy of its proposition. The migration to its new back end service provider has shown immediate improvements and there are early signs that this change will have a significantly positive impact going forward. Benefits are expected to emerge in 2019.

#### 1.2.2 Reducing Group complexity

During the year, we continued and substantially concluded the actions to reduce the breadth of the Group's operations with the intention to retain only profitable and cash generative businesses with potential.

We concluded the disposal of the two remaining non-core businesses in the early part of the year:

- the non-telematics assets of our Hubio Canadian business which were disposed of in January 2018; and
- Hubio Fleet which was disposed of in February 2018.

The assets and liabilities were classified as held for sale in the Consolidated Statement of Financial Position at 31 December 2017.



## Strategic Report (continued)

### 1.2.3 Resolving legacy matters

At Group level, continued progress has been made in addressing the historical issues with a number of resolutions in 2018.

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

- Contingent assets include recoveries on customer contractual matters, vendor warranties relating to taxation of historic acquisitions and litigation in progress; and
- Contingent liabilities could include damages or potential fines from adverse outcomes. These could include fines that may be levied by the SFO or potential damages from the action brought by Slater & Gordon and the purported class action litigation. These are disclosed but no liability is recognised.

#### Conduct of taxation matters

During the year, settlement took place in relation to the majority of outstanding legacy taxation matters with HMRC allowing the release of £1.5m of the historic provision.

In addition, ingenie commenced and is well advanced in a re-evaluation of the indirect taxation basis of its products and services. Satisfactory resolution of this matter (if achieved) is estimated to result in a one-off receipt of approximately £2m and an improved profit profile on an ongoing basis.

#### Litigation

We have further increased the provision for legal costs in relation to the Slater & Gordon claim by increasing the closing balance for legal disputes from £7.4m to £8.2m in addition to the amounts incurred during the year of £2.9m, to reflect our determination to robustly defend the action.

### 1.3 Overview of Financial Statements

The Financial Statements are presented on pages 31 to 97.

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

- **Resolution and settlement of historical issues** has progressed such that total provisions now stand at £11.4m representing a net reduction of £1.7m, being utilisation of £4.0m and a net release of provisions no longer required of £1.9m with a partial offset of an additional provision of £4.2m (primarily relating to legal fees);
- **Impairment of ingenie goodwill.** As detailed above, market challenges, the consequential impact on volumes and its revenues in the year and a revised business model which was launched early in 2019 has been reflected in significant uncertainty in the long-term forecast for the business and resulted in an impairment charge of £9.1m to nil balance in the year ended 31 December 2018;
- **Escrow relating to the disposal of the PSD.** Included in current assets is the escrow amount of £50.2m ("Warranty Escrow") with a carrying value of nil having been fully impaired during the year ended 31 December 2016; and
- **Continued disposal and closure of loss-making businesses** has resulted in the reclassification of these businesses into discontinued operations. This includes Hubio Fleet and the non-telematics assets of our Hubio Canadian business.



#### 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 concluded the disposal of those businesses that were loss making and due to their respective business model, sector, scale or other reasons were assessed to be unlikely to see a turnaround within the Group. Full details are given in note 34.

##### 1.5.1 Non telematics assets of Hubio Canadian business

In January 2018, the non-telematics assets of the Group's Canadian subsidiary, which formed part of Hubio Solutions Inc. ("HSI") was sold to a newly established entity, in which former members of HSI management have an interest.

For the year ended 31 December 2018, up to the point of its sale, the business recorded no profit or loss (2017: £0.7m loss). Total consideration was approximately £0.3m in total, primarily payable on the two subsequent anniversaries of the date of sale.

##### 1.5.2 Disposal of Hubio Fleet Limited

In February 2018, the Group disposed of its interest in Hubio Fleet, its UK B2B fleet tracking business. For the year ended 31 December 2018, up to the point of sale, Hubio Fleet recorded no profit or loss (full year ended 31 December 2017: £1.0m loss). Total consideration was £0.06m.

#### 1.6 Claim relating to the disposal of the PSD

Notwithstanding the Group's view as to the lack of merits of the Slater & Gordon claim, in the results for the year ended 31 December 2016, the Group established an impairment provision for the full amount of the Warranty Escrow resulting in a £nil carrying amount. There has been no change to this impairment as at 31 December 2018.

The disposal of the PSD contained an element of deferred consideration in relation to future receipts arising on NIHL cases which were current at completion. The sale and purchase agreement provided that the Group would receive 50% of the net after tax receipts (after allowing for administrative costs) collected on the NIHL cases outstanding at completion. To date, no proceeds have been received and no agreement has been reached as to a terminal value of the NIHL assets and therefore the provisions of the sale and purchase agreement will apply to determine the amount to be paid (if any) by Slater & Gordon.

Based on the information supplied by Slater & Gordon (which is subject to dispute by the Group) and the uncertainty of the outcome of the NIHL cases, the deferred consideration has been determined as £nil (2017: £nil) on the Group's balance sheet.

#### 1.7 Retained earnings

The Company has negative distributable reserves of £100.0m and unrealised profit amounts totalling £4.4m in retained earnings as at 31 December 2018.

## Strategic Report (continued)

### 1.8 Impairments of goodwill

A detailed review of each business has resulted, following assessment of potential future profitability, in impairments during the year to goodwill arising on acquisition as follows:

£m	Goodwill
Net at 31 December 2018 before impairment	17.3
Impairments	
ingenie	(9.1)
As at 31 December 2018	
ingenie	–
Healthcare Services	8.2
<b>Total</b>	<b>8.2</b>

### 1.9 Discontinued operations and assets available for sale

At 31 December 2017, an active process was underway to dispose of the non-telematics assets of the Group's Canadian subsidiary and Hubio Fleet. These businesses were subsequently disposed of in early 2018 (as discussed in section 1.5 above). Consequently, the assets and liabilities of these businesses are classified as held for sale in the Statement of Financial Position as at 31 December 2017.

## 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 also includes items which are considered exceptional in size, nature or incidence or other matters which might mask underlying trading performance, such as items relating to the settlement of historic tax and legal matters.

### 2.1 KPIs and Alternative Performance Measures

Throughout 2018, the Board used a number of measures some of which are not statutory accounting 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 underlying EBITDA and underlying Group operating loss. The KPIs are summarised in the following table:

### Underlying business

KPI	Year ended	Year ended
	31 December	31 December
	2018	2017
	£000	£000
Revenue	<b>38,031</b>	44,880
Gross profit margin	<b>44.4%</b>	45.2%
EBITDA	<b>(4,569)</b>	(3,610)
Group operating loss	<b>(6,341)</b>	(4,681)
Loss before tax	<b>(5,987)</b>	(4,433)
Basic earnings (pence per share)	<b>(12.6)</b>	(8.0)

### 2.2 Business performance and results

#### 2.2.1 Revenue

Underlying revenue for 2018 was £38.0m (2017: £44.9m). There was no non-underlying revenue (2017: £nil).

ingenie's revenues, which comprise income relating to arrangement of insurance to consumers and from the provision of its technology and platform, fell to £7.8m in 2018 (2017: £14.4m). Broking revenues remained under pressure throughout the year, as the volume of new business fell as its panel of insurers to which customers are referred were less competitive in a volatile and challenging rating environment.

Healthcare Services' (being ptHealth including InnoCare) major source of revenues is from the provision of physiotherapy and similar services and this business remained broadly flat at £30.2m (2017: £30.5m).

#### 2.2.2 Underlying EBITDA and Operating result

EBITDA on an underlying basis, was a loss of £4.6m, (2017: £3.6m) and is considered as follows:

- ingenie incurred an underlying loss of £1.9m (2017: profit £1.3m), reflecting the difficult insurance conditions experienced by this business;
- Healthcare Services reported an underlying profit of £0.9m (2017: £0.7m). Both the ptHealth clinics and the InnoCare service lines trading reflecting steady local market conditions;
- Underlying central expenses totalled £3.5m in 2018 (2017: £5.6m). Some £2.6m was spent on Board and other staff costs (2017: £3.9m) with legal, financial and other professional adviser and consultancy costs totalling £0.6m (2017: £1.1m). The central team was significantly restructured during 2017 and started 2018 with a greatly reduced cost base and scale. The reduction in professional advisory and consultancy costs reflects the stabilisation and the reduced

complexity, risk and reporting requirements following the closure and disposal programme; and

- Group operating loss totalled £20.5m (2017: £7.4m) of which £6.3m (2017: £4.7m) reflects the results from underlying business operations and underlying central costs.

### 2.2.3 Non-underlying including exceptional items

Non-underlying items are 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 or non-cash items which might mask underlying trading performance. Further details are provided in note 1.

Excluding businesses classified as discontinued there were no revenues from non-underlying businesses in 2018 (2017: £nil).

The Group has reported a net expense of £13.1m in respect of exceptional items (2017: £0.2m). Net impairment of non-cash assets totalled £9.1m (2017: £5.6m), £9.4m being impairment of ingenie goodwill and intangibles. A credit of £1.6m (2017: £9.0m) arises from the successful resolution of legacy tax issues with unutilised provisions being released. The legal expense of £5.7m primarily relates to the increase in the provision for legal fees in respect of the defence of the Slater & Gordon claim (2017: £2.9m). These items are considered exceptional due to their size and non-recurring nature. Note 8 shows how exceptional items form part of non-underlying operating expenses, of which a reconciliation is provided in note 5 to GAAP measures.

### 2.2.4 Loss before tax

The Group has incurred a continuing loss before tax of £20.1m for the year (2017: £5.0m), of which some £6.0m (2017: £4.4m) derived from the underlying business activities.

### 2.2.5 Cashflow

During the year, the Group continued with the placement of deposits on a rolling 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. In monitoring and managing the Group's cash flow, we consider funds held within both Cash and Term Deposit balances.

The Group has experienced net cash outflows, excluding the impact of movements in term deposits, of £12.7m for the year (2017: cash outflows £18.4m) resulting in a closing balance of cash and term deposits of £50.1m (2017: £62.8m). A summary of flows by business is shown below. Flows are categorised as underlying or non-underlying by reference to the classification of the related income or expense to which they relate. Other non-underlying includes payments against provisions established in previous years:

	2018	2017
Year ended 31 December £m	£m	£m
Underlying business cash flows:		
ingenie	(1.4)	(0.3)
Healthcare Services	(0.3)	(0.8)
Central	(3.7)	(7.3)
<b>Total underlying</b>	<b>(5.4)</b>	<b>(8.4)</b>
Non-underlying trading (inc. discontinued)	(0.7)	(7.6)
Other non-underlying	(6.6)	(2.4)
<b>Total non-underlying</b>	<b>(7.3)</b>	<b>(10.0)</b>
Overall net cash outflow	(12.7)	(18.4)
Opening cash including term deposit investments	62.8	81.2
<b>Closing cash including term deposits investments</b>	<b>50.1</b>	<b>62.8</b>
Analysed as:		
Term deposits	40.0	40.0
Cash	10.1	22.8

The overall net cash outflows above reconcile to the Consolidated Cashflow Statement as follows:

	2018	2017
Year ended 31 December £m	£m	£m
<b>Overall net cash outflow</b>	<b>(12.7)</b>	<b>(18.4)</b>
Investment in term deposits	(100.0)	(70.0)
Maturity of term deposits	100.0	67.5
<b>Net decrease in cash and cash equivalents</b>	<b>(12.7)</b>	<b>(20.8)</b>

## Strategic Report (continued)

### 2.2.6 Balance Sheet

The net assets shown in the Statement of Financial Position at 31 December 2018 were £46.8m (2017: £66.1m).

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

#### Balance sheet movement summary

	Central	Healthcare Services	ingenie	Discontinued and non-underlying	Total Group
	£m	£m	£m	£m	£m
<b>At 31 December 2017</b>	<b>44.5</b>	<b>8.9</b>	<b>13.2</b>	<b>(0.5)</b>	<b>66.1</b>
Underlying EBITDA <sup>1</sup>	(3.5)	0.9	(1.9)	–	(4.6)
Exceptional items <sup>1</sup>	(3.4)	(0.3)	(9.4)	1.1	(12.0)
Other income statement items <sup>1</sup>	0.4	(2.0)	(0.7)	–	(2.3)
Funding of preference share redemptions	(2.5)	2.5	–	–	–
Other balance sheet and reserves movements including foreign exchange <sup>2</sup>	0.2	–	(0.6)	–	(0.4)
<b>At 31 December 2018</b>	<b>35.7</b>	<b>9.9</b>	<b>0.6</b>	<b>0.6</b>	<b>46.8</b>

<sup>1</sup> The total of underlying EBITDA, Exceptional Items and other income statement items, being £18.9m represent the loss after tax for the year as presented on the Consolidated Income Statement.

<sup>2</sup> The total other balance sheet and reserves movements including foreign exchange represents the total movement presented on Other Comprehensive Income.

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

	2018	2017
	£m	£m
As at 31 December		
Cash including term deposits	50.1	62.8
Escrow balances (Gross £50.2m less impairment £50.2m, 2017 £50.1m less £50.1m)	–	–
Other net current liabilities	(15.8)	(19.5)
Preference shares, provisions and deferred tax over one year	(1.4)	(4.0)
Non-current assets	13.9	26.8
<b>Net Assets</b>	<b>46.8</b>	<b>66.1</b>

### 2.2.7 Earnings per share

The underlying basic and diluted EPS, as defined in note 12, was a loss of 12.6 pence per share (2017: loss of 8.0 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 and/or loss-making businesses. The Group holds significant cash reserves and no material debt (other than the ptHealth Preference Shares which are classified as debt in accordance with IAS 32). 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. In forming this judgement, the Directors have taken into account the existence of a legal claim set out in note 33. Having taken legal advice on this claim, the Directors consider that the risk of this matter giving rise to a level of liability which would impact the ability of the Company to remain a going concern is remote. 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 are conducted to high ethical standards. Customers, staff and suppliers are treated fairly, and transactions concluded on an arms-length basis. Regulators are communicated with on an open and prompt basis;

- **Safeguarding of assets.** We 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 are balanced by a requirement for there to be appropriate realisation of profits into cash;
- **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 is made by the Group in order to maximise shareholder value from these assets;
- **Authorisation and accountability.** During the year, the subsidiary boards of ingenie and ptHealth were reconstituted with non-executive chairs and both businesses have self-contained executive management. Matters are reserved both for subsidiary and Group Board approval and the control environment is proportionate to the size of the Group. Operating and project expenditure are typically authorised via the business planning process culminating in an approved budget in advance of the year commencing. Outside of the cycle additional expenditure is approved subject to the appropriate justification and business case being established. Individuals 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, forecasting and review; and

- **Financial planning, reporting and monitoring.**

The Group runs 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.
Q4	Group review and challenge of operating businesses plans. Board review and approval.
Monthly	Subsidiary Board meetings and reporting of financial results and KPIs at subsidiary and Group level.
Quarterly	Re-forecast of full year expected outturn and review.

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

### 2.5 Interim Financial Statements for the period ended 30 June 2019

We intend to prepare a set of interim Financial Statements for the 6 months ending 30 June 2019, which will be subject to review by the Auditor.

## Strategic Report (continued)

### 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 (other than the ptHealth Preference Shares which are classified as debt in accordance with IAS 32) 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 Claim from Slater & Gordon

In June 2017, the Group received a claim from Slater & Gordon for breach of warranty and/or fraudulent misrepresentation for a total amount of up to £637m plus interest in damages. Whilst the Group believes the claim is without merit, significant resources have been, and are expected to be, incurred in the defence of the claim. Clearly, in the event the claim should succeed in whole or in part this would have a substantial negative impact upon the Group and, at worst, could leave the Group unable to settle its debts as they fall due.

#### 4.2 Market and technological change

The markets for the Group's services can be affected by legal or technological changes, resulting in the introduction of new products, revisions to partner pricing, evolving industry standards or 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 sustainable 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. The Group has outsourced a number of key functions where it is most cost efficient to do so or where a third party can bring greater resources or expertise than the Group. The Group monitors the performance and financial security of its outsourced partners.

#### 4.4 Other legal, regulatory and reputational risks

The SFO investigation 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 partners and customers, 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 monitors and assesses the likelihood, potential impact of and opportunity provided by regulatory change, and adapts its plans and activities accordingly.

#### 4.5 Impact of the United Kingdom leaving the European Union

The Group's Healthcare Services business, operating within Canada, is unaffected by the departure of the UK from the European Union. The ingenie consumer business has a UK customer base, works with UK Insurers and furthermore, the demand for insurance is not expected to change because of the departure. The sale of B2B products by ingenie could potentially be impacted however since this is the sale of software and intellectual property rather than physical goods there is not expected to be any disruption over any transitional period.

#### 4.6 Market conditions

Market conditions, including general economic conditions and their effect on exchange rates, interest rates and inflation rates and investment returns, 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.

Within our ingenie business, the impact of the Ogden rate (which is set by Government) uncertainty and industry-wide reductions in personal injury frequency resulted in competitive pricing pressure in the final months of 2017 and this continued in 2018. This was particularly so in the young driver segment which is highly sensitive to price. Whilst ingenie has been working with its panel to take pricing actions, the uncertainty as to the future discount rate to be used, the timing of any changes, the costs of re-insurance had a consequential impact on ingenie's ability to trade competitively. Within our ptHealth business, certain procedures are subject to reimbursement at rates which are fixed by Provincial or National Government. Such Governmental or industry uncertainty may continue.

#### 4.7 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 Canada and therefore its most significant foreign currency exposure is in relation to Canadian Dollars. 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 (63)

### Non-Executive Chairman

Richard Rose is Non-Executive Chairman of Escape Hunt plc, CurrencyFair Limited and Innovative Bites 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 Group plc ('Booker') where he was Non-Executive Chairman.

## Stefan Borson (44)

### Group Chief Executive Officer

Stefan Borson has over twenty years' experience working in and advising both listed and high growth private companies. He has held Board positions in a broad range of roles from Chief Executive Officer to Corporate Development & Investment Director.

Following qualification as a Solicitor in 2000 with Addleshaw Goddard, Stefan spent seven years in Investment Banking at Investec plc specialising in advising consumer facing and technology businesses. In 2007, Stefan joined the board of Clerkenwell Ventures plc, a listed investment fund and joined Redbus Media Group as Chief Executive Officer in 2009. In August 2014, Stefan joined Watchstone Group plc as Chief Legal and Communications Officer becoming Group General Counsel & Company Secretary in May 2015 following the disposal of the PSD. He continues to act as Group General Counsel & Company Secretary in conjunction with his Group Chief Executive Officer role.

## Mark Williams (54)

### Group Finance Director

Mark Williams is a Fellow of the Institute of Chartered Accountants and has over 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 20 years, including roles at AXA, Cofunds, Guardian Royal Exchange, Legal & General, Old Mutual and Skandia. Mr Williams will step down from the Board on 30 June 2019.

## The Rt. Hon. Lord Howard of Lympne, CH, QC (77)

### 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.

## David Young (57)

### 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 and Key Retirement Group. He became Non-executive Chairman of ingenie in 2017.

# 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 2018 and the remuneration policy that applies in 2019.

## Remuneration Committee

Lord Howard is chairman of the Committee alongside additional members are David Young and Richard Rose each of whom are independent. The Committee 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. The remuneration of the Non-executive Directors is determined by the Board. 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 is 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 well the importance of the retention of key executives.

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;
- discretionary 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
- the Distribution Incentive Scheme and the MIRP (as detailed below) together focused on delivering growth in the value of the Company's operating businesses going forward and the ultimate distribution of capital to shareholders.

## Remuneration of the executive Directors in 2018

Given the 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.

## Stefan Borson (Group Chief Executive Officer)

Stefan Borson has a base salary of £450,000 per annum (2017: £312,500 per annum (as Group General Counsel & Company Secretary) (this has not been increased for 2019) and an entitlement to an annual bonus of up to 150% of salary. For a period of up to three years from appointment on 1 January 2018, £337,500 of his entitlement to an annual bonus is guaranteed and payable on 1 January following each qualifying year ("Guaranteed Element"). Any Guaranteed Element paid will be deducted from any payment due under the Distribution Incentive Scheme. In addition, Mr Borson 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.

## Directors' Remuneration Report (continued)

### Mark Williams (Group Finance Director)

Mark Williams has a base salary of £250,000 per annum (2017: £250,000 per annum) (this has not been increased for 2019) 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. Mr Williams will step down from the Board on 30 June 2019 and will not be eligible for a bonus for 2019.

### Annual bonuses of the executive management team

In deciding on the annual cash bonuses awarded to the executive management team for 2018, the Remuneration Committee took into account the work of the team in respect of, inter alia, the:

- growth, profits and 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.

For details of the annual bonuses paid to the Directors, please see the table below and the associated notes.

For 2019, the annual discretionary bonus for Mr Borson 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. The discretionary bonus plan will reward, inter alia, a combination of:

- realisation and development of value of the Group's remaining 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
- careful cash and efficient cost management.

Award of the maximum discretionary bonuses will only be given on optimal achievement of these targets.

### Long term incentive plans for the executive Directors

The Committee believes that the Distribution Incentive Scheme focuses the executive Director on enhancing value and returning that value to shareholders and ensures alignment between the executive Directors, Board strategy and shareholder interests.

### The Distribution Incentive Scheme

The Distribution Incentive Scheme was put in place upon Mr Borson's appointment as Group Chief Executive Officer to reflect the changing focus of the Group. Upon Mr Borson's appointment, he relinquished all his rights and entitlements under the MIRP (as described below).

The Distribution Incentive Scheme is a cash-based incentive and retention scheme that will only be triggered upon distributions or the sale of the Group in excess of a cumulative £46,038,333 (being £1 per ordinary share) value or distribution ("Distribution Hurdle"). Mr Borson will be entitled to cash bonuses of up to 5.43% of any future distributions to shareholders above the Distribution Hurdle. Any Guaranteed Elements paid to Mr Borson between 1 January 2018 and the date of such distribution(s) shall be deducted from any payments due to him under the Distribution Incentive Scheme such that the Distribution Hurdle will increase by £18.41 for each £1 paid as Guaranteed Element. Accordingly, as of 1 January 2019, the Distribution Hurdle had increased to £52,251,708. Mr Borson is the sole participant in the Distribution Incentive Scheme.

### The MIRP

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 ("MIRP Hurdle"). The MIRP 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.

Mr Williams is entitled to a share of up to a total of 2.25% of any growth in value of each division of the Group above the MIRP Hurdle (as adjusted for cash invested or generated from 1 January 2016). Mr Williams will be compensated for his entitlement to potential payments under the MIRP when he stands down from the Group on 30 June 2019 following which the MIRP will cease to exist and no person shall have any entitlement to payments under the scheme.

### Non-executive Directors

The Non-executive Directors do not have service contracts, nor do they participate in any share option plan, MIRP, Distribution Incentive Scheme, 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). 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 S. Borson, was as follows (see note 9):

	Salary and fees	Bonus	Contributions to personal pension schemes	Compensation for loss of office	Total
2018	£000	£000	£000	£000	£000
<b>Executive</b>					
S Borson <sup>1</sup>	482	591	7	–	<b>1,080</b>
M Williams	263	150	10	–	<b>423</b>
	<b>745</b>	<b>741</b>	<b>17</b>	<b>–</b>	<b>1,503</b>
<b>Non-executive</b>					
R Rose	185	–	–	–	<b>185</b>
M Howard	75	–	–	–	<b>75</b>
D Young	75	–	–	–	<b>75</b>
<b>Total</b>	<b>1,080</b>	<b>741</b>	<b>17</b>	<b>–</b>	<b>1,838</b>

Notes

1 Bonus includes the Guaranteed Element for the year ending 31 December 2018.

	Salary and fees	Bonus	Contributions to personal pension schemes	Compensation for loss of office	Total
2017	£000	£000	£000	£000	£000
<b>Executive</b>					
I Mukerjee <sup>2</sup>	522	320	–	30	<b>872</b>
M Williams	263	312	10	–	<b>585</b>
	<b>785</b>	<b>632</b>	<b>10</b>	<b>30</b>	<b>1,457</b>
<b>Non-executive</b>					
R Rose	185	–	–	–	<b>185</b>
D Currie <sup>3</sup>	38	–	–	–	<b>38</b>
A Illsley <sup>3</sup>	56	–	–	–	<b>56</b>
M Howard	75	–	–	–	<b>75</b>
D Young	75	–	–	–	<b>75</b>
<b>Total</b>	<b>1,214</b>	<b>632</b>	<b>10</b>	<b>30</b>	<b>1,886</b>

Notes

2 Resigned 31 December 2017.

3 Resigned 30 September 2017.

This report was approved by the Board on 8 May 2019 and signed on its behalf by:

**Lord Howard of Lympne**

Chairman of the Remuneration Committee

# Corporate Governance Report

**The Directors recognise the importance of good corporate governance and have chosen to apply the Quoted Companies Alliance Corporate Governance Code (the “QCA Code”).**

**The correct application of the QCA code requires the Company to apply its ten principles and also to publish certain related disclosures either on our website or in this Annual Report or a combination of both. Our website, [www.watchstonegroup.com/investors/corporate-governance](http://www.watchstonegroup.com/investors/corporate-governance), includes disclosure considering each principle in turn and references where the appropriate disclosure is given.**

## 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 of two executive Directors and three 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.

During 2018, the Board held ten Board meetings. Each of the Directors attended all such meetings.

Each Director has access to the advice and services of external counsel 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 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 Lord Howard and also consists of David Young and Richard Rose. 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 15 to 17.

### Nomination committee

The Nomination Committee is chaired by Richard Rose and also consists of Lord Howard and David Young. 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 is chaired by Mark Williams and also consists of Stefan Borson and Richard Rose. David Young was a member until 31 March 2018. 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 following and incorporating advice from the Company's nominated adviser. 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](mailto:investor.relations@watchstonegroup.com) or in writing to Highfield Court, Tollgate, Chandler's Ford, Eastleigh, Hampshire, England, SO53 3TY.

### Internal control and risk management

The Group operates a system of internal control and will 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 as set out on page 10.

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

#### **Richard Rose**

Non-executive Chairman

# Directors' Report

## The Directors present their report and the audited Financial Statements for the year ended 31 December 2018.

### Directors

The Directors who held office at 31 December 2018 were Richard Rose, Stefan Borson, Mark Williams, Lord Howard and David Young.

The remuneration of the Directors including their respective shareholdings in the Company is set out in the Directors' Remuneration Report on pages 15 to 17.

As at 31 December 2018, the following Directors held shares in the Company: Stefan Borson (300,000), Richard Rose (100,000); Mark Williams (50,550); and Lord Howard (12,608).

### 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 26 summarises the rights of the ordinary shares.

### Substantial shareholdings

As at 2 May 2019, 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	No. of shares	% holding
Polygon Global Partners LLP	12,611,488	27.39
Beach Point Capital Management LP	7,888,718	17.14
Sand Grove Capital Management LLP	5,179,279	11.25
M&G Investments (Prudential)	2,916,666	6.34
BlueMountain Capital Management, LLC	2,248,093	4.88
<b>Subtotal</b>	<b>30,844,244</b>	<b>67.00</b>

### Dividends

The Directors do not recommend the payment of a final dividend (2017: 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 2018 are contained in the Corporate Governance section of this Annual Report and in the Remuneration Report on pages 15 to 19.

### Corporate governance

The Group's report on Corporate Governance is on pages 18 to 19 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 on page 66, 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 Directors have made appropriate enquiries and consider that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the Financial Statements.

### Financial instruments

The Group does not generally have complex financial instruments. The financial instruments comprise borrowings (primarily the ptHealth Preference Shares), cash and liquid resources and various items such as trade debtors and trade creditors that arise from its 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 31.

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 35, 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.

### Political donations

The Group has not made any political donations during the year ended 31 December 2018 (2017: £nil).

### 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.

### 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 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 International Financial Reporting Standards as adopted by the EU (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, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and

## Directors' Report (continued)

- use the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

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 are responsible for such internal control as they determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error, and 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.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

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 2019 AGM will be held at 1.30 pm on 26 June 2019 in Room LGA, WeWork, Aviation House, 125 Kingsway, Holborn, London WC2B 6NH. 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, Link 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 Chief Executive Officer and Company Secretary

# Audit Committee Report

The Audit Committee is chaired by David Young who sits alongside 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.

## 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 policies and systems and, as a result, in its reported results. Reporting appropriately the trading performance of the Group's remaining subsidiaries, the costs and necessary provisions needed to resolve the remaining legacy issues and the recoverability of purchased goodwill have been areas of particular attention. There were two formal meetings of the Committee as well as briefing discussions with individual committee members.

## 2018 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 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 challenge from the Auditors;
- the audit report which the Auditors have issued and their application of materiality and audit scope to the reduced level of ongoing business given the legacy assets and potential liabilities; 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, when necessary, meets with the Auditors without the executive being present.

The Committee paid particular consideration to the scope of the audit and the risks with the greatest impact to financial reporting and on the audit. A number of the issues below are also referenced in the Independent Auditor's Report and shareholders may wish to refer to that report for the auditor's assessment of the audit risk and how their audit procedures responded to that risk. The Committee reviewed and considered the significant issues in relation to the Financial Statements and how these have been addressed. These issues included:

- **Slater & Gordon claim, valuation of the Warranty Escrow and deferred consideration**

The sale of the PSD was concluded during 2015. The disposal proceeds contained a number of estimates of amounts which are material to the Balance Sheet and, in particular estimates of the Warranty Escrow and of the deferred consideration potentially receivable in respect of NIHL cases. The Committee reviewed the advice and confirmations from the Group's external legal counsel on the likely outcome of the claim brought by Slater & Gordon as referred to in note 33. Whilst the Board believes that Slater & Gordon's allegations are wholly without merit and should never have been advanced and therefore that no provision is appropriate, the Committee agreed that the outcome is uncertain and noted the "Emphasis of Matter" in the Auditor's Report to which shareholders' attention is drawn. The Committee has reviewed the estimates and, in particular, the full impairment in 2016 of the Warranty Escrow, and it considered whether it was possible to place a valuation or probability of success with any certainty (taking into account the information which has been made available so far by Slater & Gordon) on the claims made by Slater & Gordon or the deferred consideration receivable.

## Audit Committee Report (continued)

### ■ Income statement presentation and non-underlying items

The accounts and strategic report make a number of references to separately identified costs and other non-underlying items in order to provide a better understanding of the Group's underlying trading performance. The Committee has reviewed the judgements made by management in determining 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 and intangible assets

The Consolidated Statement of Financial Position includes goodwill arising on acquisitions as well as other intangible assets such as software development costs. Goodwill and other intangible assets arising on all acquisitions was reviewed in the light of developments in their businesses in 2018 and, in particular the recoverability of ingenie goodwill. The Committee noted the 2018 trading performance of ingenie, the actions which have been taken and the actions which are planned to return it to profit as summarised in the Group Chief Executive's update. Whilst the Board has confidence in the actions being undertaken, ingenie has only been trading with its revised structure and business model for less than two months in 2019. In view of the inherent uncertainty in future forecasts that this limited history creates, the Committee has concurred with the complete impairment of the remaining ingenie goodwill.

### ■ Carrying amount of the Parent Company's investments in and receivables due from subsidiaries

The Committee noted the materiality and recoverability of and the Auditor's procedures in relation to the Parent Company's balances with subsidiaries within the Parent Company Statement of Financial Position.

There is a risk that these amounts may not be recoverable due to the performance of subsidiary entities. There is an inherent uncertainty involved in forecasting and discounting the future cash flows on which this impairment assessment is based.

### ■ Estimates of provisions required at the year end

The Group has significant provisions for tax related matters and legal and regulatory investigations and disputes as shown in note 24. The overall level of net provisions has reduced during the year as issues have been settled, whilst the provision for the legal actions

and regulatory matters referred to in note 33 have been increased as a result of the Board's determination to robustly defend the action to trial. Nevertheless, provisions can involve significant judgement and therefore the Committee have reviewed the assumptions made by management of the accuracy and valuation of the outstanding provisions.

### Relationship with the Auditor

Shareholders approved the re-appointment of KPMG at the 2018 AGM. 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 the year, the Committee noted the sanctions announced by the Financial Reporting Council against KPMG and its then audit engagement partner in relation to the audit of Quindell plc for the period ended 31 December 2013. As noted in previous years, the audit engagement partner and the KPMG Office which carries out the audit are unconnected with the 2013 audit and none of the current Group executive and non-executive directors were employed by the Group at that time. The Committee is satisfied that there has been appropriate focus and challenge on the primary areas of audit risk, assesses the quality of the audit process to be good and believe that a high quality audit can be performed for the fees agreed and therefore has recommended to the Board the reappointment of KPMG as Auditor.

### Risk management and internal control

In the light of the reduction in the size of the Group, the Committee reviewed with the Group Finance Director in 2017 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. The Committee continues to keep under review with the Group Finance Director the key person risk in what is now a small central team. Operational risk management is carried out within the Group's two main trading businesses.

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

## 1. Our opinion is unmodified

We have audited the financial statements of Watchstone Group plc ("the Company") for the year ended 31 December 2018 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement, Company Statement of Financial Position, Company Cash Flow Statement, Company Statement of Changes in Equity, and the related notes, including the accounting policies in notes 2 and 38.

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 2018 and of the Group's loss for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (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.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

## 2. Emphasis of matter – uncertain outcome of Slater & Gordon claim

We draw attention to note 33 to the Financial Statements concerning the uncertain outcome of a claim, alleging breach of warranty and/or fraudulent misrepresentation where the Company is the defendant. The ultimate outcome of the matter cannot currently be determined, and no provision for any liability that may result has been made in the Financial Statements. Our opinion is not modified in respect of this matter.

### The risk – Accounting treatment:

In June 2017, the Group was served with High Court proceedings issued by Slater & Gordon in respect of the disposal of the Professional Services Division in 2015. The amounts involved are significant, and the application of accounting standards to determine the amount, if any, to be provided as a liability, is inherently subjective. Although the likelihood of any outflows is considered not probable, the quantum of the claim gives rise to a risk that if a liability was determined it could result in a material expense for which no provision has been recognised or have an adverse impact on going concern (as described below).

The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the group and parent company. That judgement is based on an evaluation of the inherent risks to the Group's and Company's business model and how those risks might affect the Group's and Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements. The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern.

## Independent Auditor's Report to the members of Watchstone Group plc (continued)

### Our response – Our procedures included:

**Enquiry of lawyers:** Inspecting correspondence with the Group's external counsel accompanied by formal confirmations from that counsel.

**Accounting analysis:** Challenging the Group's judgement on the appropriate accounting treatment and assessing conclusions reached, in particular the likelihood of an obligation arising and its impact on the Group's going concern, against known facts and circumstances.

**Assessing transparency:** Assessing whether the disclosures provide a clear and sufficient description of the nature of the contingent liability of the Group and of the Parent Company and the inherently subjective nature of the accounting judgement.

### 3. Key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters in arriving at our audit opinion above, together with our key audit procedures to address those matters. These matters were addressed, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

#### The impact of uncertainties due to the UK exiting the European Union on our audit

Refer to page 12 (principal risks).

#### The risk – Unprecedented levels of uncertainty

All audits assess and challenge the reasonableness of estimates, in particular as described in the recoverability of ingenie goodwill and the recoverability of Parent Company's investment in and amounts due from subsidiaries below, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements (see below). All of these depend on assessments of the future economic environment and the group's future prospects and performance.

Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.

#### Our response

We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included:

**Our Brexit knowledge –** We considered the directors' assessment of Brexit-related sources of risk for the group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks.

**Sensitivity analysis –** When addressing the recoverability of ingenie goodwill, the recoverability of Parent Company's investment in and amounts due from subsidiaries and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty.

**Assessing transparency –** As well as assessing individual disclosures as part of our procedures on the recoverability of Ingenie goodwill and the recoverability of Parent Company's investment in and amounts due from subsidiaries we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks.

However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

### Group: Recoverability of ingenie goodwill

(£nil; 2017: £9.1m)

#### Risk versus 2017 ▲

Refer to note 14 of the consolidated financial statements.

#### The risk – Forecast-based valuation:

Goodwill prior to impairment relating to the ingenie cash generating unit (“ingenie”) is significant and at inherent risk of impairment should the business not generate sufficient future economic benefits. The estimated recoverable amount is subjective, due to the inherent uncertainty involved in forecasting, particularly over assumptions used such as cost inflation, discount rates and future cash flows, and the judgement necessary when discounting forecast future cash flows, which form the basis for the assessment of whether the goodwill is impaired. During the year there has been continued underperformance, due to economic and industry factors, and the Group fully impaired the ingenie goodwill. Accordingly, the recoverability is not at a high risk of significant misstatement, however, due to the fact that impairment testing is subject to significant judgement, this is considered to be an area that had the greatest effect on our Group’s audit.

#### Our response – Our procedures included:

**Benchmarking assumptions:** Comparing the Group’s assumptions to externally derived data in relation to key inputs such as cost inflation and discount rates.

**Sensitivity analysis:** Considering reasonably possible changes in assumptions including forecast revenue and discount rate, and their impact on the outcome of the impairment assessment.

**Our sector experience:** Challenging the Group’s assumptions by evaluating the achievability of the growth forecasts used in the cash flow model.

**Historical comparisons:** Evaluating the track record of historical forecasts compared to actual results achieved.

**Assessing transparency:** Assessing whether the Group’s disclosures about the assumptions and judgements used in determining the impairment of goodwill at Ingenie reflects the risks inherent in the valuation of the Ingenie goodwill.

### Group: Income statement presentation of non-underlying items

#### Risk versus 2017 ◀▶

Refer to notes 1 and 8 of the consolidated financial statements.

#### The risk – Presentation Appropriateness:

The Directors believe that separate presentation of non-underlying items on the face of the Consolidated Income Statement provides clear and useful information on the Group’s underlying trading performance. However, if improperly used, this might prevent the Annual Report from being fair, balanced and understandable by focusing inappropriately on certain parts of performance. The determination of whether an item should be disclosed as non-underlying, including the classification of certain items as exceptional, requires judgement regarding an item’s nature and incidence. The determination also requires judgement of whether there is sufficient information, through clear definition, reconciliation and/or balanced prominence, for the presentation to ultimately provide a better understanding of the Group’s underlying trading performance. Therefore, these are key judgements on which we focus during our audit.

#### Our response – Our procedures included:

**Assessing principles:** We assessed the policy on non-underlying items adopted by the Group against accounting standards and guidance issued by the Financial Reporting Council and the European Securities and Markets Authority on the presentation of Non-GAAP measures including exceptional items.

**Assessing application:** We challenged the Group’s judgements concerning the nature of revenue and costs classified as non-underlying on the face of the Income Statement and whether these were in line with the stated policy, were applied consistently and were appropriate.

**Assessing balance:** We assessed whether the separate disclosure and related commentary of non-underlying results throughout the Accounts resulted in undue prominence such that the Annual Report may be unbalanced.

**Assessing transparency:** We assessed whether the group’s disclosures define non-underlying items and explain their purpose in a manner which should enable the reader to understand their presentation. We also assessed whether adequate disclosure is given of the composition of non-underlying items.



## Independent Auditor's Report to the members of Watchstone Group plc (continued)

### Parent Company: Recoverability of Parent Company's investment in and amounts due from subsidiaries

(Investments – £6.2m; 2017: £19.3m; Amounts due – £26.7m; 2017: £24.9m)

#### Risk versus 2017 ◀▶

Refer to notes 40 and 41 of the company financial statements.

#### The risk – Forecast-based valuation:

The carrying amount of the Parent Company's investments in, and amounts due from, subsidiaries represents 7.6% (2017: 18.7%) and 32.5% (2017: 24.2%) of the Parent Company's total assets respectively. Due to the underperformance of its significant subsidiary and difficult economic and industry factors, there is a significant risk that the Parent Company's investments in, and amounts due from, subsidiaries might be impaired and the assessment of recoverability requires significant judgement.

#### Our response – Our procedures included:

**Test of detail:** Comparing the carrying amount of 100% of investments and amounts owed by subsidiary undertakings, with the relevant subsidiaries' draft balance sheet to identify whether their net assets, being an approximation of the minimum recoverable amount of the related investments and amounts owed by subsidiary undertakings, were in excess of their carrying amount, and assessing whether those subsidiaries have historically been profit-making.

**Assessing subsidiary audits:** Assessing the work performed by the subsidiary audit teams on those subsidiaries and considering the results of that work on those subsidiaries' profits and net assets.

**Our sector experience:** For those subsidiaries where the carrying amount exceeded the net asset value, comparing the carrying amount of the investment with the enterprise value of the business.

### 4. Our application of materiality and an overview of the scope of our audit

Materiality for the Group Financial Statements as a whole was set at £320,000 (2017: £330,000), determined with reference to a benchmark of revenue of £38.0m (£44.9m), of which it represents 0.8% (2017: 0.8%). We consider revenue, excluding non-underlying results, to be the most appropriate benchmark as it provides a more stable measure year on year than group profit before tax.

Materiality for the Parent Company financial statements as a whole was set at £285,000 (2017: £100,000), determined with reference to a benchmark of loss before tax and chosen to be lower than materiality for the group financial statements as a whole. It represents 1.5% (2017: 0.6%) of the stated benchmark.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £16,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 28 (2017: 30) reporting components, we subjected 5 (2017: 5) to full scope audits for Group purposes and none of the components (2017: none) were subjected to specified risk-focused audit procedures.

The components within the scope of our work accounted for the following percentages of the Group:

2018 (2017)	Number of components	Group revenue	Group profit before tax	Total assets
Audits for group reporting purposes	5 (5)	100% (100%)	99% (99%)	99% (99%)
Specified risk-focused audit procedures	0 (0)	0% (0%)	0% (0%)	0% (0%)
<b>Total</b>	<b>5 (5)</b>	<b>100% (100%)</b>	<b>99% (100%)</b>	<b>99% (99%)</b>

The remaining 0% of total Group revenue, 1% of Group profit before tax and 1% of total Group assets is represented by 10 reporting components, none of which individually represented more than 1% of any of total Group revenue, Group profit before tax or total Group assets. For these residual components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from £100,000 to £285,000, having regard to the mix of size and risk profile of the Group across the components. The work on 3 of the 5 components (2017: 3 of the 5 components) was performed by component auditors and the rest, including the audit of the Parent Company, was performed by the Group team. The Group team performed procedures on the items excluded from normalised revenue.

The Group team visited 1 (2017: 1) component location in Canada (2017: Canada) to assess the audit risk and strategy. Telephone conference meetings were also held with the component auditor. At this visit and meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

### 5. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and Company will continue in operation.

We identified the uncertain outcome of Slater & Gordon claim as a key audit matter (see section 2 of this report). Based on the work described in our response to that key audit matter, we are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in note 2 to the financial statements on the use of the going concern basis of accounting with no material uncertainties

that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of the approval of the financial statements.

### 6. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

#### Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

### 7. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required 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.

We have nothing to report in these respects.

## Independent Auditor's Report to the members of Watchstone Group plc (continued)

### 8. Respective responsibilities

#### Directors' responsibilities

As explained more fully in their statement set out on page 21, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

#### Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities)

### 9. The purpose of our audit work and to whom we owe our responsibilities

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.

#### **Tudor Aw (Senior Statutory Auditor) for and on behalf of KPMG LLP, Statutory Auditor Chartered Accountants**

15 Canada Square  
London  
E14 5GL  
8 May 2019

# Financial Statements

## Consolidated Income Statement

for the year ended 31 December 2018		2018	2018	2018	2017	2017	2017
		Underlying	Non-underlying*	Total	Underlying	Non-underlying*	Total
		£000	£000	£000	£000	£000	£000
	Note						
<b>Revenue</b>		<b>38,031</b>	–	<b>38,031</b>	44,880	–	44,880
Cost of sales		<b>(21,140)</b>	–	<b>(21,140)</b>	(24,582)	–	(24,582)
<b>Gross profit</b>		<b>16,891</b>	–	<b>16,891</b>	20,298	–	20,298
Administrative expenses	8	<b>(23,232)</b>	<b>(14,118)</b>	<b>(37,350)</b>	(24,979)	(2,737)	(27,716)
<b>Group operating loss</b>		<b>(6,341)</b>	<b>(14,118)</b>	<b>(20,459)</b>	(4,681)	(2,737)	(7,418)
Finance income	10	<b>346</b>	–	<b>346</b>	270	–	270
Finance expense	10	<b>8</b>	–	<b>8</b>	(22)	2,220	2,198
<b>Loss before taxation</b>		<b>(5,987)</b>	<b>(14,118)</b>	<b>(20,105)</b>	(4,433)	(517)	(4,950)
Taxation	11	<b>172</b>	–	<b>172</b>	754	–	754
<b>Loss after taxation for the year from continuing operations</b>		<b>(5,815)</b>	<b>(14,118)</b>	<b>(19,933)</b>	(3,679)	(517)	(4,196)
Net gain on disposal of discontinued operations	34	–	<b>558</b>	<b>558</b>	–	4,930	4,930
Profit/(loss) for the year from discontinued operations, net of taxation	34	–	<b>471</b>	<b>471</b>	–	(3,378)	(3,378)
<b>(Loss)/profit after taxation for the year</b>		<b>(5,815)</b>	<b>(13,089)</b>	<b>(18,904)</b>	(3,679)	1,035	(2,644)
Attributable to:							
Equity holders of the parent		<b>(5,815)</b>	<b>(13,089)</b>	<b>(18,904)</b>	(3,679)	1,047	(2,632)
Non-controlling interests		–	–	–	–	(12)	(12)
		<b>(5,815)</b>	<b>(13,089)</b>	<b>(18,904)</b>	(3,679)	1,035	(2,644)
Loss per share (pence):							
Basic	12	<b>(12.6)</b>		<b>(41.1)</b>	(8.0)		(5.7)
Diluted	12	<b>(12.6)</b>		<b>(41.1)</b>	(8.0)		(5.7)
Loss per share from continuing operations (pence):							
Basic	12			<b>(43.3)</b>			(9.1)
Diluted	12			<b>(43.3)</b>			(9.1)

\* Non-underlying results have been presented separately to give a better guide to underlying business performance (see notes 1 and 8).

The accompanying notes form part of the Financial Statements.

## Financial Statements (continued)

### Consolidated Statement of Comprehensive Income

for the year ended 31 December 2018	2018	2017
	£000	£000
<b>Loss after taxation</b>	<b>(18,904)</b>	(2,644)
<b>Items that may be reclassified in the Consolidated Income Statement</b>		
– Exchange differences on translation of foreign operations	(365)	136
<b>Total comprehensive loss for the year</b>	<b>(19,269)</b>	(2,508)
<b>Attributable to:</b>		
Equity holders of the parent	(19,234)	(2,481)
Non-controlling interest	(35)	(27)
	<b>(19,269)</b>	(2,508)

The accompanying notes form part of the Financial Statements.

## Consolidated Statement of Financial Position

as at 31 December 2018		2018	2017
	Note	£000	£000
<b>Non-current assets</b>			
Goodwill	14	8,157	17,443
Other intangible assets	13	3,144	4,825
Property, plant and equipment	15	1,854	3,819
Other receivables	34	759	759
		<b>13,914</b>	26,846
<b>Current assets</b>			
Inventories	17	760	1,283
Trade and other receivables	18	5,110	6,144
Term deposits	19	40,000	40,000
Cash	20	10,113	22,808
		<b>55,983</b>	70,235
Assets of disposal group classified as held for sale	34	–	833
Total current assets		<b>55,983</b>	71,068
<b>Total assets</b>		<b>69,897</b>	97,914
<b>Current liabilities</b>			
Cumulative redeemable preference shares	22	(2,209)	(2,203)
Trade and other payables	21	(8,201)	(11,710)
Obligations under finance leases	23	–	(4)
Provisions	24	(11,319)	(13,024)
		<b>(21,729)</b>	(26,941)
Liabilities of disposal group classified as held for sale		–	(851)
Total current liabilities		<b>(21,729)</b>	(27,792)
<b>Non-current liabilities</b>			
Cumulative redeemable preference shares	22	(1,278)	(3,795)
Provisions	24	(85)	(87)
Deferred tax liabilities	25	(1)	(167)
		<b>(1,364)</b>	(4,049)
<b>Total liabilities</b>		<b>(23,093)</b>	(31,841)
<b>Net assets</b>		<b>46,804</b>	66,073
<b>Equity</b>			
Share capital	26	4,604	4,604
Other reserves	27	137,827	136,618
Retained earnings	27	(96,288)	(76,095)
<b>Equity attributable to equity holders of the parent</b>		<b>46,143</b>	65,127
Non-controlling interests		661	946
<b>Total equity</b>		<b>46,804</b>	66,073

The Financial Statements of Watchstone Group plc, registered number 05542221, on pages 31 to 81 were approved and authorised for issue by the Directors on 8 May 2019 and signed on its behalf by:

**Mark P Williams**  
Director

**David Young**  
Director

The accompanying notes form part of the Financial Statements.

## Financial Statements (continued)

### Consolidated Statement of Changes in Equity

for the year ended 31 December 2018	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 2018	4,604	127,251	(10,024)	23,316	(3,925)	136,618	(76,095)	65,127	946	66,073
Loss for the year	–	–	–	–	–	–	(18,904)	(18,904)	–	(18,904)
Other comprehensive income	–	–	–	–	(330)	(330)	–	(330)	(35)	(365)
Total comprehensive income	–	–	–	–	(330)	(330)	(18,904)	(19,234)	(35)	(19,269)
Preference shares repaid and not converted	–	–	–	–	–	–	250	250	(250)	–
Transfer of realised exchange to retained earnings	–	–	–	–	1,539	1,539	(1,539)	–	–	–
Total transactions with owners, recognised directly in equity	–	–	–	–	1,539	1,539	(1,289)	250	(250)	–
At 31 December 2018	4,604	127,251	(10,024)	23,316	(2,716)	137,827	(96,288)	46,143	661	46,804

The accompanying notes form part of the Financial Statements.



## Consolidated Statement of Changes in Equity (continued)

for the year ended 31 December 2017	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 2017	4,604	127,251	(3,312)	23,316	(4,076)	143,179	(80,218)	67,565	973	68,538
Loss for the year	–	–	–	–	–	–	(2,632)	(2,632)	(12)	(2,644)
Other comprehensive income	–	–	–	–	151	151	–	151	(15)	136
Total comprehensive income	–	–	–	–	151	151	(2,632)	(2,481)	(27)	(2,508)
Share-based payments (note 26)	–	–	–	43	–	43	–	43	–	43
Transfer of realised profits to retained earnings	–	–	(6,712)	(43)	–	(6,755)	6,755	–	–	–
Total transactions with owners, recognised directly in equity	–	–	(6,712)	–	–	(6,712)	6,755	43	–	43
At 31 December 2017	4,604	127,251	(10,024)	23,316	(3,925)	136,618	(76,095)	65,127	946	66,073

The accompanying notes form part of the Financial Statements.

## Financial Statements (continued)

### Consolidated Cash Flow Statement

for the year ended 31 December 2018		2018	2017
	Note	£000	£000
<b>Cash flows from operating activities</b>			
Cash used in operations before exceptional costs, net finance expense and tax	29	(1,672)	(11,289)
Non underlying cash out flows excluding discontinued operations		(6,834)	(5,266)
Cash used in operations before net finance expense and tax		(8,506)	(16,555)
Corporation tax received		–	622
<b>Net cash used by operating activities</b>		<b>(8,506)</b>	<b>(15,933)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(1,411)	(4,417)
Purchase of intangible fixed assets		(1,057)	(1,816)
Proceeds on disposal of property, plant and equipment		–	1,260
Disposal of subsidiaries net of cash foregone		87	2,560
Investment in term deposits		(100,000)	(70,000)
Maturity of term deposits		100,000	67,500
Interest income		349	178
Recovery of fully impaired investment		250	–
<b>Net cash used in investing activities</b>		<b>(1,782)</b>	<b>(4,735)</b>
<b>Cash flows from financing activities</b>			
Finance expense paid		–	(20)
Redemption of preference shares		(2,454)	–
Finance lease repayments		(4)	(94)
<b>Net cash used in financing activities</b>		<b>(2,458)</b>	<b>(114)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(12,746)</b>	<b>(20,782)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	20	<b>22,808</b>	43,714
<b>Exchange gains on cash and cash equivalents</b>		<b>51</b>	(124)
<b>Cash and cash equivalents at the end of the year</b>	20	<b>10,113</b>	22,808
<b>Cash and cash equivalents</b>			
Cash		<b>10,113</b>	22,808
	20	<b>10,113</b>	22,808

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 34.

As at 31 December 2018, the Group had cash and cash equivalents of £10,113,000 (2017: £22,808,000) and term deposits of £40,000,000 (2017: £40,000,000).

The accompanying notes form part of the Financial Statements.

# Notes to the Financial Statements

## 1. General information

Watchstone Group plc is a public company limited by shares and is 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 Highfield Court Tollgate, Chandler's Ford, Eastleigh, Hampshire, England, SO53 3TY. The nature of the Group's operations and its principal activities are set out on page 5.

### 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 note 8). 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. Other than as discussed in note 3, these policies have been consistently applied to all the years presented.

### Changes in accounting policy

#### 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 judgements.

#### Going concern

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. In forming this judgement, the Directors have taken into account the existence of the Slater & Gordon (UK) 1 Limited ("Slater & Gordon") legal claim set out in note 33. Having taken legal advice on this claim, the Directors consider that the risk of this matter giving rise to a level of liability which would impact the ability of the Company to remain a going concern is remote. 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.

## Notes to the Financial Statements (continued)

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.

### 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 physiotherapy services, telematics services and devices, broking commissions and Initial Licence Fees and Software as a Service (SaaS).

When selling software, new solution sales typically involve software licences being sold together with Post Customer Support services and/or implementation services. Where the commercial substance of such a combination is that the

individual components are distinct the consideration is allocated to the performance obligations within the agreement and then recognised in accordance with their respective policies described below.

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

#### Physiotherapy services

Where the customer is deemed to be the patient the performance obligations relate directly to the delivery of the service by the healthcare professional and as such are recognised at a point in time as delivered. When the customer is separate to the patient the performance obligation is to treat and successfully discharge the patient. Each treatment of a patient is not separated in to separate performance obligations since it is not possible to allocate the fixed transaction price to the variable number of treatments which may be provided. In this instance the performance obligation is met upon discharge of the patient resulting in the Group becoming entitled to the related revenue. These revenues are shown as Healthcare Services, performance obligations met at a point in time within note 6.

#### Telematics services and devices

Goods and services relate to a single performance obligation delivered over time. 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. These revenues are shown as ingenie, performance obligations met over time within note 6. Costs excluding telematics boxes are recognised in the period as incurred. Where telematics devices are included as part of the services to end users they are capitalised and depreciated over their useful economic life.

#### Broking commissions

Broking commissions for insurance business represent a performance obligation met a point in time, being upon inception of the insurance policy since at this point the Group has met its obligations to the insurer. These revenues are shown as ingenie, performance obligations met at a point in time within note 6.

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.

### Initial licence fees and SaaS

When persuasive evidence of a contract exists, the performance obligations within the agreement are assessed. The product and services are highly interrelated, and it is not possible to separate the performance obligations within each contract. Consequently, the promises within the contract represent a single performance obligation delivered over time. Revenue starts to be recognised when 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. These revenues are shown within both Healthcare Services and ingenie, performance obligations met over time within note 6.

### Contract amendments

Where further agreements are entered in to with a customer, or changes made to the initial promises in the contract the changes are assessed to determine if they are distinct from the initial promises, and therefore represent a new contract to be recognised prospectively, or if not distinct, represent a contract modification to be recognised retrospectively with a related adjustment in the current period.

### 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.

### 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.

## Notes to the Financial Statements (continued)

### 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 acquisition date. 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.

### 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: Telematics devices are depreciated over the average life of the related insurance policy (including renewal). All other plant and equipment is depreciated at 20%-33% 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. Telematics devices are transferred to property, plant and equipment when they come in to use.

### 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.

### Expected credit losses

Financial assets are classified in to a measurement category at inception. The cash flows relating to the financial assets of the Group relate solely to principal and interest and are held to collect contractual cash flows. Consequently, they are held at amortised costs and expected credit losses, along with gains and losses relating to foreign exchange are recognised directly in profit and loss.

The Group applies the practical expedient provided by IFRS 9 of using a provision matrix for its short-term receivables after segmenting the assets by geography and type of customer. The provision matrices applied are based upon historic observable default rates, adjusted by forward looking estimates of the economic environment within the next twelve months.



## Notes to the Financial Statements (continued)

### 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.

### Preference shares

Preference shares are redeemable at par at the option of the holder after 10 years and are consequently classified as debt instruments, held at amortised cost. The conversion option relating to the shares is included within equity at initial fair value.

### 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.

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### 3. Adoption of new and revised Standards

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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 other 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

IFRS 15	<p>Revenue from Contracts with Customers.</p> <p>The Group has applied IFRS 15 in the preparation of these financial statements with a date of initial application of 1 January 2018.</p> <p>The standard has been applied on a retrospective basis taking advantage of practical expedients C5(a)-(d). The result of taking these expedients is that:</p> <p>A: Contracts started and completed in the same reporting period have not been restated.</p> <p>B: Variable consideration in comparative reporting periods has not been estimated and the completed amount may be used.</p> <p>C: Contract modifications prior to the earliest reporting period have not been re-evaluated; and,</p> <p>D: Disclosures surrounding outstanding performance obligations have not been presented for periods before the initial date of application.</p> <p>The impact of adopting the standard with these expedients resulted in no material differences to the amounts previously presented under IAS 18, 'Revenues' and consequently there was no impact upon brought forward reserves. There was also no material impact on the Consolidated Income Statement for the financial year.</p>
IFRS 9	<p>Financial Instruments</p> <p>The Group has assessed its balance sheet assets in accordance with the new classification requirements. There has been no change in the measurement for any of the Group's financial assets or liabilities.</p> <p>In addition, IFRS 9 introduces an 'expected loss' model for the assessment of impairment of financial assets. The 'incurred loss' model under IAS 39 required the Group to recognise impairment losses when there was objective evidence that an asset was impaired.</p> <p>Under the expected loss model, impairment losses are recorded if there is an expectation of credit losses, even in the absence of a default event. However, as permitted by IFRS 9, the Group applies the 'simplified approach' to trade receivable balances. Due to general quality and short-term nature of the trade receivables, there is no significant impact on introduction of 'simplified approach'.</p>
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 IAS 40	Transfers of Investment Property
Annual Improvements to IFRS 2014-16 cycle	Amendments to IFRS 1 and IAS 28

### 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 2018 (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:

Amendments to IFRS 9	Prepayment Features with Negative Compensation
IFRIC 23	Uncertainty over income Tax Treatments
Amendments to IAS 28	Long-term interests in Associates and Joint Ventures
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Annual Improvements to IFRS 2015-17 cycle	Various standards
IFRS 17	Insurance Contracts
Amendments to IFRS 10 and 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
IFRS 14	Regulatory Deferral Accounts

The following standard has not been applied in preparing these Consolidated Financial Statements:

## Notes to the Financial Statements (continued)

IFRS 16

**'Leases'**

This standard removes the concept of operating leases and recognises all such agreements on the balance sheet. The Group is transitioning to IFRS 16 on 1 January 2019 and will be applying the modified retrospective asset equals liability model. Therefore, the results for the year ended 31 December 2018 will not be represented on a revised basis in the Annual Report and Accounts for the year ended 31 December 2019.

The Group has not taken the exemption available for short term leases of less than twelve months or the practical expedient to exempt leases with less than twelve months remaining at the date of transition. The available exemption to exclude leases which are individually of low value has been applied, although this is not believed to have a material impact. Overall, the expected impact of adopting IFRS 16 is to improve EBITDA by £2.4m-£3.0m for the year ended 31 December 2019. Furthermore, there will be additional amounts charged to depreciation of £1.7m-£2.1m and interest expense of £0.6m-£0.8m. There will be no impact upon net assets at the date of adoption due to the transition method applied however gross assets and liabilities will increase by £10.9m-£13.3m. Changes in lease renewals or anticipated renewals will impact these amounts.

Judgement was required in determining the most appropriate transition method to apply and the practical expedients to adopt. Furthermore, in determining the value of the lease asset and liability estimates and judgements are made on a lease by lease basis in respect of the expected renewal (or otherwise) of the leases and the discount rate to apply to represent an equivalent loan over a similar term. The latter judgement is made on a portfolio basis, grouping together leases with similar characteristics such as geography.

The impact of these estimates and judgements could increase or decrease the gross asset and liability values upon transition and this would have an impact upon the subsequent interest and depreciation expenses incurred.

### 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 judgements. 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.

#### **Estimate: Measurement and impairment of goodwill**

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. Further details of these estimates are set out in note 14.

#### **Judgement: Consideration receivable for the Professional Services Division ("PSD") and legal claim**

£50,000,000 (plus interest) of the PSD sale consideration is retained in a joint escrow account until settlement or withdrawal of a claim ("Warranty Escrow"). On 14 June 2017, the Group was served with High Court proceedings issued by Slater & Gordon for breach of warranty and/or fraudulent misrepresentation for a total amount of up to £637,000,000 plus interest in damages in respect of the disposal of the PSD in 2015.

Watchstone denies any misrepresentation in the strongest terms and remains satisfied that neither the warranty claim nor a misrepresentation claim have merit and will defend such claims robustly.

The outcome of the claim is highly uncertain and therefore the carrying amount of the Group's receivable in respect of the Warranty Escrow is highly judgemental. At 31 December 2016, the Group impaired in full its receivable in respect of this consideration and continues to do so at 31 December 2018. No provision has been made in respect of the claim.

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 2018 the fair value has been assessed as £nil.

#### **Estimate and judgement: Revenue**

As discussed in note 2 the Group treats a number of contractual promises as single performance obligations since they are not capable of being distinct. Management must apply judgement in making this assessment which has the impact of changing the timing at which revenue is recognised. Furthermore, where performance obligations are recognised over time management have assessed that the most appropriate method is to apportion the revenue evenly over the duration of the agreement since this best represents the timing of the transfer of the benefits to the customer.

Where management have reviewed an agreement and consider that it contains multiple performance obligations the total transaction price is allocated to each performance obligation, this allocation may be different to amounts specified in a contract. Where possible this allocation is made with reference to separate selling prices. This estimate impacts the timing of recognition of revenue for these agreements.

In instances where further agreements are made with a customer, or changes to existing agreements are made, management must apply judgement in determining if the changes are distinct and therefore represent a new contract or instead, a contract amendment. The outcome of this judgement results in the additional revenues either being recognised entirely prospectively or retrospectively from the start of the existing agreement.

#### **Estimate and judgement: 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 33.

#### **Judgement: 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 take 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.

#### **Judgement: Identifying performance obligations within contracts with customers**

The Group must identify the performance obligations within its contracts against which revenue is subsequently recognised. Judgement is applied in determining if the related good or service is capable of being distinct or if it is distinct in the context of the contract. In particular, this applies to telematics services and devices and one-off fees in relation to licences.

It is management's judgement that the telematics device and the related service represent a single performance obligation delivered over time and the set-up fees with the related license represent a single performance obligation recognised over time.

## Notes to the Financial Statements (continued)

The consequence of this judgement is to spread revenues relating to elements of the contract over longer periods than if the goods and services were deemed to be separate performance obligations.

### Judgement: Contract modifications within contracts with customers

The products and services offered to the Group's customers changes and develops over time. This can result in side agreements and contract modifications being agreed. The exact nature of the changes to the performance obligations to be satisfied determines if the change should be accounted for a contract modification or a separate contract and this requires judgement from management regarding the level to which the promises in the contract are distinct. The impact of this judgement, particularly in respect of Software as a Service (SaaS) fees is to either recognise the revenues prospectively, akin to a new contract, or retrospectively, giving rise to an adjustment in the period within which the modification is agreed.

### 5. Key performance indicators

	2018	2017
Year ended 31 December	£000	£000
<b>Revenue:</b>		
ingenie	7,841	14,429
Healthcare Services	30,190	30,451
<b>Total underlying revenue</b>	<b>38,031</b>	44,880
<b>Underlying gross profit margin</b>	<b>44.4%</b>	45.2%
<b>Underlying EBITDA</b> <sup>(Note 6)</sup>	<b>(4,569)</b>	(3,610)
<b>Underlying group operating loss</b> <sup>(Note 6)</sup>	<b>(6,341)</b>	(4,681)
<b>Cash and term deposits (continuing businesses)</b>	<b>50,113</b>	62,808
<b>Total average number of employees (continuing operations)</b>	<b>694</b>	709

### Reconciliation of Alternative Performance Measures to nearest GAAP equivalents

	2018	2017
	£000	£000
Underlying revenue	38,031	44,880
Non underlying revenue	–	–
<b>Total revenue</b>	<b>38,031</b>	44,880
Underlying EBITDA	(4,569)	(3,610)
Underlying depreciation and amortisation*	(1,772)	(1,071)
Underlying group operating loss	(6,341)	(4,681)
Non-underlying group operating loss	(14,118)	(2,737)
<b>Group operating loss</b>	<b>(20,459)</b>	(7,418)

\* Excludes depreciation of telematics devices of £1,497,000 (2017: £3,090,000) which is included within cost of sales and is therefore also included within underlying EBITDA. The depreciation of telematics devices is included within cost of sales since they directly generate revenue for the business and are therefore included in gross margin.

Further detail regarding non-underlying results is provided in note 8.

## 6. Business and geographical segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (the Board) and represent two divisions supported by a Group cost centre (denoted as Central below). The principal activities of the two segments are as follows:

- **ingenie:** Telematics based insurance broking and technology solutions provider; and
- **Healthcare Services:** Comprising ptHealth and InnoCare. ptHealth is a national healthcare company that owns and operates physical rehabilitation clinics across Canada. InnoCare is a proprietary clinic management software platform and call centre and customer service operation, also based in Canada.

Segment information about these businesses is presented below. The accounting policies of the operating 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.

	ingenie	Healthcare Services	Central	Total
Year ended 31 December 2018	£000	£000	£000	£000
Underlying revenue	7,841	30,190	–	38,031
Underlying cost of sales	(4,375)	(16,765)	–	(21,140)
Underlying gross profit	3,466	13,425	–	16,891
Underlying administrative expenses excluding depreciation and amortisation*	(5,391)	(12,555)	(3,514)	(21,460)
Underlying EBITDA	(1,925)	870	(3,514)	(4,569)
Depreciation and amortisation*				(1,772)
Underlying Group operating loss				(6,341)
Net finance income				354
Underlying Group loss before tax				(5,987)
Non-underlying adjustments				(14,118)
<b>Total Group loss before tax from continuing operations</b>				<b>(20,105)</b>

	ingenie	Healthcare Services	Central	Total
Year ended 31 December 2017	£000	£000	£000	£000
Underlying revenue	14,429	30,451	–	44,880
Underlying cost of sales	(7,983)	(16,599)	–	(24,582)
Underlying gross profit	6,446	13,852	–	20,298
Underlying administrative expenses excluding depreciation and amortisation*	(5,130)	(13,145)	(5,633)	(23,908)
Underlying EBITDA	1,316	707	(5,633)	(3,610)
Depreciation and amortisation*				(1,071)
Underlying Group operating loss				(4,681)
Net finance income				248
Underlying Group loss before tax				(4,433)
Non-underlying adjustments				(517)
<b>Total Group loss before tax from continuing operations</b>				<b>(4,950)</b>

\* Depreciation added back above when calculating Underlying EBITDA from continuing operations excludes depreciation on telematics devices of £1,497,000 (2017: £3,090,000) which is included within cost of sales. The depreciation of telematics devices is included within cost of sales since they directly generate revenue for the business and are therefore included in gross margin.

## Notes to the Financial Statements (continued)

	ingenie	Healthcare Services	Central	Total
Year ended 31 December 2018	£000	£000	£000	£000
Performance obligations met at a point in time	3,801	29,592	–	33,393
Performance obligations met over time	4,040	598	–	4,638
<b>Total underlying revenue</b>	<b>7,841</b>	<b>30,190</b>	<b>–</b>	<b>38,031</b>

	ingenie	Healthcare Services	Central	Total
Year ended 31 December 2017	£000	£000	£000	£000
Performance obligations met at a point in time	7,687	29,622	–	37,309
Performance obligations met over time	6,742	829	–	7,571
<b>Total underlying revenue</b>	<b>14,429</b>	<b>30,451</b>	<b>–</b>	<b>44,880</b>

Revenue by type is set out below:

	2018	2017
Year ended 31 December	£000	£000
Physiotherapy related services	30,190	30,451
Telematics services and devices	2,869	6,232
Broking commissions	4,040	7,716
Initial licence fees and SaaS	932	481
<b>Total underlying revenue</b>	<b>38,031</b>	<b>44,880</b>

	United Kingdom	Canada	Rest of World	Total
Year ended 31 December 2018	£000	£000	£000	£000
<b>Revenue (underlying)</b>	<b>7,841</b>	<b>30,190</b>	<b>–</b>	<b>38,031</b>
<b>Other segment information</b>				
<b>Total non-current assets</b>	<b>2,254</b>	<b>11,977</b>	<b>–</b>	<b>14,231</b>
<b>Capital expenditure</b>				
<b>Tangible assets</b>	<b>1,147</b>	<b>264</b>	<b>–</b>	<b>1,411</b>
<b>Intangible assets</b>	<b>297</b>	<b>773</b>	<b>–</b>	<b>1,070</b>

	United Kingdom	Canada	Rest of World	Total
Year ended 31 December 2017	£000	£000	£000	£000
Revenue (underlying)	14,429	30,451	–	44,880
Other segment information				
Total non-current assets	12,804	14,042	–	26,846
Capital expenditure				
Tangible assets	3,918	500	–	4,418
Intangible assets	615	1,200	–	1,815



## 7. Operating loss

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

	2018	2017
	£000	£000
Depreciation of property, plant and equipment	2,030	4,778
Amortisation of intangible assets	2,298	2,517
Operating lease rentals	3,479	3,503
Net foreign exchange loss/(gains)	2	(43)
Auditor's remuneration	367	376
Unused provisions released:		
– Underlying business	–	–
– Non-underlying	(1,912)	(10,195)
Staff costs (note 9)	25,258	30,196

Depreciation of £1,511,000 (2017: £3,090,000) relates to telematics devices which is included within cost of sales.

Non-underlying provisions are categorised as such when the related expense is classified as non-underlying. The criteria for classification as non-underlying are provided in note 8.

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

	2018	2017
	£000	£000
Fees payable to the Company's Auditor and its associates for the audit of the Parent Company and Consolidated Financial Statements	153	175
Fees payable to the Company's Auditor and its associates for other services:		
– Additional amounts in relation to the prior year audit	25	10
– The audit of the Company's subsidiaries	121	119
– Audit-related services	35	20
– Other assurance services	23	–
– Taxation compliance services	10	52
	367	376

## 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 and ingenie Canada. 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 Hubio and additionally in 2017, BAS.

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 2018, this primarily relates to an impairment charge to goodwill, legal fees, movements in provisions for legal fees and the settlement of historic tax and legal matters. The classification of provision releases as underlying or non-underlying are consistent with their initial establishment.

Non-underlying administrative expenses are analysed as follows:

	2018	2017
Year ended 31 December	£000	£000
Exceptional items:		
– Legal expenses	5,688	2,913
– Legal settlements	(160)	604
– Tax related matters	(1,612)	(9,036)
– Net impairments of non-cash assets	9,148	5,633
– Restructuring	71	67
<b>Total exceptional items</b>	<b>13,135</b>	<b>181</b>
Other adjustments:		
– Share based payments	–	43
– Amortisation of acquired intangibles	983	1,434
– Other non-underlying administrative expenses	–	1,079
<b>Total other adjustments</b>	<b>983</b>	<b>2,556</b>
<b>Total non-underlying administrative expenses</b>	<b>14,118</b>	<b>2,737</b>

Other adjustments are not exceptional in size, nature or incidence, however they do not relate to the ongoing future trade of the Group and can vary significantly from year to year. Amortisation represents a non-cash charge relating to acquisition accounting and is not taken into account by management when reviewing operational performance of the Group.

During 2017 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. Since the majority of non-underlying businesses have wound down or ceased by 31 December 2017 there were no such costs during 2018.

The legal expense includes £3,743,000 of additional legal fee provisions in respect of recovery of the Warranty Escrow and defence of the claim of fraudulent misrepresentation, further details are provided in note 33. There is a further £857,000 expense in respect of a tax indemnity claim against the Group, further details are provided in note 35. In 2017, this represented £2,940,000 of additional legal fee provisions in respect of recovery of the Warranty Escrow.

The legal settlement credit for the period ended 31 December 2018 of £160,000 includes credits of £1,328,000, being two settlements with former management as discussed in note 35. This is partially offset by an expense of £1,168,000, also relating to a settlement with former management as discussed in note 35. In 2017 the legal settlements were a contribution to costs in relation to the judgement on OS3 Distribution Limited litigation.

Tax related matters in both 2018 and 2017 mainly comprises the release of unused provisions which were created in previous periods, further details are provided in note 24.

The restructuring expense of £71,000 is stated after taking into account the release of unused provisions of £248,000.

Net impairments of non-cash assets above relates to:

	2018	2017
	£000	£000
Year ended 31 December		
Goodwill	9,081	5,593
Other intangible assets	317	–
Tangible fixed assets	–	40
Investments	(250)	–
	<b>9,148</b>	<b>5,633</b>

### 9. Employee numbers and staff costs

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

	2018	2017
	Number	Number
Front office technology, consulting and outsourcing	680	697
Back office management and administration	14	12
	<b>694</b>	<b>709</b>

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

	2018	2017
	£000	£000
Emoluments	1,838	1,886
Compensation for loss of office	–	30

The emoluments of the highest paid Director were £1,080,000 (2017: £872,000). Two Directors received a total of £17,000 (2017: one Director a total of £10,000) in connection with contributions to pension schemes. Further details are provided in the Directors' Remuneration Report and in particular the tables on page 17 form part of this note to the Financial Statements.

Total employee costs for continuing operations were as follows:

	2018	2017
	£000	£000
Wages and salaries	23,900	29,417
Social security costs	1,545	1,318
Pension costs	201	289
Share-based payment charges	–	43
	<b>25,646</b>	<b>31,067</b>

Included in the total above are £388,000 (2017: £871,000) of salaries which were capitalised during the year in relation to software development.

## Notes to the Financial Statements (continued)

### 10. Net finance income/expense

Continuing operations:

	2018	2017
Year ended 31 December	£000	£000
Bank interest receivable	346	270
Total interest receivable	346	270
Interest payable on bank loans and overdrafts	–	(71)
Foreign exchange loss on intercompany loans	(11)	(105)
Other interest payable	19	(16)
Exceptional net preference share credit	–	2,390
Total interest payable	8	2,198
<b>Net finance income</b>	<b>354</b>	<b>2,468</b>

The credit within other interest payable relates to the release of an over accrual of interest at 31 December 2017 in relation to tax balances due.

### 11. Taxation

Continuing operations:

	2018	2017
Year ended 31 December	£000	£000
The taxation credit comprises:		
Current tax:		
– Current year	(5)	–
– Adjustments in respect of prior year	–	(194)
Total current tax credit	(5)	(194)
Deferred tax expense:		
– Origination and reversal of temporary differences	(167)	–
– Adjustments in respect of prior year	–	(560)
Deferred tax credit	(167)	(560)
<b>Total tax credit</b>	<b>(172)</b>	<b>(754)</b>

Income tax for the UK is calculated at the standard rate of UK corporation tax of 19.0% (2017: 19.25%) on the estimated assessable profit for the year. The total charge for the year can be reconciled to the accounting profit as follows:

	2018	2017
	£000	£000
Loss before tax from continuing operations	<b>(20,105)</b>	(4,950)
Tax at 19.0% (2017: 19.25%) thereon	<b>(3,820)</b>	(953)
Effect of:		
Expenses not deductible for tax purposes	<b>1,229</b>	3,135
Unrecognised deferred tax on losses and fixed assets	<b>660</b>	730
Movement on provisions and movement on impairments	–	(3,586)
Impairment of goodwill	<b>1,764</b>	–
Effect of lower tax rate overseas	<b>(5)</b>	–
Taxable degrouping charge	–	674
Adjustments to tax charge in respect of prior periods	–	(754)
<b>Total tax credit for the year</b>	<b>(172)</b>	(754)

The tax impact of the items included in the Consolidated Statement of Comprehensive Income is £nil (2017: £nil). The majority of expenses not deductible for tax purposes relate to legal and professional fees.

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 total amount of goodwill that is expected to be deductible for tax for continuing business is £975,000 (2017: £1,250,000). At the Statement of Financial Position date, there are unrecognised deferred tax assets of £11,700,000 (2017: £9,700,000).

### 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 from 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 2018 has been calculated based on these rates.

## Notes to the Financial Statements (continued)

### 12. 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:

	2018	2017
	£000	£000
Loss attributable to ordinary shareholders <sup>(a)</sup>	<b>(18,904)</b>	(2,632)
Less: Net profit from discontinued operations (including profit on disposal from discontinued operations) <sup>(d)</sup>	<b>(1,029)</b>	(1,552)
Loss attributable to ordinary shareholders from continuing activities <sup>(b)</sup> :	<b>(19,933)</b>	(4,184)
Other adjustments in respect of non-underlying results:		
– Non-recurring administrative expenses	<b>14,118</b>	2,737
– Finance income	–	(2,220)
Underlying loss attributable to ordinary shareholders <sup>(c)</sup>	<b>(5,815)</b>	(3,667)
Basic weighted average number of shares	<b>46,038,333</b>	46,038,333
Dilutive potential ordinary shares	–	–
<b>Diluted weighted average number of shares</b>	<b>46,038,333</b>	46,038,333

Due to their anti-dilutive effect in 2018 and in 2017, options which could potentially be exercised after the balance sheet date have not been included in the calculation of diluted earnings per share.

	2018	2017
	Pence	Pence
<b>(a) Loss per share (pence):</b>		
– Basic	<b>(41.1)</b>	(5.7)
– Diluted	<b>(41.1)</b>	(5.7)
<b>(b) Loss per share from continuing operations (pence):</b>		
– Basic	<b>(43.3)</b>	(9.1)
– Diluted	<b>(43.3)</b>	(9.1)
<b>(c) Underlying loss per share (pence):</b>		
– Basic	<b>(12.6)</b>	(8.0)
– Diluted	<b>(12.6)</b>	(8.0)
<b>(d) Earnings per share from discontinued operations (pence):</b>		
– Basic	<b>2.2</b>	3.4
– Diluted	<b>2.2</b>	3.4

### 13. Intangible assets

	Note	2018 £000	2017 £000
Other intangible assets		3,144	4,825
Goodwill	14	8,157	17,443
		<b>11,301</b>	<b>22,268</b>

The movement in other intangible assets was as follows:

	Customer contracts, data, brands and relationships £000	IPR, software and licences £000	Total £000
<b>Cost</b>			
At 1 January 2017	67,040	32,035	99,075
Transfers	706	(706)	–
Additions – purchased	–	944	944
Additions – internally generated	–	871	871
Disposals	(61,306)	(25,099)	(86,405)
Exchange differences	(51)	(111)	(162)
<b>At 1 January 2018</b>	<b>6,389</b>	<b>7,934</b>	<b>14,323</b>
<b>Additions – purchased</b>	<b>–</b>	<b>497</b>	<b>497</b>
<b>Additions – internally generated</b>	<b>–</b>	<b>560</b>	<b>560</b>
<b>Disposals</b>	<b>–</b>	<b>(2,212)</b>	<b>(2,212)</b>
<b>Exchange differences</b>	<b>(57)</b>	<b>(130)</b>	<b>(187)</b>
<b>At 31 December 2018</b>	<b>6,332</b>	<b>6,649</b>	<b>12,981</b>
<b>Amortisation</b>			
At 1 January 2017	64,605	28,211	92,816
Transfers	417	(417)	–
Charge for the year	1,315	1,202	2,517
Disposals	(61,305)	(24,434)	(85,739)
Exchange differences	(33)	(63)	(96)
<b>At 1 January 2018</b>	<b>4,999</b>	<b>4,499</b>	<b>9,498</b>
<b>Charge for the year</b>	<b>983</b>	<b>1,315</b>	<b>2,298</b>
<b>Disposals</b>	<b>–</b>	<b>(2,161)</b>	<b>(2,161)</b>
<b>Impairments</b>	<b>–</b>	<b>317</b>	<b>317</b>
<b>Exchange differences</b>	<b>(43)</b>	<b>(72)</b>	<b>(115)</b>
<b>At 31 December 2018</b>	<b>5,939</b>	<b>3,898</b>	<b>9,837</b>
<b>Net book value</b>			
<b>31 December 2018</b>	<b>393</b>	<b>2,751</b>	<b>3,144</b>
31 December 2017	1,390	3,435	4,825

Brands are included within customer contracts, data, brands and relationships. The carrying value of brands at 1 January 2018 was £525,000 (2017: £1,225,000) with amortisation charged in the year of £525,000 (2017: £700,000). The carrying value at 31 December 2018 was £nil (2017: £525,000).

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.



## Notes to the Financial Statements (continued)

During 2017 a review was undertaken of intangible assets, including those which have previously been fully written down, to identify those which relate to markets in which the Group no longer operates. These intangibles were disposed of during 2017 with no impact to net book value. As part of this process, two intangibles were identified which could be more appropriately classified in different categories. These have been transferred in the table above.

Amortisation relating to discontinued activities during the year ended 31 December 2018 was £nil (2017: £616,000).

An impairment credit of £nil (2017: £135,000) was recognised in the Consolidated Income Statement in the year in respect of discontinued activities. During the year ended 31 December 2018, £nil of research and development was taken directly to profit and loss within discontinued activities (2017: £825,000).

In note 31 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	2018	2017
		£000	£000
<b>Non-current assets:</b>			
Other intangible assets	Level 3	–	–

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.

## 14. Goodwill

The movement in goodwill is as follows:

	<b>Goodwill</b>
	<b>£000</b>
<b>Cost</b>	
At 1 January 2017	193,894
Disposals	(96,071)
Exchange differences	(834)
<b>At 1 January 2018</b>	<b>96,989</b>
<b>Exchange differences</b>	<b>(926)</b>
<b>At 31 December 2018</b>	<b>96,063</b>
<b>Impairment</b>	
At 1 January 2017	170,673
Disposals	(96,071)
Charge	5,593
Exchange differences	(649)
<b>At 1 January 2018</b>	<b>79,546</b>
<b>Charge</b>	<b>9,081</b>
<b>Exchange differences</b>	<b>(721)</b>
<b>At 31 December 2018</b>	<b>87,906</b>
<b>Net book value</b>	
<b>31 December 2018</b>	<b>8,157</b>
31 December 2017	17,443

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

	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
ingenie	–	9,081
Healthcare Services	<b>8,157</b>	8,362
	<b>8,157</b>	17,443

## Notes to the Financial Statements (continued)

### 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 3 years (2017: 3 to 4 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 revenues and pre-tax discount rate are key assumptions.

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

2018	ingenie	Healthcare Services
Long term growth rate	2%	2%
DCF appraisal period	3 years	3 years
Annualised revenue growth over DCF appraisal period	20%	5%
Pre-tax discount rate	14%	9%

The 20% annualised revenue growth for ingenie in the forecast period appears high as a result of recovering from poor volumes in 2018.

2017	ingenie	Healthcare Services
Long term growth rate	2%	2%
DCF appraisal period	4 years	3 years
Annualised revenue growth over DCF appraisal period	3%	4%
Pre-tax discount rate	13%	11%

Annualised revenue growth rates vary by operating division depending on the current development to maturity of the CGU. 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.

Market challenges noted at the end of 2017 in respect of ingenie continued in to 2018 with volumes continuing to fall during the year. A number of mitigating actions have been taken to regain competitiveness within its chosen market which, if effective, will return the business to growth. It is accepted that there are risks in the successful delivery of these actions and that significant improvements to cash flows are required to support the carrying value of the business. Consequently, the goodwill of ingenie has been fully impaired at 31 December 2018.

### Movement in Goodwill by CGU

The movement in goodwill by CGU is as follows:

	2017	Foreign exchange movements	Impairment	2018
	£000	£000	£000	£000
ingenie	9,081	–	(9,081)	–
Healthcare Services	8,362	(205)	–	8,157
<b>Total</b>	<b>17,443</b>	<b>(205)</b>	<b>(9,081)</b>	<b>8,157</b>

For Healthcare Services neither an increase in the pre-tax discount rate of 1 percentage point or a decrease of 1 percentage point in the long term growth rate would result in an impairment to the carrying value of goodwill.

## 15. Property, plant and equipment

	Freehold land and buildings	Leasehold land and buildings	Plant and equipment	Total
	£000	£000	£000	£000
<b>Cost</b>				
At 1 January 2017	740	3,461	19,111	23,312
Additions	–	370	4,047	4,417
Disposals	(251)	(478)	(6,718)	(7,447)
Transfer to assets classified as held for sale	–	(175)	(1,828)	(2,003)
Exchange differences	(10)	(71)	(532)	(613)
<b>At 1 January 2018</b>	<b>479</b>	<b>3,107</b>	<b>14,080</b>	<b>17,666</b>
<b>Additions</b>	<b>–</b>	<b>170</b>	<b>1,241</b>	<b>1,411</b>
<b>Disposals</b>	<b>(169)</b>	<b>(112)</b>	<b>(8,026)</b>	<b>(8,307)</b>
<b>Exchange differences</b>	<b>(11)</b>	<b>(76)</b>	<b>(63)</b>	<b>(150)</b>
<b>At 31 December 2018</b>	<b>299</b>	<b>3,089</b>	<b>7,232</b>	<b>10,620</b>
<b>Depreciation</b>				
At 1 January 2017	453	2,186	14,380	17,019
Charge for the year	10	360	4,408	4,778
Disposals	(226)	(381)	(5,440)	(6,047)
Transfer to assets classified as held for sale	–	(149)	(1,240)	(1,389)
Exchange differences	(8)	(45)	(461)	(514)
<b>At 1 January 2018</b>	<b>229</b>	<b>1,971</b>	<b>11,647</b>	<b>13,847</b>
<b>Charge for the year</b>	<b>10</b>	<b>332</b>	<b>1,688</b>	<b>2,030</b>
<b>Disposals</b>	<b>(143)</b>	<b>–</b>	<b>(6,868)</b>	<b>(7,011)</b>
<b>Exchange differences</b>	<b>(5)</b>	<b>(50)</b>	<b>(45)</b>	<b>(100)</b>
<b>At 31 December 2018</b>	<b>91</b>	<b>2,253</b>	<b>6,422</b>	<b>8,766</b>
<b>Net book value</b>				
<b>31 December 2018</b>	<b>208</b>	<b>836</b>	<b>810</b>	<b>1,854</b>
31 December 2017	250	1,136	2,433	3,819

There were no material commitments for the acquisition of property, plant or equipment at either 31 December 2018 or 31 December 2017. Depreciation of £nil (2017: £34,000) was charged in the year on assets of the disposal groups classified as held for sale.

Telematics devices which are included as part of the services to end users were held with a net book value of £528,000 (2017: £1,548,000) on which depreciation of £1,497,000 (2017: £3,090,000) was charged in the year. The depreciation on these devices is included within Cost of Sales.

## Notes to the Financial Statements (continued)

### 16. Investments

	Fair value degree observable	2018 £000	2017 £000
Investments carried at fair value	Level 3	–	–

In note 31, 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 40.

	Shares in investments £000
<b>Cost</b>	
At 1 January 2017	4,743
Exchange differences	(395)
<b>At 1 January 2018</b>	<b>4,348</b>
<b>Disposals</b>	<b>(222)</b>
<b>Exchange differences</b>	<b>197</b>
<b>At 31 December 2018</b>	<b>4,323</b>
<b>Impairment</b>	
At 1 January 2017	4,743
Movement for the year	(395)
<b>At 1 January 2018</b>	<b>4,348</b>
<b>Disposals</b>	<b>(222)</b>
<b>Exchange differences</b>	<b>197</b>
<b>At 31 December 2018</b>	<b>4,323</b>
<b>Net book value</b>	
<b>31 December 2018</b>	<b>–</b>
31 December 2017	–

Details of the fixed asset investment of the Group and of subsidiary undertakings are provided in note 40.

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.

## 17. Inventories

	2018	2017
	£000	£000
Finished goods for resale	270	292
Telematics devices held pending fitting	490	991
	<b>760</b>	<b>1,283</b>

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.

## 18. Trade and other receivables

	2018	2017
	£000	£000
Trade receivables (net of impairment provision)	2,982	4,416
Monies held in escrow (net of impairment provision)	–	–
Other receivables	1,530	1,088
Prepayments	598	630
Contract assets	–	10
	<b>5,110</b>	<b>6,144</b>

As discussed in notes 4 and 33 an amount of £50,232,000 is held in the Warranty Escrow. No provisions have been made in respect of the Slater & Gordon claim and it is considered that the Warranty Escrow, which is fully impaired at 31 December 2018 (having been originally fully impaired at 31 December 2016), will be sufficient should the Group fail to defend the 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 31.

## 19. 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.

	2018	2017
	£000	£000
Term deposits	40,000	40,000
	<b>40,000</b>	<b>40,000</b>

## 20. Cash and cash equivalents

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

	2018	2017
	£000	£000
Cash	10,113	22,808
	<b>10,113</b>	<b>22,808</b>
<b>Amounts classified as held for sale</b>		
Cash	–	81
	<b>10,113</b>	<b>22,889</b>

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)

### 21. Trade and other payables

	2018	2017
	£000	£000
<b>Current liabilities</b>		
Trade payables	1,262	1,571
Payroll and other taxes including social security	177	482
Accruals	4,973	5,801
Contract liabilities	1,685	3,793
Other liabilities	104	63
	<b>8,201</b>	<b>11,710</b>

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.

During 2018, £2,062,000 of revenue was recognised which was included within contract liabilities at 31 December 2017 (2017: £1,678,000).

### 22. Borrowings

	2018	2017
	£000	£000
<b>Current</b>		
Cumulative redeemable preference shares	2,209	2,203
Finance leases <sup>(note 23)</sup>	–	4
	<b>2,209</b>	<b>2,207</b>
<b>Non-current liabilities</b>		
Cumulative redeemable preference shares	1,278	3,795
	<b>1,278</b>	<b>3,795</b>
<b>Total</b>	<b>3,487</b>	<b>6,002</b>
	2018	2017
	£000	£000
The borrowings are repayable as follows:		
– On demand or within one year	2,209	2,207
– In the second to fifth years inclusive	1,278	3,795
	<b>3,487</b>	<b>6,002</b>
Less: Amount due for settlement within 12 months (shown under current liabilities)	<b>(2,209)</b>	<b>(2,207)</b>
Amount due for settlement after 12 months	<b>1,278</b>	<b>3,795</b>

The cumulative redeemable preference shares are in respect of the ptHealth Preference Shares (issued by ptHealth between 2008 and 2011) with a cumulative dividend (if declared) of 8.0% per annum. No dividends have been declared but unpaid.

Holders of these shares may require ptHealth to redeem them 10 years from the date of issuance at par of £3,882,000 (CDN \$6,739,000 (including amounts included within non-controlling interests) when converted at the prevailing exchange rate, in aggregate). In the event of any liquidation, dissolution or winding up of ptHealth, holders of the ptHealth Preference Shares 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 ptHealth Preference Shares. The ptHealth Preference Shares shall not otherwise be entitled to any other amount or assets of ptHealth.

The redemption, rather than conversion, of cumulative redeemable preference shares results in the value ascribed to the conversion option of the redeemed shares being removed from equity.

In note 31 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	2018 £000	2017 £000
<b>Liabilities:</b>			
Cumulative redeemable preference shares	Level 3	3,487	5,998

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:

	2018 %	2017 %
Cumulative redeemable preference shares	–	–

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

	2018 £000	2017 £000
Cumulative redeemable preference shares	3,487	5,998
Finance leases	–	4
	<b>3,487</b>	<b>6,002</b>

The Group has no committed undrawn borrowing facilities.

### 23. Obligations under finance leases

	2018 £000	2017 £000
<b>Minimum lease payments</b>		
Within one year	–	–
	–	4
Less future finance charges	–	–
<b>Present value of lease obligations</b>	–	4
<b>Present value of minimum lease payments</b>		
Within one year	–	–
<b>Present value of lease obligations</b>	–	4
<b>Analysed as:</b>		
Amounts due for settlement within one year	–	–
	–	4



## Notes to the Financial Statements (continued)

### 24. Provisions

	Tax related matters	Legal disputes	Onerous contracts	Other	Total
	£000	£000	£000	£000	£000
At 1 January 2017	15,093	6,114	2,719	4,315	28,241
Additional provisions	–	2,927	126	936	3,989
Unused amounts released	(9,086)	(46)	(227)	(973)	(10,332)
Used during the year	(2,814)	(1,553)	(2,092)	(2,282)	(8,741)
Exchange movements	–	–	(34)	(12)	(46)
<b>At 1 January 2018</b>	<b>3,193</b>	<b>7,442</b>	<b>492</b>	<b>1,984</b>	<b>13,111</b>
<b>Additional provisions</b>	<b>–</b>	<b>3,752</b>	<b>–</b>	<b>430</b>	<b>4,182</b>
<b>Unused amounts released</b>	<b>(1,493)</b>	<b>(96)</b>	<b>(156)</b>	<b>(167)</b>	<b>(1,912)</b>
<b>Used during the year</b>	<b>–</b>	<b>(2,891)</b>	<b>(272)</b>	<b>(836)</b>	<b>(3,999)</b>
<b>Exchange movements</b>	<b>–</b>	<b>–</b>	<b>23</b>	<b>(1)</b>	<b>22</b>
<b>At 31 December 2018</b>	<b>1,700</b>	<b>8,207</b>	<b>87</b>	<b>1,410</b>	<b>11,404</b>
Split:					
Non-current	–	–	85	–	85
Current	1,700	8,207	2	1,410	11,319

#### Tax related matters

A provision for tax-related matters had been established in previous years with respect to judgemental tax positions primarily in relation to historic PAYE and VAT issues. During the year ended 31 December 2018, the remaining outstanding PAYE issues were resolved and resulted in £693,000 of provision being released to the income statement. In respect of the remaining provision key judgements exist around the classification of certain transactions and therefore the related tax treatment. Further information has become available during the year allowing an improved estimate to be made of the liability. This resulted in £800,000 of the provision being released to the income statement. 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 continues to take steps to resolve these outstanding items and believe the majority will be settled within twelve months from the balance sheet date.

#### Legal disputes and regulatory matters

In legal cases where the Group is (or would be) the defendant, such as those set out in note 33, defence costs are provided as the Group is committed to defending the actions. Such costs are provided for at the mid-range of possible eventualities given the uncertainty of the outcome, this range is reassessed on a continuous basis. If the Group is successful in defending such actions, then the final costs may be lower than the total provision recognised above. Additional provisions in the table above relate to an increase in the expected legal costs to defend these actions and do not represent providing against additional legal disputes. No amounts have been provided for the costs of any settlement, fine or award of damages, however a contingent liability of £637,000,000 has been disclosed. See note 33 for further details.

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

In legal cases where the Group is the claimant (or counter claimant), costs are not provided as there is no obligation to proceed and the Group is not contractually committed to incur costs.

### Onerous contracts

Where contracted income is expected to be less than the related expected expenditure the difference is provided in full. The majority of the provision at 31 December 2017 related to non-property obligations which were settled during 2018 resulting in provisions used, and the release of £156,000 where the amount settled was less than managements estimate at 31 December 2017. At 31 December 2018 the provision relates exclusively to the maximum exposure remaining under a single onerous property lease, the timing of which may be reliably determined.

### 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. These primarily relate to two areas, commission clawback relating to non-underlying businesses and warranties provided by the Group. The exact timing and quantum of the amounts is uncertain and the provision is based upon historic trends in these businesses.

£430,000 of the additional provision in the year and £494,000 of provisions used in the year relates to the normal ongoing business activities of the Group. The amount provided at 31 December 2017 related to restructuring has been used or released during the year such that no balance remains at 31 December 2018.

## 25. 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 2017	1,009	(268)	741
Credit to Income Statement	(842)	268	(574)
<b>At 1 January 2018</b>	<b>167</b>	<b>–</b>	<b>167</b>
<b>Credit to Income Statement</b>	<b>(66)</b>	<b>(100)</b>	<b>(166)</b>
<b>At 31 December 2018</b>	<b>101</b>	<b>(100)</b>	<b>1</b>
		<b>2018</b>	<b>2017</b>
		<b>£000</b>	<b>£000</b>
Deferred tax liabilities		<b>1</b>	167
		<b>1</b>	167

At the Statement of Financial Position date, there are unrecognised deferred tax assets of £11,700,000 (2017: £9,700,000).

## Notes to the Financial Statements (continued)

### 26. Share capital

	Number	Nominal value fully paid	Nominal value unpaid	Nominal value total
	'000	£000	£000	£000
<b>At 1 January 2018 and 31 December 2018</b>	<b>46,038</b>	<b>4,593</b>	<b>11</b>	<b>4,604</b>

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

#### 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 2018 Consolidated Income Statement include options charges of £nil (2017: £43,000).

#### 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 2018:

Grant Date	Exercise Price (Pence)	Expiry Date	2018	2017
			Number	Number
21 November 2013	1,500	30 June 2019	<b>219,721</b>	219,721
21 November 2013	1,500	30 June 2019	<b>117,960</b>	117,960
21 November 2013	1,500	30 June 2019	<b>10,417</b>	10,417
20 June 2014	1,500	30 June 2019	<b>100,000</b>	100,000
			<b>448,098</b>	448,098

Details of the movement in options outstanding are as follows:

	2018		2017	
	Number	WAEP Pence	Number	WAEP Pence
Outstanding at the beginning of the year	448,098	1,500	533,062	1,500
Cancelled	–	–	(84,964)	1,500
Outstanding at the end of the year	448,098	1,500	448,098	1,500
<b>Exercisable at the end of the year:</b>				
Issued at 1,500 pence	448,098	1,500	448,098	1,500
	448,098	1,500	448,098	1,500

The Group recognised a total expense of £nil (2017: £43,000) related to the cost of options during the year (included as share based payment charges within administrative expenses). As of 31 December 2018, the weighted-average remaining contractual life of the options outstanding is 0.5 years (2017: 1.5 years) and the weighted-average exercise price was 1,500 pence (2017: 1,500 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.

## 27. Reserves

	2018	2017
	£000	£000
Share premium account	127,251	127,251
Reverse acquisition and merger reserve	(10,024)	(10,024)
Other equity reserves	23,316	23,316
Foreign currency translation reserve	(2,716)	(3,925)
<b>Total other reserves</b>	<b>137,827</b>	<b>136,618</b>
Retained earnings	(96,288)	(76,095)
Non-controlling interests	661	946

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 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 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.

## Notes to the Financial Statements (continued)

Other equity reserves comprise:

	Equity reserve	Share-based payments	Share consideration reserve	Total other equity reserves
	£000	£000	£000	£000
At 1 January 2017	54	328	22,934	23,316
Share-based payments (note 26)	–	43	–	43
Realised profits transfer to retained earnings	–	(43)	–	(43)
<b>At 1 January 2018</b>	<b>54</b>	<b>328</b>	<b>22,934</b>	<b>23,316</b>
<b>At 31 December 2018</b>	<b>54</b>	<b>328</b>	<b>22,934</b>	<b>23,316</b>

### Share consideration reserve

The share consideration reserve represents the difference between the fair value of share 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.

## 28. 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	
	2018	2017
	£000	£000
Expiring:		
– Within one year	3,277	4,067
– Between two and five years	8,599	6,138
– After five years	4,913	555
	<b>16,789</b>	<b>10,760</b>

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.

Certain office properties have been sublet. The income received under these arrangements has not been netted from the commitments shown above.

## 29. Cash flow from operating activities

	2018	2017
	£000	£000
Loss after tax	(18,904)	(2,644)
Tax	(172)	(830)
Net finance expense	(354)	(2,239)
Operating loss	(19,430)	(5,713)
Adjustments for:		
– Non underlying cash out flows excluding discontinued operations	6,834	5,266
– Share-based payments	–	43
– Depreciation of property, plant and equipment	2,030	4,778
– Amortisation of intangible assets	2,298	2,517
– Impairment of goodwill	9,081	5,593
– Impairment of other intangible assets	317	–
– Impairment of property, plant and equipment	–	40
– Impairment of HFS assets	–	159
– Loss on disposal of plant, property and equipment	1,296	1,221
– Loss on disposal of intangibles	52	–
– Profit on disposal subsidiary undertakings and operations (note 34)	(558)	(4,930)
<b>Operating cash flows before movements in working capital and provisions</b>	<b>1,920</b>	<b>8,974</b>
– Decrease/(increase) in inventories	523	(401)
– Decrease in trade and other receivables	929	3,484
– Decrease in trade and other payables	(5,044)	(23,346)
<b>Cash used by operations before exceptional costs</b>	<b>(1,672)</b>	<b>(11,289)</b>

## Notes to the Financial Statements (continued)

## 30. 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
<b>2017</b>					
Cash	43,714	2,602	(23,384)	(124)	22,808
Overdrafts and bank loans	–	–	–	–	–
Cash and cash equivalents	43,714	2,602	(23,384)	(124)	22,808
Other secured loans > 1 year	(163)	–	–	163	–
Cumulative redeemable preference shares < 1 year	–	–	–	(2,203)	(2,203)
Cumulative redeemable preference shares > 1 year	(6,131)	–	–	2,336	(3,795)
Finance leases < 1 year	(102)	5	94	(1)	(4)
Finance leases > 1 year	–	–	–	–	–
<b>Net funds</b>	<b>37,318</b>	<b>2,607</b>	<b>(23,290)</b>	<b>171</b>	<b>16,806</b>
<b>2018</b>					
Cash	22,808	87	(12,833)	51	10,113
Overdrafts and bank loans	–	–	–	–	–
Cash and cash equivalents	22,808	87	(12,833)	51	10,113
Other secured loans > 1 year	–	–	–	–	–
Cumulative redeemable preference shares < 1 year	(2,203)	–	2,454	(2,460)	(2,209)
Cumulative redeemable preference shares > 1 year	(3,795)	–	–	2,517	(1,278)
Finance leases < 1 year	(4)	–	4	–	–
<b>Net funds</b>	<b>16,806</b>	<b>87</b>	<b>(10,375)</b>	<b>108</b>	<b>6,626</b>

### 31. 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
<b>At 31 December 2018</b>				
Trade and other receivables	2,982	–	2,982	2,982
Cumulative redeemable preference shares	–	(3,486)	(3,486)	(3,486)
Trade and other payables	–	(1,439)	(1,439)	(1,439)
Term deposits	40,000	–	40,000	40,000
Cash and cash equivalents	10,113	–	10,113	10,113
<b>At 31 December 2017</b>				
Trade and other receivables	4,416	–	4,416	4,416
Cumulative redeemable preference shares	–	(5,998)	(5,998)	(5,998)
Trade and other payables	–	(2,053)	(2,053)	(2,053)
Finance leases	–	(4)	(4)	(4)
Term deposits	40,000	–	40,000	40,000
Cash and cash equivalents	22,808	–	22,808	22,808

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

- 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;
- 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;
- 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; and
- 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.

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.

The Warranty Escrow is a receivable in respect of an escrow account controlled jointly by the Company and Slater & Gordon (see note 18). 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.

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



## Notes to the Financial Statements (continued)

### (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 the ptHealth Preference Shares (which are classified as debt in accordance with IAS 32) arising from previous acquisitions. These will be settled at maturity and no longer attract interest, there is therefore 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.

	2018	2017
	£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.

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
<b>Non-derivative financial liabilities</b>					
<b>2018</b>					
Cumulative redeemable preference shares	3,487	(3,487)	(2,209)	(1,278)	–
Trade and other payables	1,439	(1,439)	(1,439)	–	–
Finance leases	–	–	–	–	–
	<b>4,926</b>	<b>(4,926)</b>	<b>(3,648)</b>	<b>(1,278)</b>	<b>–</b>
<b>2017</b>					
Cumulative redeemable preference shares	5,998	(5,998)	(2,023)	(3,975)	–
Trade and other payables	2,053	(2,053)	(2,053)	–	–
Finance leases	4	(4)	(4)	–	–
	<b>8,055</b>	<b>(8,055)</b>	<b>(4,080)</b>	<b>(3,975)</b>	<b>–</b>

### 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.

## Notes to the Financial Statements (continued)

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

	2018	2017
	£000	£000
Canadian Dollar	3,487	6,002
	<b>3,487</b>	<b>6,002</b>

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

	Note	2018	2017
		£000	£000
<b>Non-derivative financial assets</b>			
Trade receivables	18	2,982	4,416
Term deposits	19	40,000	40,000
Cash and cash equivalents	20	10,113	22,808
		<b>53,095</b>	<b>67,224</b>

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

	2018	2017
	£000	£000
UK	827	1,807
Canada	2,155	2,374
Rest of World	–	235
	<b>2,982</b>	<b>4,416</b>

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

	2018	2017
	£000	£000
Sterling	827	1,807
Canadian Dollar	2,155	2,374
Other	–	235
	<b>2,982</b>	<b>4,416</b>

The ageing of trade and other receivables at 31 December 2018 was as follows:

	2018 Gross	2018 Impairment	2018 Net	2017 Gross	2017 Impairment	2017 Net
	£000	£000	£000	£000	£000	£000
Under 1 year	3,102	138	2,964	4,594	275	4,319
1-2 years	33	15	18	137	40	97
	<b>3,135</b>	<b>153</b>	<b>2,982</b>	<b>4,731</b>	<b>315</b>	<b>4,416</b>

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

	2018	2017
	£000	£000
At 1 January	315	752
Provision for receivables impairment	16	110
Receivables written off	(129)	(526)
Unused amounts reversed	(81)	(26)
Exchange differences	32	5
<b>At 31 December</b>	<b>153</b>	<b>315</b>

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.

### 32. Ultimate parent company

The ultimate parent company of the Group is Watchstone Group plc. There were no shareholders with overall control of the ultimate parent as at 31 December 2018.

### 33. Contingencies

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 loss.

On 13 June 2017, the Group was served with High Court proceedings issued by Slater & Gordon for breach of warranty and/or fraudulent misrepresentation for a total amount of up to £637,000,000 plus interest in damages in respect of the disposal of the PSD in 2015 further details of which are provided in note 2. Having taken external advice, no liability has been recognised at the balance sheet date as, in management's opinion, it is more likely than not that the Group will successfully defend these claims.

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 and 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 provision (if any) in respect of this matter.

On 14 December 2015, the Group 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 yet 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 and the last correspondence from the Claimant Firm was received in June 2016. Having taken external advice, no liability has been recognised at the balance sheet date as it is not possible to reliably estimate a provision (if any) in respect of this matter.

Defence costs in respect of the matters above have been provided for as set out in notes 24 and 44.

Several contingent assets exist which are not recognised within the Financial Statements. These include recoveries relating to taxation, historic company purchases and litigation in progress.

## Notes to the Financial Statements (continued)

### 34. Discontinued operations and disposals

#### Assets classified as held for sale

At 31 December 2017, the Group was committed to the disposal of its Hubio Fleet business and the non-telematics assets of its Canadian subsidiary. As such, the related assets and liabilities, were presented as held for sale in the Consolidated Statement of Financial Position. At 31 December 2018, there were no assets or liabilities classified as held for sale.

#### Disposal of businesses in 2018

Profit/(loss) for the year from discontinued operations:

	2018	2017
	£000	£000
Hubio Fleet	7	(969)
Hubio Canadian non-telematics assets	–	(746)
Hubio Technologies Limited	80	(457)
Other Hubio	364	(981)
Other	20	(225)
<b>Profit/(loss) for the year from discontinued operations net of tax</b>	<b>471</b>	<b>(3,378)</b>

\* Includes restructuring costs and impairment of non-current assets.

#### Hubio Fleet

In February 2018, the Group disposed of its interest in Hubio Fleet, its UK B2B fleet tracking business.

The profit arising on disposal is as follows.

	£000
Sales proceeds	60
Net liabilities at disposal	20
Expenses and other costs of sale	(77)
<b>Profit arising on sale</b>	<b>3</b>

The overall result recognised within discontinued operations in the Consolidated Income Statement for Hubio Fleet was as follows:

	2018	2017
	£000	£000
Revenue	108	1,160
Expenses	(101)	(2,129)
Profit/(loss) before tax of discontinued operation	7	(969)
Tax	–	–
<b>Profit/(loss) after tax of discontinued operation</b>	<b>7</b>	<b>(969)</b>

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

	2018	2017
	£000	£000
Operating cash outflows	(1)	(1,210)
Investing cash flows	–	–
Financing cash flows	–	–
<b>Total cash flows</b>	<b>(1)</b>	<b>(1,210)</b>

### Canadian non-telematics assets

In January 2018, the non-telematics assets of the Group's Canadian subsidiary, which formed part of Hubio Solutions Inc. ("HSI") was sold to a newly established entity, in which former members of HSI management have an interest.

The profit arising on disposal is as follows:

	£000
Sales proceeds	258
Net liabilities at disposal	323
Expenses and other costs of sale	(26)
<b>Profit arising on sale</b>	<b>555</b>

The overall result recognised within discontinued operations in the Consolidated Income Statement for the business disposed of was as follows:

	2018	2017
	£000	£000
Revenue	45	1,721
Expenses	(45)	(2,467)
Loss before tax of discontinued operation	–	(746)
Tax	–	–
<b>Loss after tax of discontinued operation</b>	<b>–</b>	<b>(746)</b>

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

	2018	2017
	£000	£000
Operating cash outflows	–	(621)
Investing cash flows	–	–
Financing cash flows	–	–
<b>Total cash flows</b>	<b>–</b>	<b>(621)</b>

### Disposal of businesses in 2017

	2017
	£000
<b>Profit on disposal</b>	
Metaskil Limited	–
Business Advisory Services Limited	2,598
Trade and assets of Hubio Technologies Limited	2,332
<b>Total profit on disposal</b>	<b>4,930</b>

The loss for the year from discontinued operations includes the trading results of the businesses disposed of and held for sale along with the results of the other Hubio businesses wound down during the year.

## Notes to the Financial Statements (continued)

### Metaskil Limited ("Metaskil")

On 31 March 2017, the Group disposed of its wholly owned subsidiary 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.

### Business Advisory Services Limited

The sale of BAS and its subsidiary Watchstone Business Process Outsourcing (Pty) Limited completed in July 2017. Following the completion of the disposal the Group ceased to operate in the energy broking sector. Accordingly, the results of these business have been classified as discontinued in the Consolidated Income Statement for the year to 31 December 2017.

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, prior to disposal in 2017, an impairment reversal of £135,000 was recognised within discontinued activities.

The subsequent profit arising on sale in the period ended 31 December 2017 is as follows:

	£000
Enterprise value	2,500
Satisfied by:	
– Cash consideration	(1,500)
– Assumption of debt	(1,000)
	£000
Sales proceeds	1,500
Net liabilities at disposal	1,391
Expenses and other costs of sale	(293)
<b>Profit arising on sale</b>	<b>2,598</b>

The overall result recognised within discontinued operations in the Consolidated Income Statement for BAS was as follows:

	2017
	£000
Revenue	1,621
Expenses	(1,912)
Loss before tax of discontinued operation	(291)
Tax	66
<b>Loss after tax of discontinued operation</b>	<b>(225)</b>

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

	2017
	£000
Operating cash outflows	(434)
Investing cash flows	(404)
Financing cash flows	–
<b>Total cash flows</b>	<b>(838)</b>

### Hubio Technologies Limited (“HTL”)

During 2017, the Group transferred the trade and assets of HTL, to ICE Insuretech Limited (“ICE”), being a wholly owned subsidiary of HTL. Subsequently, the entire share capital of ICE was sold to Acturis International Limited for cash consideration of £3,500,000. Accordingly, the results of these businesses have been classified as discontinued in the Consolidated Income Statement for the year to 31 December 2017.

An amount of £759,000, being 25% of net consideration has been placed in escrow in support of warranties provided as part of the sale and is included within Non-Current Assets in the Consolidated Statement of Financial Position.

IFRS 5 requires the disposal group to be measured at the lower of its carrying value and its fair value less costs to sell. No adjustments or impairment reversals were required as a consequence of the disposal.

The profit arising on disposal is as follows:

	£000
Sales proceeds	3,500
Net assets at disposal	(783)
Expenses and other costs of sale	(385)
<b>Profit arising on sale</b>	<b>2,332</b>

The overall result recognised within discontinued operations in the Consolidated Income Statement for HTL was as follows:

	2017
	£000
Revenue	4,054
Expenses	(4,507)
Loss before tax of discontinued operation	(453)
Tax	(4)
<b>Loss after tax of discontinued operation</b>	<b>(457)</b>

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

	2017
	£000
Operating cash outflows	(489)
Investing cash flows	(37)
Financing cash flows	–
<b>Total cash flows</b>	<b>(526)</b>



## Notes to the Financial Statements (continued)

### 35. 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

2017

On 31 March 2017, the Group disposed of Metaskil to Paul Hunsdon, a statutory director of Metaskil, further details are provided in note 34.

#### Compensation of key management personnel

The key management personnel are the Directors and the Group General Counsel & Company Secretary.

	2018	2017
	£000	£000
Short-term employee benefits	1,821	2,835
Post-employment benefits	17	17
Termination benefits	–	30
	<b>1,838</b>	<b>2,882</b>

#### Transactions with Directors and Key Management

There have been no transactions with Directors and Key Management during 2018 (2017: none).

#### Transactions with former management

The 31 December 2016 Financial Statements referred to an investigation by the Group into expense claims submitted by Mr Robert Terry and payments made to him by the Group during his period of employment and related litigation. In January 2018, Mr Terry (together with his wife and former employee, Mrs Louise Terry) and Watchstone settled certain respective claims arising out of Mr Terry's contract of employment with Watchstone, the settlement agreement entered into when Mr Terry departed Watchstone in November 2014 ("November 2014 Settlement") and a separate agreement relating to works done at Quob Park (the former head office of the Group) ("Terry Settlement"). Under the terms of the Terry Settlement, Mr Terry waived his right to receive £280,000 under the November 2014 Settlement and Mr and Mrs Terry paid Watchstone £800,000 (in cash) in 2018 in full and final settlement.

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On 16 November 2018 Mr Terry, and other connected parties including Mrs Terry successfully claimed £1,025,000 (plus the award of costs and interest) from the Watchstone Limited (“WL”) in respect of further capital gains tax liabilities arising from the disposal of shares in the WL in 2011, and associated fees, pursuant to an indemnity found to have been granted orally in 2011 (“Oral Indemnity”), in respect of which the Group had already paid Mr Terry and others £3.136 million in 2013. WL’s defence and counterclaim was dismissed by the court. On 18 February 2019, the Court of Appeal granted WL permission to appeal with a hearing to take place in November 2019. The Group is also seeking to recover amounts paid in respect of the Oral Indemnity via a claim under the Sale and Purchase Agreement dated 28 April 2011 in respect of the shares in WL that was entered into between Mission Capital plc (now Watchstone Group plc) as purchaser and Mr Terry and others as sellers.

On 30 January 2018, 52,000 ordinary A shares of £0.001 each in Volo Commerce Limited were transferred from Mr Robert Terry to Watchstone Group plc.

On 9 November 2016, Court proceedings were commenced in the High Court of Justice by the Group against the vendors of Hubio Solutions Limited (formerly Himex Limited) (“HSL”) regarding, inter alia, the cost of litigation in respect of Navseeker Inc, a subsidiary of HSL (Laurence Baker, et al. v. Hassan Sadiq, et al. and NavSeeker, Inc. C.A. No. 9464-VCL, Court of Chancery of the State of Delaware USA) which was settled in June 2016. In March 2018, the parties settled the Court proceedings and the Group received a net payment of £315,000 in full and final settlement.

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### 36. Post balance sheet events

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No material post balance sheet events noted.

## Company Financial Statements

### Company Statement of Financial Position

as at 31 December 2018		2018	2017
	Note	£000	£000
<b>Non-current assets</b>			
Investments in subsidiaries	40	6,216	19,234
Investments	40	–	–
		<b>6,216</b>	19,234
<b>Current assets</b>			
Trade and other receivables	41	27,277	25,135
Term deposits	42	40,000	40,000
Cash and cash equivalents	43	8,797	18,458
<b>Total current assets</b>		<b>76,074</b>	83,593
<b>Total assets</b>		<b>82,290</b>	102,827
<b>Current liabilities</b>			
Trade and other payables	44	(34,269)	(35,324)
Provisions	44	(10,591)	(11,441)
<b>Total current liabilities</b>		<b>(44,860)</b>	(46,765)
<b>Total liabilities</b>		<b>(44,860)</b>	(46,765)
<b>Net assets</b>		<b>37,430</b>	56,062
<b>Equity</b>			
Share capital	46	4,604	4,604
Other reserves	47	128,451	128,451
Retained earnings	47	(95,625)	(76,993)
<b>Total equity</b>		<b>37,430</b>	56,062

The Financial Statements of the Company, registered number 05542221, on pages 82 and 97 were approved by the Directors on 8 May 2019 and signed on its behalf by:

**Mark P Williams**

Director

**David Young**

Director

The accompanying notes are an integral part of the Financial Statements.

## Company Cash Flow Statement

for the year ended 31 December 2018		2018	2017
	Note	£000	£000
<b>Cash flows from operating activities</b>			
Cash used by operations before exceptional costs, net finance expense and tax	50	(1,684)	(36,815)
Non underlying operating cash out flows excluding discontinued operations		(3,482)	(4,046)
Cash used by operations before net finance expense and tax		(5,166)	(40,861)
Corporation tax received		–	375
<b>Net cash used by operating activities</b>		<b>(5,166)</b>	<b>(40,486)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		–	(2)
Sale of assets held for sale		–	1,125
Sale of subsidiaries		–	1,500
Purchase of term deposit		(100,000)	(70,000)
Proceeds from maturing term deposits		100,000	67,500
Interest income		309	178
Loans that were made to group undertakings		(6,130)	(12,079)
Loans from group undertakings		1,326	3,344
Dividends received from subsidiaries		–	30,737
<b>Net cash (used in)/generated by investing activities</b>		<b>(4,495)</b>	<b>22,303</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(9,661)</b>	<b>(18,183)</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>18,458</b>	<b>36,641</b>
<b>Cash and cash equivalents at the end of the year</b>	43	<b>8,797</b>	<b>18,458</b>

The accompanying notes are an integral part of the Financial Statements.

## Company Financial Statements (continued)

### Company Statement of Changes in Equity

for the year ended 31 December 2018	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 2018	4,604	127,251	818	54	328	128,451	(76,993)	56,062
Loss for the year	–	–	–	–	–	–	(18,632)	(18,632)
At 31 December 2018	4,604	127,251	818	54	328	128,451	(95,625)	37,430

for the year ended 31 December 2017	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 2017	4,604	127,251	7,530	54	328	135,163	(98,472)	41,295
Loss for the year	–	–	–	–	–	–	(16,013)	(16,013)
Dividends received	–	–	–	–	–	–	30,737	30,737
Total comprehensive income	–	–	–	–	–	–	14,724	14,724
Share-based payments (note 26)	–	–	–	–	43	43	–	43
Reserves adjustments, including transfer of realised Profits to retained earnings	–	–	(6,712)	–	(43)	(6,755)	6,755	–
Total transactions with owners, recognised directly in equity	–	–	(6,712)	–	–	(6,712)	6,755	43
At 31 December 2017	4,604	127,251	818	54	328	128,451	(76,993)	56,062

### 37. General information

Watchstone Group plc (the Company) is a public limited 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 Highfield Court, Tollgate, Chandler's Ford, Hampshire, SO53 3TY.

### 38. 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 judgements.

#### Going concern

The Company has reduced its working capital requirements through the disposal of a number of non-core, loss making businesses. The Company holds significant cash reserves and no material bank debt. The Company has concluded that its cash reserves together with ongoing operating cash flows 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. In forming this judgement, the Directors have taken into account the existence of the Slater & Gordon claim set out in note 33. Having taken legal advice on this claim, the Directors consider that the risk of this matter giving rise to a level of liability which would impact the ability of the company to remain a going concern is remote. 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.

##### 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.

## Notes to the Financial Statements (continued)

### 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 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 the Warranty Escrow. At 31 December 2018, the Company has impaired the Warranty Escrow receivable in full.

### 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.

### 39. 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 other 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

IFRS 15	Revenue from Contracts with Customers
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 IAS 40	Transfers of Investment Property
Annual Improvements to IFRS 2014-16 cycle	Amendments to IFRS 1 and IAS 28

#### 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 2018 (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:

Amendments to IFRS 9	Prepayment Features with Negative Compensation
IFRIC 23	Uncertainty over income Tax Treatments
Amendments to IAS 28	Long-term interests in Associates and Joint Ventures
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Annual Improvements to IFRS 2015-17 cycle	Various standards
IFRS 17	Insurance Contracts
Amendments to IFRS 10 and 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
IFRS 14	Regulatory Deferral Accounts

The following standard has not been applied in preparing these Financial Statements:

IFRS 16	<p>'Leases'</p> <p>This standard removes the concept of operating leases and recognises all such agreements on the balance sheet. The Company is transitioning to IFRS 16 on 1 January 2019 and will be applying the modified retrospective asset equals liability model. Therefore, the results for the year ended 31 December 2018 will not be represented on a revised basis in the Annual Report and Accounts for the year ended 31 December 2019. The expected impact of the change is to improve EBITDA by circa £42,000 for the year ended 31 December 2019. Furthermore, there will be additional amounts charged to depreciation of £80,000 and interest expense of £2,000 as a result of the change. There will be no impact upon net assets at the date of adoption due to the transition method applied however gross assets and liabilities will increase by approximately £0.1m.</p>
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## Notes to the Financial Statements (continued)

## 40. Investments

	Shares in investments £000	Shares in associates £000	Shares in group undertakings £000	Total £000
<b>Cost</b>				
At 1 January 2017	1,500	5,428	268,198	275,126
Additions	–	–	49	49
Disposals	–	(1,206)	(13,575)	(14,781)
<b>At 1 January 2018</b>	<b>1,500</b>	<b>4,222</b>	<b>254,672</b>	<b>260,394</b>
<b>Reclassifications</b>	<b>222</b>	<b>(4,222)</b>	<b>4,000</b>	<b>–</b>
<b>Disposals</b>	<b>(222)</b>	<b>–</b>	<b>(30,612)</b>	<b>(30,834)</b>
<b>At 31 December 2018</b>	<b>1,500</b>	<b>–</b>	<b>228,060</b>	<b>229,560</b>
<b>Impairment</b>				
At 1 January 2017	1,500	5,428	244,168	251,096
Charge for the year	–	–	4,838	4,838
Disposals	–	(1,206)	(13,568)	(14,774)
<b>At 1 January 2018</b>	<b>1,500</b>	<b>4,222</b>	<b>235,438</b>	<b>241,160</b>
<b>Reclassifications</b>	<b>222</b>	<b>(4,222)</b>	<b>4,000</b>	<b>–</b>
<b>Charge for the year</b>	<b>–</b>	<b>–</b>	<b>13,018</b>	<b>13,018</b>
<b>Disposals</b>	<b>(222)</b>	<b>–</b>	<b>(30,612)</b>	<b>(30,834)</b>
<b>At 31 December 2018</b>	<b>1,500</b>	<b>–</b>	<b>221,844</b>	<b>223,344</b>
<b>Net book value</b>				
<b>31 December 2018</b>	<b>–</b>	<b>–</b>	<b>6,216</b>	<b>6,216</b>
31 December 2017	–	–	19,234	19,234

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 healthcare services, insurance brokerage and other services.

Name of investment	Nature of holding	Class and percentage of shares held (100% ordinary shares unless otherwise stated)
<b>Investments incorporated in Canada</b>		
<i>Registered Address: 20 Victoria Street, 6th Floor, Toronto, Ontario, M5C 2N8</i>		
Hubio Solutions Inc	Indirect	
Watchstone (Canada) Inc	Direct	
<i>Registered Address: 35 The Esplanade, Suite 250, Toronto, Ontario, M5E 1Z4</i>		
Quindell Services Inc	Indirect	
<i>Registered Address: 510-157 Adelaide St W, Toronto, Ontario, M5H 4E7</i>		
ingenie (Canada) Inc	Indirect	
<i>Registered Address: 70 Frid Street, Unit 2, Hamilton, Ontario, L8P 4M4</i>		
pt Healthcare Solutions Corp	Indirect	
Innocare Limited	Indirect	
7211589 Canada Inc	Indirect	
<i>Registered Address: 67 Yonge Street, Suite # 1101, Toronto, Ontario, M5E 1J8</i>		
pt Health Aspen Limited Partnership	Indirect	51%
<i>Registered Address: c/o Actus Law Droit, 900 Main Street, Moncton, New Brunswick, E1C 1G4</i>		
pt Health NB 2016 Professional Corporation Inc	Indirect	25% Common shares, 100% preference shares
<b>Investments incorporated in United Kingdom</b>		
<i>Registered Address: Highfield Court, Tollgate, Chandlers Ford, Eastleigh, Hampshire SO53 3TY</i>		
Hubio Solutions Limited	Direct	99.92%
Hubio Technologies Limited	Direct	
Ingleby (1653) Limited	Indirect	
Ingleby Sub Limited	Indirect	99.92%
Maine Finance Limited	Indirect	
Morpheus Holdings Limited	Indirect	
Morpheus Sub Limited	Indirect	
Quindell Business Process Services Limited	Direct	98.40%
Quindell Property Services Limited ~	Direct	
Watchstone Limited	Direct	
<i>Registered Address: Pillar House, 113/115 Bath Road, Cheltenham, Gloucestershire, GL53 7LS</i>		
BestPriceHotDeals Limited	Indirect	50%
<i>Registered Address: Quob Park, Titchfield Lane, Wickham, Fareham, Hampshire</i>		
OS3 Digital Platform Limited	Indirect	5.29%
OS3 Distribution Limited	Direct	5.29%
<i>Registered Address: The Stables, Thorncroft Manor, Thorncroft Drive, Leatherhead, Surrey</i>		
ingenie (UK) Limited ~	Indirect	
ingenie Limited	Direct	
ingenie Services Limited	Indirect	
<i>Registered Address: 4th Floor St. James House, St. James Square, Cheltenham, Gloucestershire, GL50 3PR</i>		
Volo Commerce Limited	Direct	4.30%

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

## Notes to the Financial Statements (continued)

Name of investment	Nature of holding	Class and percentage of shares held (100% ordinary shares unless otherwise stated)
<b>Investments incorporated in United States of America</b>		
<i>Registered Address: 280 Madison Avenue, Room 912 – 9th Floor, New York 10016</i>		
SMI Telecoms LLC	Indirect	4.30%
<i>Registered Address: 3800 N Central Ave, Ste 460, Phoenix, AZ 85012</i>		
Navseeker Inc	Indirect	
<i>Registered Address: Corporate Trust Co., Corporate Trust Center, 1209 Orange Street, Wilmington, DE 19801</i>		
SMI Telecoms Distribution LLC ~	Indirect	
<i>Registered Address: 925 N La Brea Avenue, 4th Floor, Los Angeles, CA 90038</i>		
WRDL3D Inc (formerly eeGeo Inc)	Indirect	8.90%
<i>Registered Address: Corporation Service Company, 2711 Centerville Road, Ste 400, Wilmington, DE 19808</i>		
Iter8 (USA) 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 2018. 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 16):

Name of investment	Country of incorporation	Nature of holding
WRDL3D Inc (formerly eeGeo Inc) (8.9%)	USA	Indirect
OS3 Digital Platform Limited (5.3%)	UK	Indirect
OS3 Distribution Limited (5.3%)	UK	Direct
Volo Commerce Limited (4.3%)	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.

There are no contractual arrangements to provide resources to any investments or subsidiaries, however the Company gives adequate resources to subsidiaries to meet working capital requirements.

#### 41. Trade and other receivables

	2018	2017
	£000	£000
Payroll and other taxes including social security	311	38
Other debtors	216	152
Prepayments	23	35
Amounts due from subsidiary undertakings	26,727	24,910
	<b>27,277</b>	<b>25,135</b>

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.

#### 42. 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.

	2018	2017
	£000	£000
Term deposits	40,000	40,000

#### 43. Cash and cash equivalents

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

	2018	2017
	£000	£000
Cash and cash equivalents	8,797	18,458

#### 44. Liabilities

	2018	2017
	£000	£000
<b>Current liabilities</b>		
Trade payables	307	385
Amounts owed to Group undertakings	31,508	32,530
Accruals	2,454	2,409
Provisions	10,591	11,441
	<b>44,860</b>	<b>46,765</b>

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

## Notes to the Financial Statements (continued)

The analysis of provisions is as follows:

	Tax related matters	Legal disputes	Other	Total
	£000	£000	£000	£000
At 1 January 2017	14,100	5,400	2,686	22,186
Additional provisions	–	2,941	26	2,967
Unused amounts reversed	(8,842)	–	(227)	(9,069)
Used during the year	(2,065)	(899)	(1,679)	(4,643)
<b>At 1 January 2018</b>	<b>3,193</b>	<b>7,442</b>	<b>806</b>	<b>11,441</b>
<b>Additional provisions</b>	<b>–</b>	<b>3,752</b>	<b>–</b>	<b>3,752</b>
<b>Unused amounts reversed</b>	<b>(1,493)</b>	<b>(96)</b>	<b>–</b>	<b>(1,589)</b>
<b>Used during the year</b>	<b>–</b>	<b>(2,891)</b>	<b>(122)</b>	<b>(3,013)</b>
<b>At 31 December 2018</b>	<b>1,700</b>	<b>8,207</b>	<b>684</b>	<b>10,591</b>
Split:				
Current	1,700	8,207	684	10,591

### Tax related matters

A provision for tax-related matters had been established in previous years with respect to judgemental tax positions primarily in relation to historic PAYE and VAT issues. During the year ended 31 December 2018, the remaining outstanding PAYE issues were resolved and resulted in £693,000 of provision being released to the income statement. In respect of the remaining provision 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 continues to take steps to resolve these outstanding items and believe the majority will be settled within twelve months from the balance sheet date.

### Legal disputes

In legal cases where the Company is (or would be) the defendant, such as those set out in note 33, defence costs are provided as the Company is committed to defending the actions. Such costs are provided for at the mid-range of possible eventualities given the uncertainty of the outcome, this range is reassessed on a continuous basis. If the Company is successful in defending such actions, then the final costs may be lower than the total provision recognised above. Additional provisions in the table above relate to an increase in the expected legal costs to defend these actions and do not represent providing against additional legal disputes. No amounts have been provided for the costs of any settlement, fine or award of damages, however a contingent liability of £637m has been disclosed. See note 33 for further details.

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

In legal cases where the Company is the claimant (or counter claimant), costs are not provided as there is no obligation to proceed and the Group is not contractually committed to incur costs.

### 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.

## 45. 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 £26,727,000 (2017: £24,910,000);
2. Monies held in escrow of £nil (2017: £nil);
3. PSD deferred consideration of £nil (2017: £nil);
4. Term deposits of £40,000,000 (2017: £40,000,000);
5. Cash and cash equivalents of £8,797,000 (2017: £18,458,000); and
6. Other liabilities comprising: trade and other payables including amounts owed to Group undertakings of £31,815,000 (2017: £32,915,000).

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 31.

### (b) Financial risk management

The Company manages its exposure to capital, liquidity and credit risk as set out in note 31.

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
<b>2018</b>					
Trade and other payables	307	(307)	(307)	–	–
Amounts owed to Group undertakings	31,508	(31,508)	(31,508)	–	–
	<b>31,815</b>	<b>(31,815)</b>	<b>(31,815)</b>	–	–
<b>2017</b>					
Trade and other payables	385	(385)	(385)	–	–
Amounts owed to Group undertakings	32,530	(32,530)	(32,530)	–	–
	<b>32,915</b>	<b>(32,915)</b>	<b>(32,915)</b>	–	–

Included within trade and other payables is an amount of CDN\$132,000 (2017: CDN\$33,000); all other financial instruments are denominated in pounds sterling.

## Notes to the Financial Statements (continued)

### 46. Called up share capital

	Number	Nominal value fully paid £000	Nominal value unpaid £000	Nominal value total £000
<b>2018</b>	<b>'000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
At start and end of year	46,038	4,593	11	4,604

	Number	Nominal value fully paid £000	Nominal value unpaid £000	Nominal value total £000
2017	'000	£000	£000	£000
At the end of the year	46,038	4,593	11	4,604

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

### 47. Reserves

	2018 £000	2017 £000
Share premium account	127,251	127,251
Merger reserve	818	818
Other equity reserve	54	54
Share-based payments reserve	328	328
Other reserves	128,451	128,451
Retained earnings	(95,625)	(76,993)

The fair value of the share consideration over and above the share's nominal value of 10 pence per share 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 for those shares issued as consideration for acquisitions that take the Company's ownership of the acquired entity above 90%.

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 £100,033,000 and unrealised profit amounts totalling £4,408,000 in retained earnings.

#### 48. 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 2018 was £18,632,000 (2017: loss of £16,013,000).

#### 49. 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	
	2018	2017
	£000	£000
Expiring:		
Within one year	73	41
Between two and five years	3	5
	<b>76</b>	<b>46</b>

Operating lease payments represent rentals payable by the Company for office properties.

#### 50. Cash flow from operating activities

	2018	2017
	£000	£000
Loss after tax	(18,632)	(16,013)
Tax	–	(375)
Finance expense	614	–
Finance income	(4,886)	(348)
Operating loss	(22,904)	(16,736)
Adjustments for:		
Non underlying operating cash out flows excluding discontinued operations	3,482	4,046
Depreciation of property, plant and equipment	–	6
Loss on disposal of fixed assets	–	193
Profit on disposal of subsidiary	–	(3,582)
Impairment of investments	13,768	4,838
Impairment of intercompany	2,446	17,424
<b>Operating cash flows before movements in working capital and provisions</b>	<b>(3,208)</b>	<b>6,189</b>
Decrease/(Increase) in trade and other receivables	4,281	(11,263)
Decrease in trade and other payables	(2,757)	(31,741)
<b>Cash used by operations before exceptional costs</b>	<b>(1,684)</b>	<b>(36,815)</b>



## Notes to the Financial Statements (continued)

Reconciliation of net cash flow to movement in net funds:

	1 January	Cash flow movements	31 December
	£000	£000	£000
<b>2018</b>			
<b>Cash</b>	<b>18,458</b>	<b>(9,661)</b>	<b>8,797</b>
<b>Cash and cash equivalents</b>	<b>18,458</b>	<b>(9,661)</b>	<b>8,797</b>
<b>Net funds</b>	<b>18,458</b>	<b>(9,661)</b>	<b>8,797</b>
2017			
Cash	36,641	(18,183)	18,458
Cash and cash equivalents	36,641	(18,183)	18,458
Net funds	36,641	(18,183)	18,458

### 51. Ultimate controlling party

There are no shareholders with overall control of the Company as at 31 December 2018.

### 52. 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. Please refer to note 33 where further details are provided.

### 53. Related party transactions

In the year, the key management personnel were the Directors. The Directors had no material transactions with the Company during the year, other than disclosed in the Directors' Remuneration Report on pages 15 and 17 or as described in note 35.

Details of former management transactions are provided in note 35.

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

	2018	2017
	£000	£000
<b>Subsidiary undertakings:</b>		
Purchases	(111)	(1,404)
Sales	1,344	2,347

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

	2018	2017
	£000	£000
Amounts due from subsidiary undertakings	158,144	156,236
Provisions for doubtful debts relating to amounts due from subsidiary undertakings	(131,417)	(131,326)
Net amounts due from subsidiary undertakings	26,727	24,910
Amounts due to subsidiary undertakings	(31,508)	(32,530)

### 54. Post balance sheet events

No material post balance sheet events noted.

### 55. Dividends

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

# Officers and Professional Advisers

**Directors**

Mr R Rose (Chairman)  
Rt. Hon. Lord M Howard  
Mr D Young  
Mr S Borson  
Mr M P Williams

**Company Secretary**

Mr S Borson

**Registered Office**

Highfield Court  
Tollgate, Chandler's Ford  
Eastleigh  
Hampshire  
SO53 3TY  
Company Registration No. 05542221

**Bankers**

Royal Bank of Scotland Plc  
Abbey Gardens  
4 Abbey Street  
Reading  
RG1 3BA

**Broker and Nominated Adviser**

Peel Hunt LLP  
Moor House  
120 London Wall  
London  
EC2Y 5ET

**Auditor**

KPMG LLP  
15 Canada Square  
London  
E14 5GL

**Solicitors**

Dorsey & Whitney LLP 199 Bishopsgate London EC2M 3UT	Herbert Smith Freehills LLP Exchange House Primrose Street London EC2A 2EG
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**Registrars**

Link Asset Services  
The Registry, 34 Beckenham Road  
Beckenham  
Kent  
BR3 4TU



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